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EPRC POLICY BRIEFING

FIS IN 2014-20 ESIF PROGRAMMES – AN UPDATE ON SELECTED MEMBER STATES

- Much is still not yet clear/not yet public. Many have not yet started the ex ante assessment process.
- Possibility for future FIs being built in to OPs, but lack of specificity.
- Little interest noted so far in EU level instruments or off the shelf models by those MSs surveyed.
- Considerable continuity expected in several MSs (dependent on results of ex ante assessments) in part due to length of time it takes to set up new funds.
- Desire for continuity expressed also in terms of management arrangements, using existing structures where possible.
- Much debate about whether to continue with regional funds or amalgamate these into a larger, national fund. Not clear that there will be much reduction in the number of individual funds in 2014-20. For example, in AT, introduction of a national fund is accompanied by continuation of one regional fund and introduction of new regional fund.

Summary of Member State/regional FI plans in 2014-20

Country	OP	Ex ante assessment for FIs carried out?	Interest in....			
			EU-level instruments?	Off the Shelf instruments?	Roll forward current instruments?	New initiatives?
AT	National ERDF OP	A concept on how to establish an AT-wide fund was prepared in advance.	No	No	Yes – the OÖ HightechFonds will be rolled forward. Burgenland fund to be phased out.	Two – one national VC fund, one regional fund (Kärnten)
CZE	Integrated Regional Operational Programme	Not known.	Not known.	Not known.	Yes, JESSICA	Not known.
DE	NRW ERDF OP	The evaluation of the new UDF currently underway. NRW also planning an evaluation of the other 3 funds proposed in the OP but is checking to see whether this could be done in-house rather than by an external evaluator.	No	No	Yes – the current Micro Loan Fund and the SME Investment Capital Fund.	Possibly yes. The draft OP provides for further FIs.
DK	ERDF OP	No	No	No	Will depend on ex ante	Will depend on ex ante
FI	National Joint OP (ERDF and ESF)	No	No	No	Yes, Oulu regional fund.	Not known
GR	PA	No	Not known.	Not known.	Yes	Not known.
PL	Śląskie joint ROP (ERDF and ESF)	No	No	No	Planned to continue JESSICA or a similar instrument to support urban areas.	Two, one under ESF labour market priority, also new initiative supporting shift to low carbon economy.
PT	ERDF	Not known.	Yes, SME initiative	Not known.	Not known.	Not known.
SI	Joint ERDF, ESF, CF OP	Not yet	No	No	Yes, Slovene Enterprise Fund.	Yes, Low Carbon

Update on selected Member States/regions

AT: ERDF will be used to co-finance three FIs in Austria. Two will be new:

- A new Austrian-level venture capital fund run by Austria Wirtschaftsservice (AWS).
- A new *Land*-level fund in Kärnten. Details have still to be defined.
- The 'OÖ HightechFonds' in Oberösterreich, which has already been running in the current programme period.

The *Burgenländische Risikokapitalfonds BBR* in Burgenland, operational in 2007-13, will be phased out. The funding available in Burgenland in the future will be significantly reduced, as the Land will move from the status of a Convergence/Phasing Out region to a Transition Region.

DE: Nordrhein-Westfalen (NRW): The draft NRW ERDF OP provides for the creation of a number of new FIs in 2014-20. However, the 2007-13 NRW ERDF OP provided for the creation of a number of FI which in practice either did not become fully operational, or were funded fully outside the ERDF OP (all managed by the NRW.BANK), so it is not yet clear whether all the new FI mentioned in the 2014-20 OP will in practice be co-financed under the OP. The draft NRW ERDF OP provides for the creation of the following new FI in 2014-20:

- An Innovation Fund, providing low interest rate loans and equity-type or equity-replacing measures, to support market-oriented innovation projects in SMEs, potentially combined with bank loans
- A Bridging Fund for Innovative Start-ups, providing low interest rate loans and equity-type or equity-replacing measures
- A Growth Capital Fund for SMEs, providing low interest loans with equity-type or equity-replacing features
- An Energy Efficiency Fund providing long-term loans at favourable conditions to projects upgrading the energy efficiency of public and other buildings and infrastructure, within the context of integrated climate protection/adaptation strategies
- A District Heating Investment Loan Fund, funded 50 percent by the ERDF OP, which will provide loans at low interest rates and/or with favourable loan length or security conditions, to fund infrastructure to allow the expansion of the district heating network
- An Urban Development Fund, providing loans of flexible length and security to local authorities, private developers and operators of citizen-based projects (e.g. for intermediate ownership of land/property to facilitate new uses, to fund core bottom-up projects, or to fund urban area management), within the context of integrated strategies.

