

Financial instruments in Interreg: Wishful thinking or Reality?

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Welcome!

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Objectives

- to explain/ provide more information on the essentials of financial instruments,
- to learn about regulatory provisions on FIs in the post2020,
- to get an understanding of how the process of setting up an Interreg FI could look like,
- to get some practical hints and recommendations.



Target: JS/ MA of Interreg programmes.

Agenda

Introduction to FIs

What it is,
differences to
grants, types,
terminology



FIs – What will be possible in post2020?

Regulatory
provisions,
combinations
with grants



Why to consider Fis?

Feedback
from
Interreg 2
Seas
programme



What is in for me?

Short
summary



How the process could look like?

Tips and
recommen-
dations

Introduction to financial instruments

But first .. What is it?



What are Financial instruments?

- one of forms of support, next to grants and prizes (art 47 draft CPR),
- delivery mechanism, not stand alone objective

What's so special about them?

- revolving nature,
- design to attract additional public or private resources



Interreg likes grants, but ...



- grants have also some limitations (e.g., long lasting assessment, reimbursement, cash flow disruptions ...),
- ongoing discussions on improvement of effectiveness and efficiency of grants (value for money, one-time spent, ‘free’ money...),
- all forms of support require justification in the CP.

Project - a project

Final recipient - a legal or natural person receiving support from a financial instrument.

Let's redefine some well-known notions:

- project, beneficiary, final recipient,

Let's learn something new:

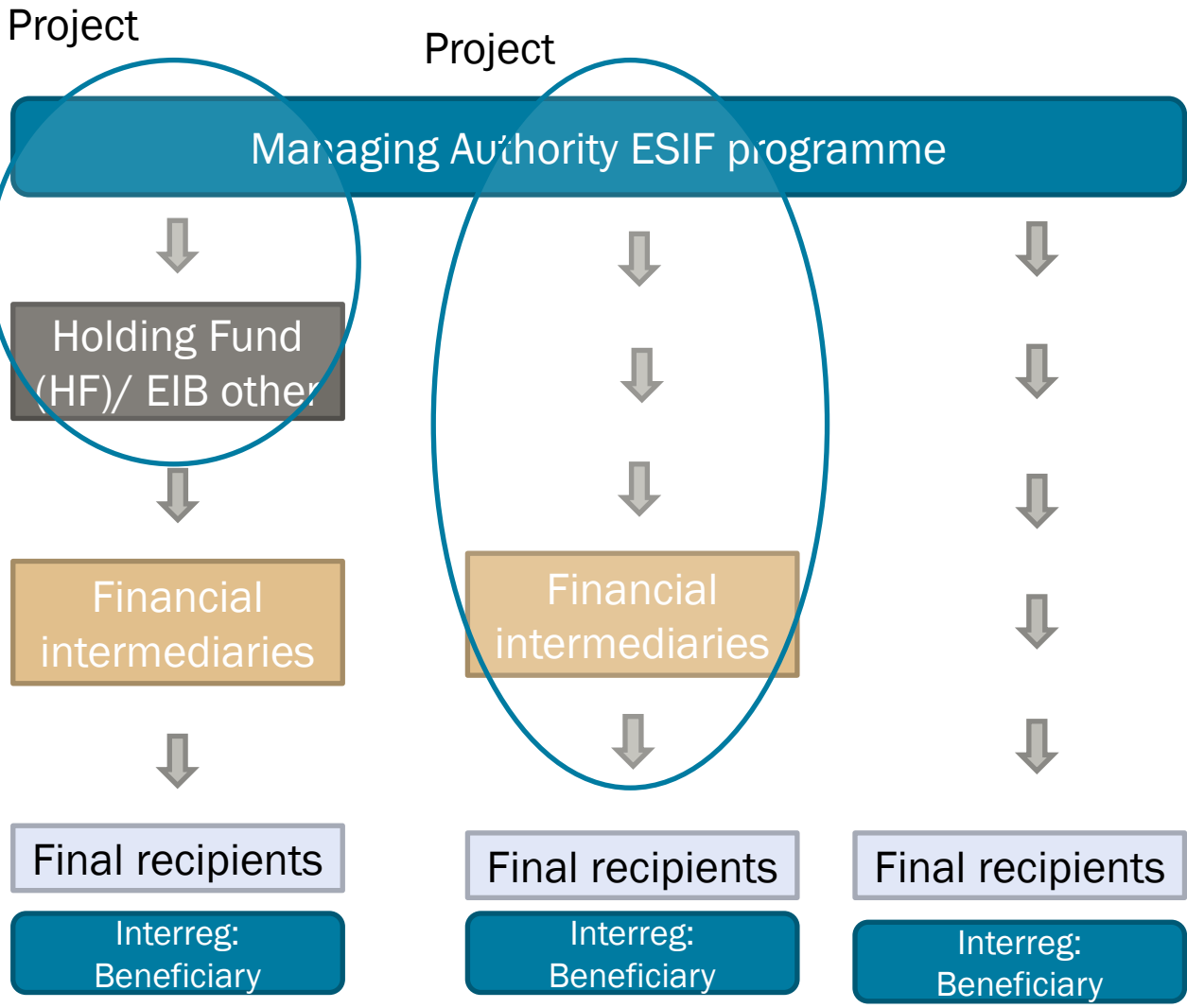
- collateral, financial intermediary holding fund, fund manager, management costs vs management fees, leverage, multiplier ,



