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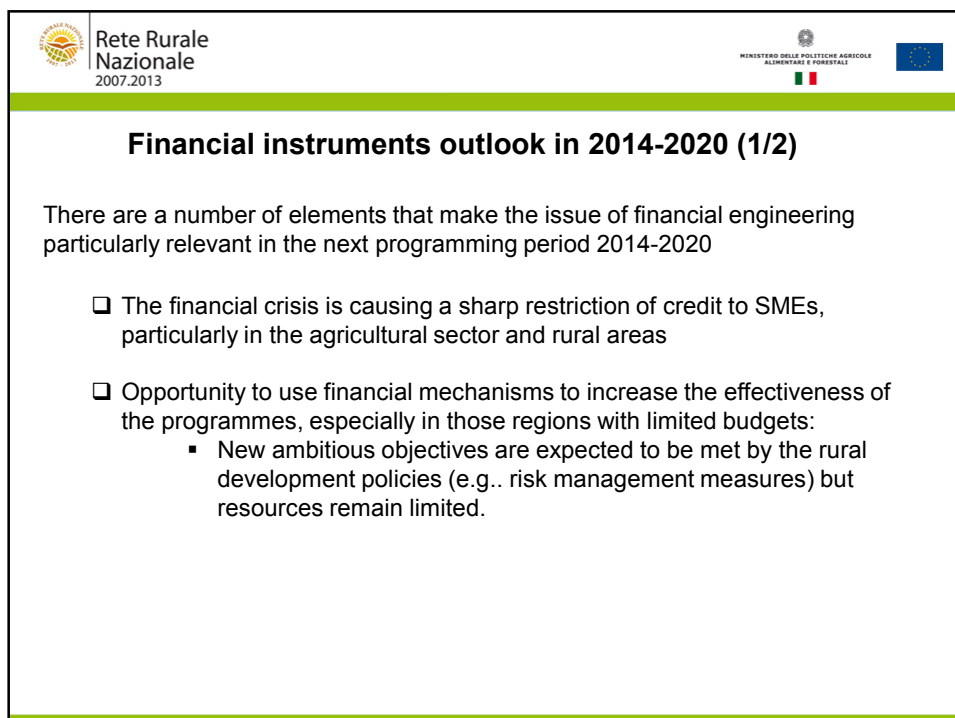
**Future Rules on Financial Instruments**

EAFRD 2014-2020

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Riga, 28th May 2012

The cover features a green silhouette of a rural landscape with a person standing in a field, a city skyline, and a bird flying in the sky.



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**Financial instruments outlook in 2014-2020 (1/2)**

There are a number of elements that make the issue of financial engineering particularly relevant in the next programming period 2014-2020

- ❑ The financial crisis is causing a sharp restriction of credit to SMEs, particularly in the agricultural sector and rural areas
- ❑ Opportunity to use financial mechanisms to increase the effectiveness of the programmes, especially in those regions with limited budgets:
  - New ambitious objectives are expected to be met by the rural development policies (e.g.. risk management measures) but resources remain limited.



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## Financial instruments outlook in 2014-2020 (2/2)

- ❑ Opportunity to involve the banking system from the outset of the programming period
  - Private capital flow for the development of rural areas
  - Financial sector expertise for a more efficient selection process of the investment projects

The importance of Financial Instruments is recognized by the new Financial Regulation (still being defined), which defines more clearly how they will be used within EU policies



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## Proposal for a regulation 2014-2020

- ✓ The financial engineering rules have been included in the horizontal regulation, which contains provisions common to all funds, including the EAFRD.
- ✓ A number of options currently being considered for the structural funds were transferred to rural development (e.g. the possibility to set up funds of funds).
- ✓ The new regulation provides the necessary continuity with the current rules, making best use of the experience gained in the current programming period.
- ✓ However, a number of innovations were introduced, aimed at ensuring a more strategic and appropriate use of the financial instruments thus preventing improper use in order to avoid decommitment (observations of the European Court of Auditors, Special Report 2/2012).



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### Key innovations for rural development (1/2)

- ✓ An ex ante assessment is needed to ensure that instruments are only used against specific market failures.
- ✓ There is a number of innovations aimed at facilitating the implementation options of the MA:
  - The MA will use the financial instruments set up at EU level
  - The EC will provide "turnkey" instruments
  - The MA will still continue to set up funds directly or by entrusting the implementation option to a third party
- ✓ New rules for payments to the funds, intended to prevent excessive allocations to reduce the risk of decommitment






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### Key innovations for rural development (2/2)

- ✓ The financial instruments will also be organized in holding funds (fund of funds) to acquire shares in financial instruments that invest directly in companies
- ✓ Greater clarity concerning the integrated use of FI with other forms of aid (non-repayable grants, interest rebate, etc.)
- ✓ Specific reports on financial instruments' implementation to be attached to the annual report and programmes

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RD specific rules		Common rules in the Common Provision Regulation	
.....		Possibility to organize FI as funds of funds	
....		Ex-ante assessment	
<b>FI implemented at national level</b>		<b>Different possibilities for the FI implementation:</b> <ul style="list-style-type: none"> <li>- UE level instruments</li> <li>- National level instruments               <ul style="list-style-type: none"> <li>- using Commission "turnkey" instruments</li> <li>- using instruments established at national level</li> </ul> </li> <li>- MA direct management</li> </ul>	