In addition, the draft NRW ERDF OP states that:

- If needed, the existing *NRW/EU.Mikrodarlehenfonds* (NRW/EU Micro Loan Fund) could be reorganised and/or an additional micro loan fund could be set up,
- If needed, the existing FI, *NRW/EU.KWK-Investitionskredit* (NRW/EU Combined Power-Heat Investment Credit), could be used to provide loans for building, equipping and extending these types of plant.

As in the case of the existing FI in NRW, any new FI will be set up and managed by the *Land's* public investment bank, the NRW.BANK.

An evaluation has recently been undertaken by PWC of the SME Investment Capital Fund in 2007-13 i.e. this is not an ex ante evaluation as specified by the Commission, but the results of the evaluation will be used to revise practice in 2014-20. The NRW MA states that is a very high quality evaluation, which focuses on different levels i.e. at the level of the Fund and NRW.BANK; at the level of the private/cooperative banks through which funding was channelled; and at the level of individual recipients. It showed that there was a market for this type of funding but also found that the approach of channelling funds through private/cooperative banks did not work well – because the banks simply channelled the riskier and more problematic projects to the Fund. The NRW ERDF MA does not feel that the requirement to do specific ex ante evaluations of FI is useful. They feel that it would be sufficient for the MA to need to demonstrate that they have assessed whether there is a genuine market gap and need for intervention, rather than *ad hoc* studies.

DK: Given the uneven experience in Denmark with the six (relatively small) regional instruments established in the 2007-13 period, early indications were that the most likely development might be a national instrument focusing on, for example, start-up businesses in peripheral regions in order to create a critical mass in investment activities. However, this is uncertain given the contents of the ERFD (and ESF) OPs, which introduce the use of FIs as an option. The OP states that their use will depend on the results of gap analyses carried out at regional level. However, it is considered difficult to get the required volume in equity instruments, so these will not be co-funded. Applicants to run FIs must provide co-financing of at least 50 per cent of the total budget, including from national, regional, local public and private sources. The aim is to provide FIs with critical mass, including the objective of 'a reasonable relationship between the instrument's volume and budgeted expenditures for administration.'

FI: The ELY-Centre of Northern Ostrobothnia (North Finland) has been developing a regional venture capital fund together with the city of Oulu for the past two years. The Northern Start-up Fund regional venture capital fund has also received ERDF funding in 2007-13. The fund is intended to play a major role in the development of business activities and generally respond to the structural changes affecting the Oulu ICT sector. The fund has been notified to the Commission, but is still pending for necessary domestic adjustments to the appropriate act. The new Finnish business development law makes possible the establishment of such funds across Finland. The venture capital fund will focus on businesses in growth phases, which do not necessarily have high turnover and have difficulty in accessing loans. The fund covers 100 percent of costs, and businesses do not need to find match funding. In addition, the business managing the fund (Butterfly Ventures) will provide a mentor for the applicant business (to help developing the business further). There is viewed to be a need for the new venture capital fund in Northern Finland. Equivalent funds are concentrated in South Finland, and for instance the Finnvera Avera fund has only invested on a few occasions in the north.

FR: New management arrangements may be introduced in France, where the EIF is currently conducting an analysis in a number of regions, and it may be that the EIF will be involved in implementing FIs in three or four further regions in 2014-20. In addition, national financial institutions - the newly set up Public Investment Bank and its components (Oséo, CDC) and actor networks (Horizon Entreprendre, France Initiative) - are positioning themselves to become involved.

GR: Despite €1.7 billion having been committed from ERDF funds in various FIs in 2007-13, disbursement has been slow and payment levels remain low. The implementation of FIs over the 2007-13 period has encountered major difficulties: an unstable economic environment; the state of the domestic banking system; "obsolescence " of high risk economic sectors (e.g. ICT); unwillingness to invest and need to cover past borrowing; delayed responses by the Commission; reduced flexibility of the system; and lack of in-depth analysis by Fund managers. Difficulties lie with the fact that some of the FIs will have achieved very little by the end of the period. Initially some of the FIs had started to work but with onset of the financial crisis has reduced expectations. It was expected that private funding could be mobilised at a ratio 1-3, instead of which 1-1 was attained. The Hellenic Bank Association has provided recommendations for management of FIs in future which include: more flexibility, limiting thematic objectives, lending with measurable results, more availability of working capital facilities, new approaches towards collateral, emphasis on expertise and value added of implementing bodies, improved coordination at all levels, improved communication on reimbursable and non-reimbursable funding, and a comprehensive SME policy in Greece. There is scepticism about the use and functionality of the new FI for SME liquidity and participation is still under examination. The EIB, the Greek Ministry of Development and SMEs and the European Commission hold regular meetings with regard to problems and a steering committee was established in July 2013 by DG Regio in order to improve FI implementation and make recommendations on support for SMEs in Greece in 2007-13 and 2014-20. European Commission efforts concentrate on finding a solution to compensate for the lack of available collateral in order for banks to issue loans.