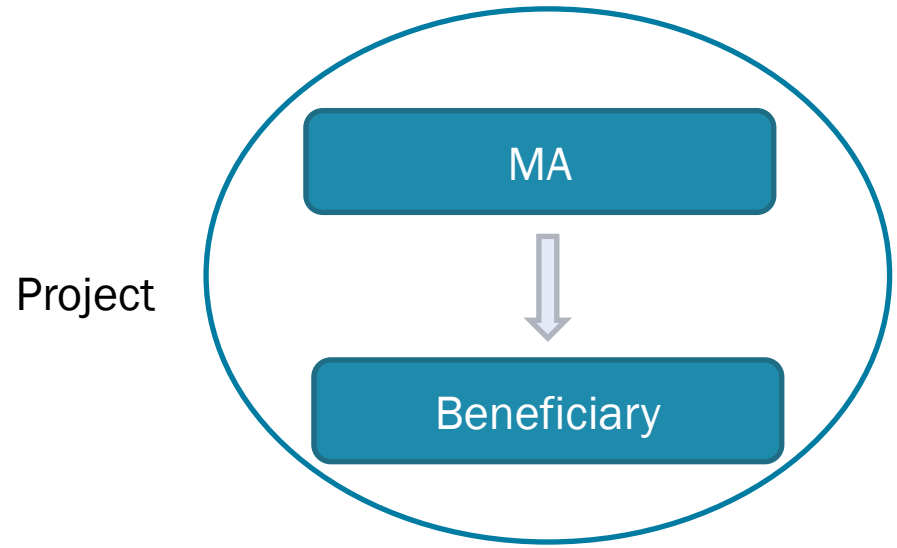
Let's meet, talk and learn:

- learning from practitioners, cooperation with new institutions from financial sector

FI scheme



Grant scheme



Should FIs replace grants?

- support and complement not replace,
- FIs not for every type of project.

When and how much?

- feedback from programme beneficiaries/stakeholders,
- findings from analysis/ studies, evaluations.



Types of FIs products

a) debt instruments

- loans,
- guarantees

b) equity instruments

- equity
- quasi equity (subordinated loan)





Loans

- lender and borrower,
- agreed sum of money,
- agreed period,
- agreed cost,
- repay in agreed of time

Low risk

High number of recipients

Easy to manage

Easy to reinvest



Guarantees

- guarantor, lender and borrower,
- commitment to assume responsibility,
- all or part of borrower obligation,
- e.g., loan is not paid back.

Require less funding

Multiplier effect

Risk reserve



Equity

- the provision of capital to a company,
- invested directly or indirectly,
- in return for a total or partial ownership.

Stimulates risky investments

May generate high profits or losses

Targeting a smaller number of recipient with high investment volume

Quasi - Equity



Combines debt and equity

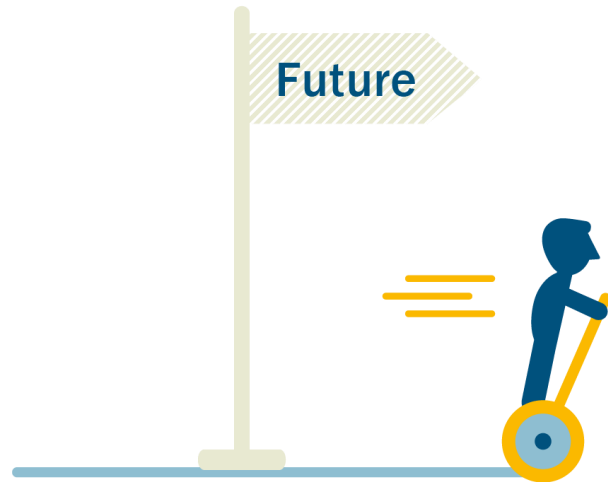
Lower collateral requirements

Stimulates risky investments

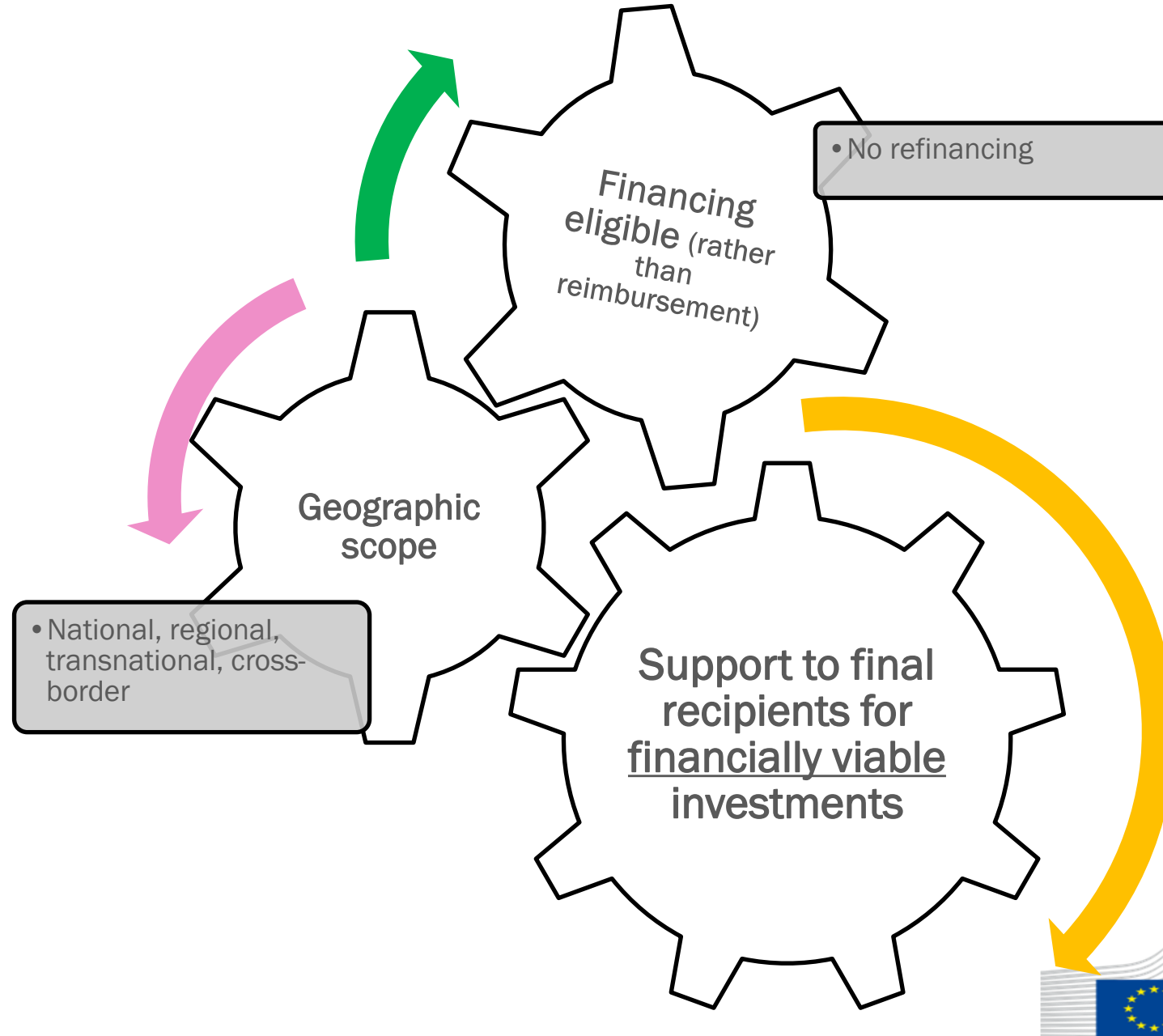
What is possible in post2020?