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NO specific rules for the integration of different forms of support: grants, guarantee, interest subsidies. Interest subsidies support is not integrated with FI	Specific rules for the integration of different forms of support: grants, guarantee, interest subsidies. Interest subsidies integrated with FI
.....	For equity-based instruments and micro-credit, management costs and fees to be paid for a period of 5 years after the programme closure can be accounted for as eligible expenditure
Payment to the funds are accounted for as intermediate expenditure. At the end of the programming period MA shall demonstrate that the resources have been fully used for payments to RDP beneficiaries	Payment to the funds are accounted for as intermediate expenditure, but each payment must be limited to the amount of resources expected to be used for payments to beneficiaries within a period of two years. If resources have not been used at the end of the second year the declaration of expenses must be corrected
Legacy resources shall be used for the benefit of individual enterprises for an undefined period of time after the programs closure	Legacy resources must be used for the purposes of regulation for a period of 10 years after the end of the programming period



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### Rules for payments to the funds

- ✓ It remains the current principle that, payments to the funds are immediately accounted for as intermediate expenditure for which the PA can claim reimbursement from the EAFRD (remains effective for decommitment)
- ✓ Similarly to what happens in the current programming period, at the closure of the programmes, it will be necessary to verify that payments to the funds are actually used for payments to beneficiaries on the basis of a **multiplier ratio** set in advance based on the risk
- ✓ In the new programming period, however, the effective use of resources shall be assessed after a maximum period of two years.
- ✓ If the use of resources appears insufficient, the declaration of expenditure shall be corrected.



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### Crucial elements of the proposal – Rules for payments to the funds

- ✓ The FI were set up to be long-term instruments and require a start-up period. Two years is a very limited period of time to assess whether the spending has been effective and efficient
- ✓ The exact consequences of corrected declaration of expenditure on automatic decommitment are not clear
- ✓ The difficulties in producing estimates of expenditure may discourage the MA from using financial instruments



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### Presidency compromise text Payments to the funds

- ✓ Each payment to a fund shall not exceed 25% of the total amount of programme contributions committed to the financial instrument for the whole programming period, under the relevant funding agreement between the MA and the fund manager
- ✓ The second payment shall only be made when the previous resources have been spent for at least 60%
- ✓ Subsequent payments shall only be made when at least 85% of resources has been spent



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### Crucial elements of the proposal – Ex ante assessment


"The CSF funds may be used to support financial instruments under a programme [...] based on an ex ante assessment which has identified market failures or sub-optimal investment situation and investment needs"

How does such a definition of ex-ante assessment fit with the overall strategy of the programmes?


- The strategy of the programmes identifies specific investment categories to be encouraged, in relation to the objectives identified by the programme;
- In this sense, the strategy of the programmes identifies sub-optimal investment situations and investment needs;
- The FI are used as tools aimed at promoting such investments, directly or as a support to other forms of aid (grants, interest subsidies, etc.)



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### Crucial elements of the proposal – Ex ante assessment

The FI does not seem to have a clear role in the rural development policy. This is an existing issue in the current programming period and the new Commission proposals are not providing any answers.


- ✓ If these instruments represent only an aid delivery method, they should be fully integrated with the measures and a specific ex-ante assessment should not be necessary;
- ✓ If they are designed as stand-alone instruments whose aim is to encourage a more dynamic capital market in rural areas, they should be more flexible than the interventions provided for in measures:
  - Independent budget within the programmes
  - Possibility to finance the working capital to support enterprises' development projects



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### Presidency compromise text

#### Contents of the ex-ante assessment (1/2)

(a) An analysis of market failures, suboptimal investment situations, and investment needs for policy areas and thematic objectives or investment priorities expected to contribute to the strategy and results of the relevant programmes and to be supported through financial instruments. This analysis shall be based on available best practice methodology.

(b) An assessment of the value added of the financial instruments considered to be supported by the CSF Funds, consistency with other forms of public intervention addressing the same market, possible state aid implications, the proportionality of the envisaged intervention and measures to minimize market distortion.

(c) An estimate of additional public and private resources to be potentially raised by the financial instrument down to the level of the final recipient (expected multiplier effect), including as appropriate an assessment of the need for, and level of, preferential remuneration to attract counterpart resources from private investors and/or a description of the mechanisms which will be used to establish the need for, and extent of, such preferential remuneration, such as a competitive or appropriately independent assessment process.



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### Presidency compromise text Contents of the ex-ante assessment (2/2)

- (d) An assessment of lessons learnt from similar instruments and ex ante assessments carried out by the Member State in the past, and how these lessons will be applied going forward.
- (e) The proposed investment strategy, including an examination of options for implementation arrangements within the meaning of Article 33, financial products to be offered, final recipients targeted, envisaged combination with grant support as appropriate.
- (f) A specification of the expected results and how the financial instrument concerned is expected to contribute to the achievement of the specific objectives and results of the relevant priority axis including indicators for this contribution
- (g) Provisions allowing for the ex ante assessment to be reviewed and updated as required, during the implementation of any financial instrument which has been implemented based upon such assessment, where during the implementation phase, the managing authority considers that the ex ante assessment may no longer accurately represent the market conditions existing at the time of implementation



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### Presidency compromise text FI objectives (1/2)

"Where financial instruments support financing to enterprises, including SMEs, such support shall in particular target the establishment of new enterprises, early stage-capital, including seed capital and start-up capital, expansion capital, or the realisation of new projects, penetration of new markets or new developments by existing enterprises. In such cases, support may include investment in both tangible and intangible assets as well as working capital within the limits of applicable state aid rules and with a view to stimulate the private sector as a supplier of funding to enterprises. It may also include the costs of transfer of proprietary rights in enterprises provided that such transfer takes place between independent investors. Financial instruments shall not support undertakings in difficulty within the meaning of Commission Regulation (EC) No. 800/2008".





**Thank you for your attention**