PL: FIs were assessed in the ex ante evaluation for the ROP 2014-2020 and are planned in the ROP 2014-20 under TOs (SMEs), 4 (Low-carbon economy) 8 (Employment and labour mobility) and 9 (Social inclusion and poverty). The allocation dedicated to these instruments will amount to around 5 percent of the programme. JESSICA will be continued (under TO 9).

PT: The main change in 2014-20 will be the establishment of a Financial Institution for Development responsible for the global management of FIs (applying funds/managing the reimbursements/managing financing of EIB and EIF) especially those related to the improvement of the financing conditions of firms. This institution will also be responsible for technical support and advice to firms, as far as investment and internationalisation options are concerned. No decisions have yet been made on specific funds.

SI: The introduction of a new financial instrument to contribute to the low carbon economy objective is planned, with a total value of about €350 million. Setting up the FI is taking more time than expected, so the Priority covering TO4 (Low carbon) will probably start with grants and introduce the FI later. An ex ante assessment has not yet been carried out, but is planned. Studies will be carried out including a gap analysis on access to finance for SMEs (together with the EIF). There will also be studies on other relevant topics potentially covered by FIs. Slovenia has been offering guarantees for bank loans, subsidies of interest rate and grants for specific areas (i.e. start-ups) through its Slovene Enterprise Fund for six years and this will be continued.

SK: In the first quarter of 2014, the EIB should complete an analysis of the possibilities for using FIs in 2014-20. The analysis is expected to serve as a basis for ex-ante assessment of individual FIs. The assessment will be supervised by the Ministry of Finance, which played a leading role in the implementation of financial instruments in 2007-13.

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RESEARCH CENTRE**



EPRC and EPRC research interests

The European Policies Research Centre (EPRC) is an independent research institute in the School of Government & Public Policy at the University of Strathclyde in Glasgow. Its extensive research portfolio consists of five main programmes:

- regional development and regional policy in Europe
- EU Cohesion policy
- European territorial cooperation
- EU Competition policy, State aid and subsidy discipline
- financial instruments in economic development policy

EPRC's research portfolio spans all the countries of Western, Central and Eastern Europe, involving research at European, national and regional scales.

EPRC research on financial instruments

Reflecting the growing interest in financial instruments, over the past three years, EPRC has developed a programme of research and knowledge exchange on financial instrument design and implementation in different policy contexts. Funded by the European Investment Bank, and various national and regional government authorities, these include:

- comparative studies of financial instruments in 2007-13 EU Cohesion policy programmes in selected EU regions
- assessing the role of financial instruments in business development in disadvantaged regions in Europe
- 'stocktaking' the current and future applications of financial instruments in the EU
- a study of the design of financial instruments, focusing on the advantages and disadvantages of various types of instrument in different institutional and policy environments.

Recent EPRC publications on financial instruments

Some, but not all commissioned EPRC reports are published. The following EPRC reports related to financial instruments are available online:

Financial Engineering Instruments in Cohesion policy, by Rona Michie, Fiona Wishlade and Kaisa Granqvist (EPRC) with Metis GmbH, Report to the European Parliament (2013): http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/495870/IPOL-REGI_ET%282013%29495870_EN.pdf

Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period, by Rona Michie and Kaisa Granqvist (EPRC) with Mazars and Ecorys, Report to the European Investment Bank (2013): http://ec.europa.eu/regional_policy/thefunds/instruments/doc/fls_stocktaking_final.pdf

Access to finance in Europe's disadvantaged regions: Can 'new' financial instruments fill the gap? by Colin Mason, Rona Michie and Fiona Wishlade, EoRPA Regional Research Consortium Paper 12/6 (2012): http://www.eprc.strath.ac.uk/eorpa/Documents/EoRPA_12_Public/EoRPA%20Paper%2012-6%20Financial%20Instruments.pdf

Between Scylla and Charybdis. Navigating Financial Engineering Instruments through Structural Funds and State Aid Requirements, by Rona Michie and Fiona Wishlade,, IQ-Net Thematic Paper 29(2), (2011): http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports%28Public%29/ThematicPaper29%282%29Final.pdf

For further information

To find out more about EPRC, to see "what's new" at the Centre and a full list of publications and research activities, see: <http://www.eprc.strath.ac.uk/eprc>

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