Outlook

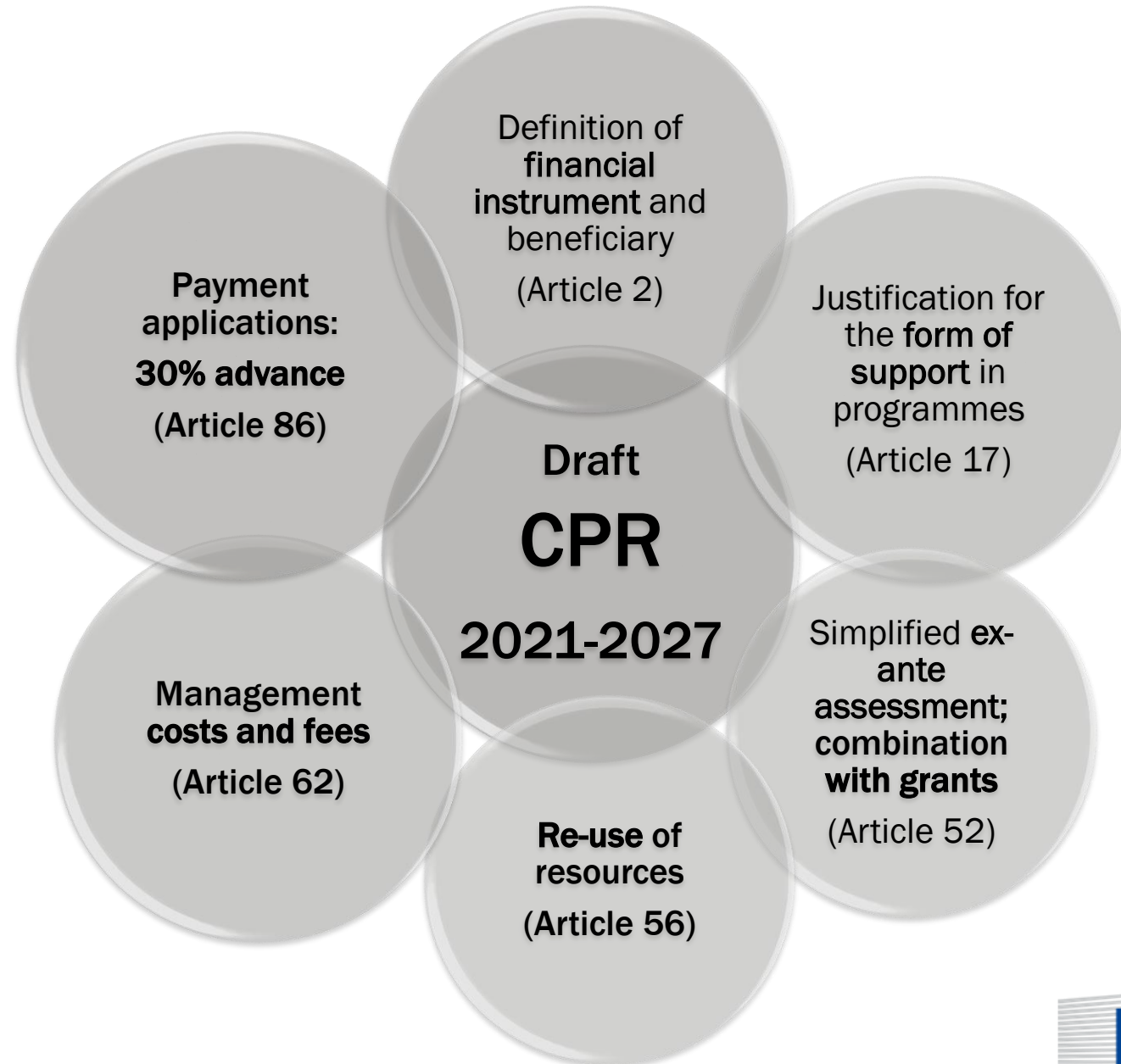
Krzysztof KASPRZYK, DG REGIO



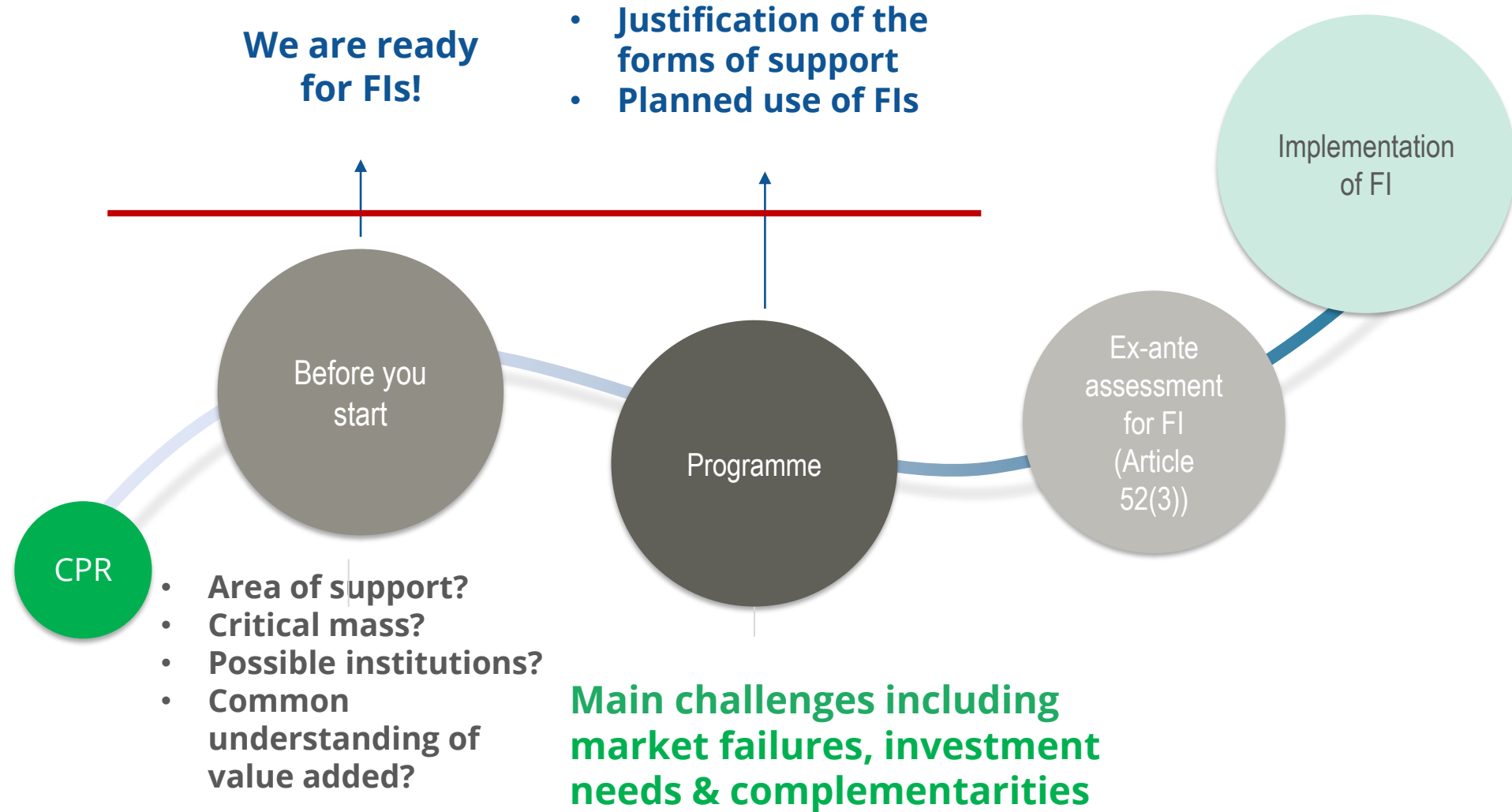
Scope of financial instruments



Key legal provisions



Preparation for using financial instruments



Combination in one FI operation - Article 52(5)

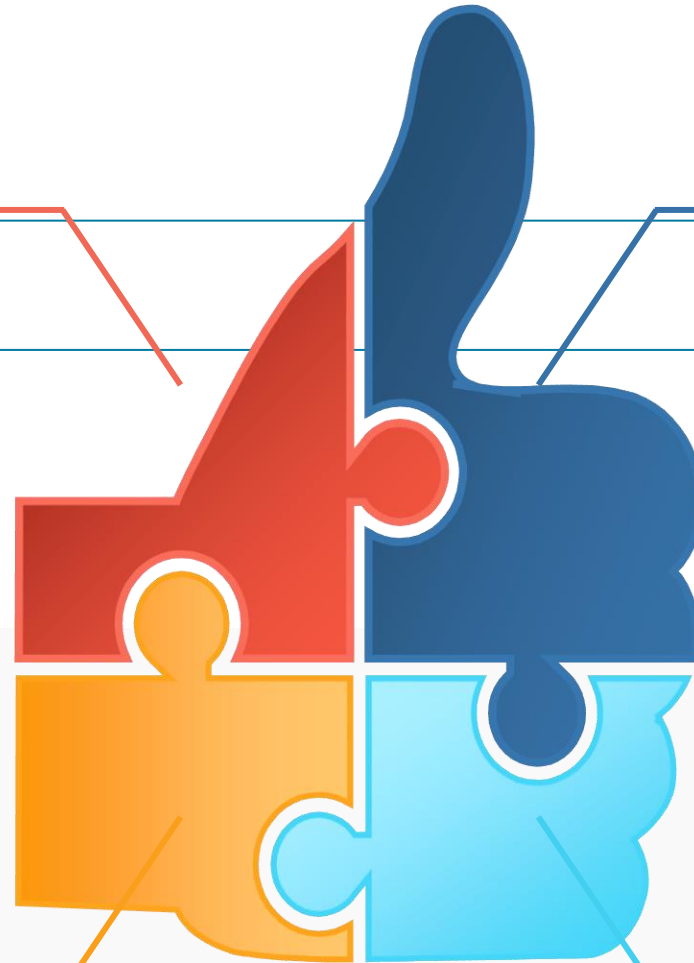
FI rules apply to the grant!

Grant is
directly linked
& necessary

Grant has a
lower value
than the
investment
supported by
the FI product

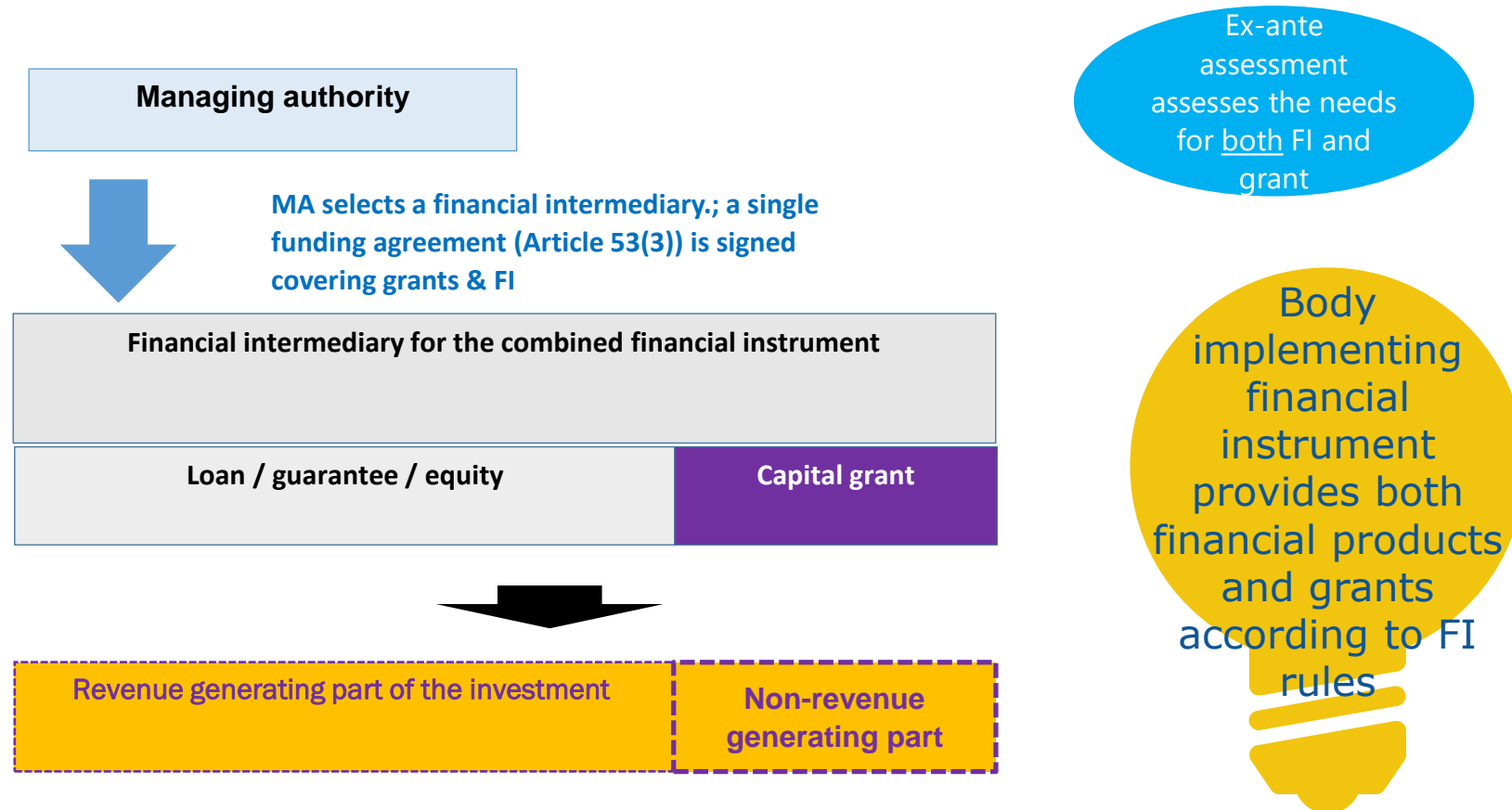
Grant is part
of the funding
agreement &
is provided by
the body
implementing
the FI

Examples:
capital rebates,
investment
grants, interest
rate &
guarantee fees
subsidies, etc.



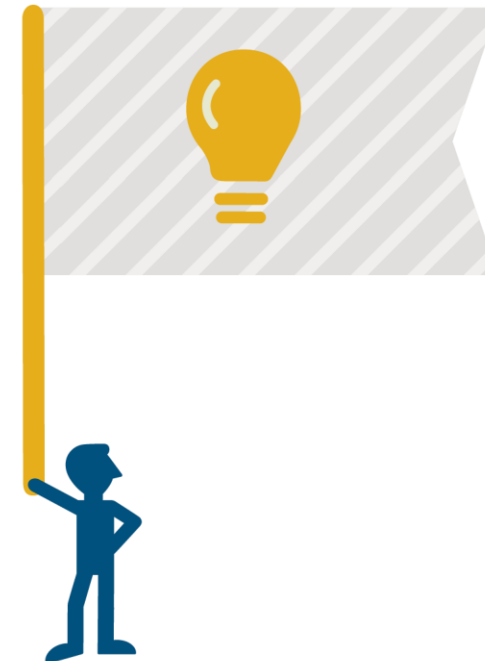
Combination - Article 52(5)

- **Example of combination of FI with grant in a single FI operation:**
investment grant under FI rules and within FI structure



Why to consider FIs?

Insights from Interreg 2 Seas
programme



Summary of the note to MAs on financial instruments

What is in for me?



Potential considerations for FIs

- to increase the impact and efficiency of the programme funds and project results in your area;
- to provide support to business development and the private sector in your programme area (support to SMEs, start-ups, young tech companies);
- to improve the financial management and liquidity of your programme's funds;
- to have sustainable project results;
- If some of your potential beneficiaries are not fully satisfied with grants and their reimbursement nature;
- to simplify audit and control requirements.



When are financial instruments suitable?

Potential financially suitable projects

Potential financially suitable projects with a complementary grant component

Financial institutions which could be interested in implementing the measures on your behalf

What is required from your side?

- Sufficient financial resources



- Time



- Expertise in the programme area



- Engagement and dedication of your programme's stakeholders



- The FI should be as simple and lean as possible!

When to start?



- Step 1 – Programming, part of the territorial assessment
- Step 2 – Concise but more detailed ex-ante assessment to decide on the key parameters (can be done after programme’s decision to contribute to the FI)
- Step 3: Drafting the technical details in the investment strategy

Indicate areas where you plan to implement FIs when submitting the CP for the EC’s approval!

Financial instruments demystified

Burden of additional ex-ante assessment

Limited TA budget (flat rate)

Expertise in drafting investment strategy/ funding agreement

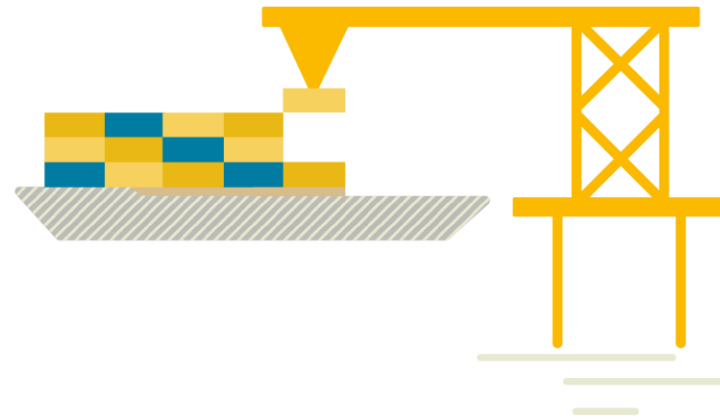
Lost control of financial resources allocated to the FI

Disconnecting of FI products and programme's objectives

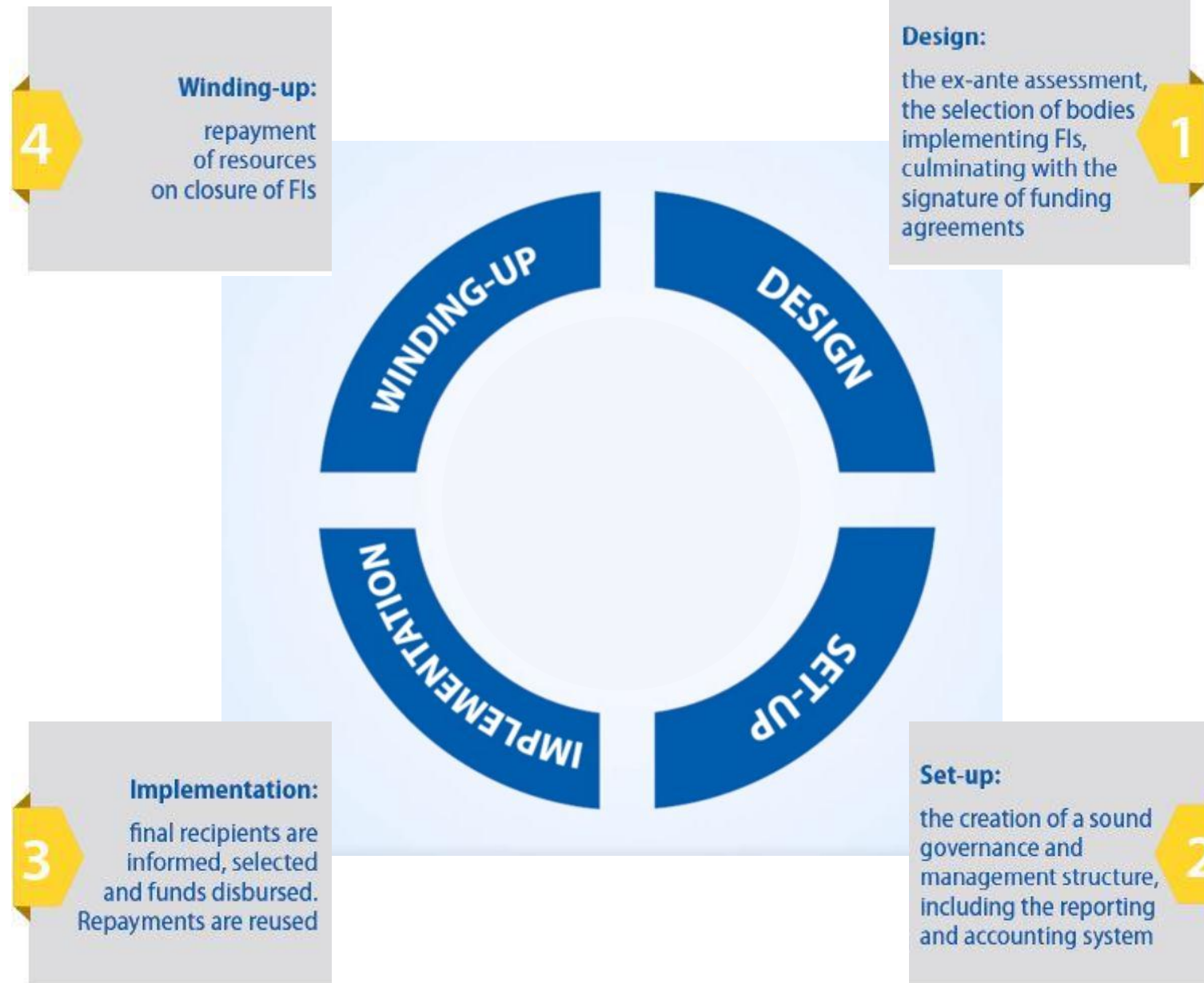
Compliance with the state aid?

How the process to establish an Interreg pilot FI could look like?

Practical hints and recommendations



Life cycle of FIs – 4 stages





Tasks & Responsibilities

Managing Authority + support form external experts (if needed)

- potential for FIs identified in a programme (e.g., experience, survey, analysis, reports);
- Ex-ante assesment (positive outcome – market gap identified that can be addressed by FIs within a programme);
- Holding fund (if structure exists), Intermediate bodies;
- Drafting ToR, funding agreement, requirements toward funding (investment) strategy, templates for reporting systems, documents.



Tasks & Responsibilities

Managing Authority

- conclusion of funding agreement; *investment strategy*;
- setting up governance structure (steering committee);
- bank account;
- possibility of the first payment to FIs (max. 30%);
- *documentation, management and monitoring systems have to be operational*;
- *system & processes operational*;
- *Ensures that the FI is in compliance with the programme's objectives!*

Holding fund/ Financial intermediaries

- *investment strategy*;
- *documentation, management and monitoring systems have to be operational*;
- *system & processes operational*;
- reinforcement of existing capabilities (trainings for staff, development of promotion measures);



Tasks & Responsibilities

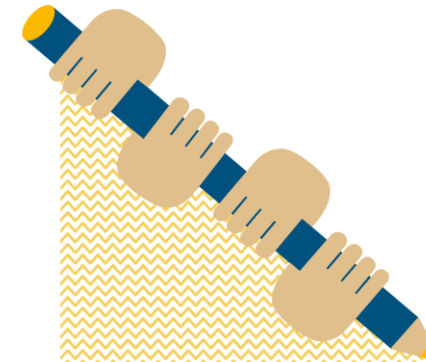


Holding fund/Financial intermediaries

- selection of final recipients/ contract signature /payment;
 - assesment of eligibility of investements, contribution to a programme objectives, financial viability;
- reuse of funds within programming period (funds paid back);
 - funds paid back (capital repayments, interests, guarantee fees, dividents, generated income);
- monitoring and reporting (FRs, Fin Inter, HF, MA);

Managing Authority & AA

- monitoring and reporting (MC, EC);
- management verification;
- audit (3 levels: MA, HF, Fin Inter; not happening at the level of final recipients (=beneficiaries)).

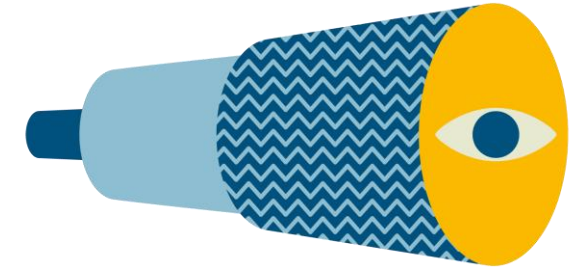




Tasks & Responsibilities

Managing Authority/Holding fund/Financial intermediaries

- execution of exit strategy;
- re-use of resources:
 - Resources paid back before the end of the eligibility period to FIs can be re-used for:
 - further investments through the same or other FIs, in accordance with the specific objectives set out under a priority;
 - preferential remuneration of private investors, or public investors operating under the market economy principle, who provide additional resources to the FI or who co-invest at the level of FRs;
 - reimbursement of FI management costs and fees;
- Continuation or liquidation.



Help needed? Just look around....and search

WHAT?

FIs in your programme area

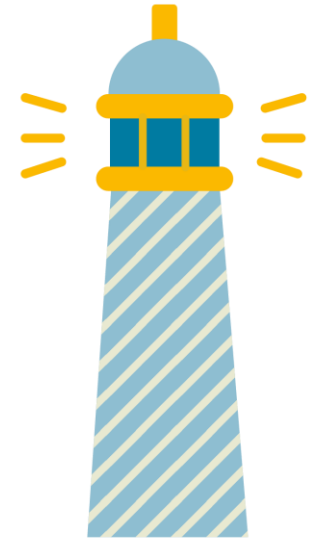
- ESIF programmes;
- National level.



Help needed? Just look around....and search

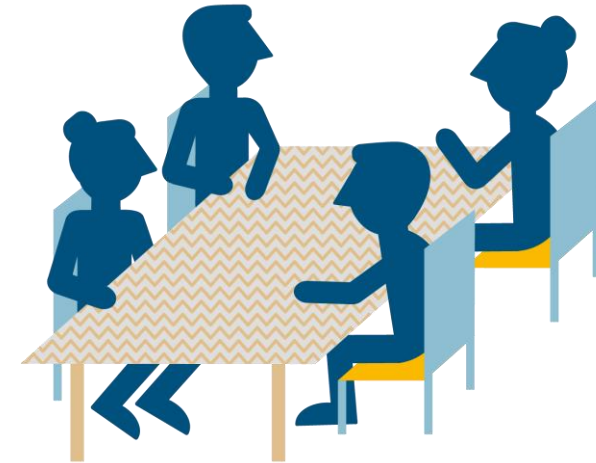
WHO?

- Managing Authorities,
- Intermediate bodies,
- other institutions involved in management of FIs in ESIF programmes (e.g., regional development agencies, development funds)



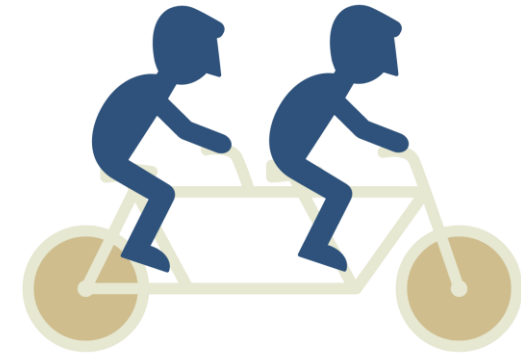
Ask and understand

- Rationale of choice;
- Implementing structure;
- Process design;
- Lessons learned.



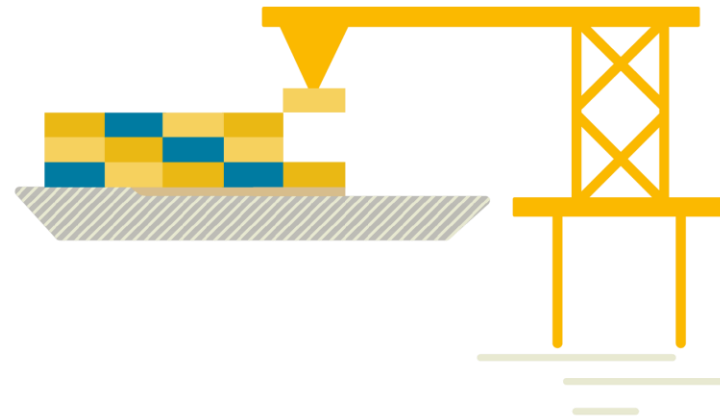
Search for interest and cooperation

- Critical mass (sufficient financial resources) more than one programme can contribute;
- Shared implementing structure, delegation of responsibilities (e.g., EIB);
- Shared financial product.



How about some examples of financial instruments?

Case studies



Areas suitable for FIs



Support for SMEs



Urban/sustainable
infrastructure



Tourism & Cultural
heritage



Renewable energy



Energy efficiency

Setting-up a FI in Interreg - process

- Innovative process with a steep learning curve for all stakeholders
- Proper ex-ante assessment
- CP written for both grants and FIs
- A new concept of a ‘project’
- Investment strategy – to be developed by Interreg and professional financial institution
- Governance structure/ implementation model
- FI for final recipients operating cross-border/ transnationally! – cross-border character of investments



Cross-border FI

JEREMIE (2007-2013)

TA by EIB and DG Regio – improve
SMEs access to finance in MSs

EUREFI (2009-2012)

Interreg IV Greater Region, cross-
border venture capital fund

BALTIC INNOVATION FUND

Equity investments into Baltic
enterprises

BIF 1 & BIF 2

- FoF (manager – EIF), EUR 130M – EIB and 3 Baltic national promotional institutions; equity investments into SMEs with high growth potential, [2012-2018](#).



- FoF, EUR 156M – EIB and 3 Baltic national promotional institutions; private equity and venture capital funds focused on Baltic states over 5 years.
- Agreement signed in July 2019



Carpathians venture capital fund



- [Venture capital fund](#) for cross-border investments
- Objective: to develop the international economic cooperation and competitiveness of Hungarian micro, small and medium sized enterprises; establishing cross-border SME cooperations (production, service, R&D, training...)
- The fund finances Hungarian firms expanding to 7 neighbouring countries (Austria, Slovakia, Ukraine, Romania, Serbia, Croatia, Slovenia).
- Investments should take place in Hungary.
- The fund capital – HUF 20 bln (EUR 64 mln). Average investment per enterprise – EUR 1.5 mln for 4-5 years.

FI for fisheries and aquaculture, Estonia

FI provides different types of loans to aquaculture and fish processing enterprises looking to develop capacity.

- Small size of the instrument (EUR 15 million of OP resources) – *sufficient financial resources do not necessarily have to be significant financial resources.*
- It is implemented in parallel to a larger rural instrument, benefitting from its *existing implementation structure and expertise.*
- *Niche sector: fisheries and aquaculture.*
- Duration of the instrument (2017-2023): 6 years. *The FI does not have to last for decades; it can be realised within one programming period.*
- *Very targeted: aquaculture and fish processing SMEs (funding gap identified in the ex-ante assessment).*
- *Target audience of FIs does not always have to be large!*
- *Simple lean structure of the FI: managing authority, intermediary (body implementing FI, MES), paying agency.*



IFRRU2020

- A financial instrument designed to support investments in urban rehabilitation and energy efficiency, in Portugal.
- Funding source: *combination of funds* from 8 ESIF OPs with EIB, CEB and national resources.
- Example of FI financing not only improvement of old buildings' energy efficiency, but also rehabilitation and revitalization.
- *National coverage, but local approach.* Municipalities were heavily involved through the network of focal points.
- *Communication* – communicating about a very complex product in a simple and understandable manner through a wide range of channels (e.g., public information sessions, email helpdesk, one-to-one meetings).

CITIES
WITH A FUTURE

REHABILITATE
TO REVITALIZE
OUR CITIES



Interreg project, FINERPOL, co-financed by Interreg Europe
Objective: to promote or improve new policies for creating financial instruments (result: 7 Action Plans in 6 countries: Spain, UK, Czech Republic, Portugal, Greece, Italy).

Where to get support?

- If you see the potential of establishing a pilot FI in your programme, contact us – let’s work together!
- Learn more at fi-compass.eu – one-stop-shop
- Read our publication!



Cooperation works

All materials will be available on:

www.interact-eu.net

