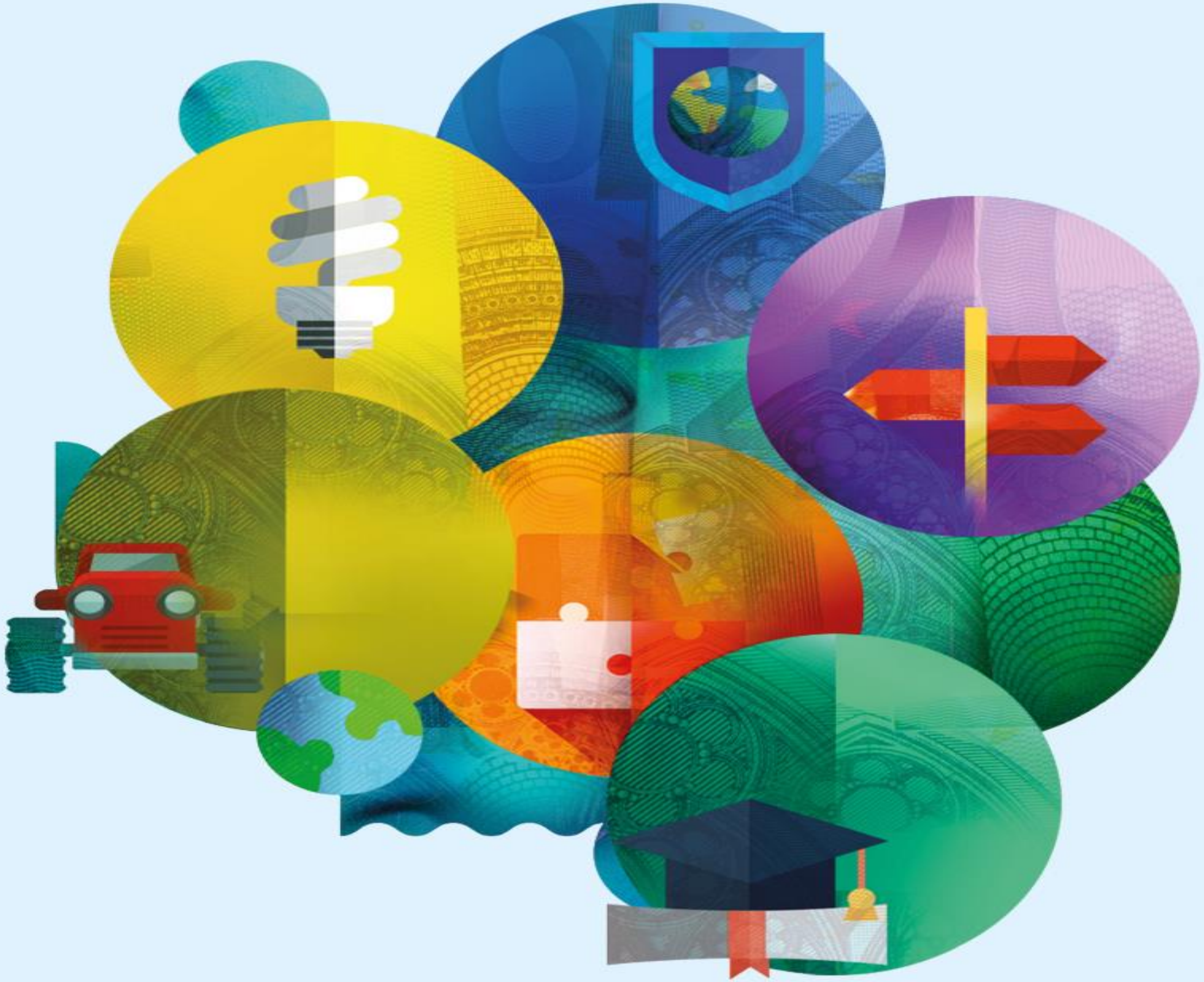
Member State Compartment under InvestEU

Preparing InvestEU
19th June 2019, Luxembourg



Speakers:
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ESIF Highlights – as of May 2019

- *The use of shared management FIs is progressively increasing: almost EUR 18 billion of ERDF and CF allocated to shared management FIs; almost 7% of total allocation (in 2007-2013 the final amount paid to FIs was EUR 11.3 billion).*

- 24 Member States report using Fis

- *FIs operating under all 4 ESI Funds, 8 thematic objectives*

Post 2020 intervention logic – a global approach

The **<u>policy objectives</u>** defined in the Partnership Agreements/CAP Strategic plan and/or programmes can be implemented through the following delivery modes:

- Grants
- Repayable support for revenue-generating and cost-saving investments:
  - Financial instruments under the CPR (FIs)
  - Budgetary guarantee under InvestEU

Justification for using **any** form of support needed!

The Commission encourages the increased use of repayable support through simplified rules for shared management FIs and InvestEU

Post 2020 programming already started

- CPR to be adopted by end 2020
- Partnership agreements/programmes expected to be adopted in 2021
- Seminar with national authorities on programming on 14/06/2019
- Roadmaps on programming to be provided by MS by June 2019
- On-going technical meetings with MAs
- InvestEU contribution discussed at any of these occasions

National authorities to assess the features of shared management FIs/InvestEU and benefit from complementarities

Main Features

	InvestEU	FIs under shared management
Policy objectives	Delivery tool of the policy objectives of the underlying PA or programmes	
Ex-ante assessment	Investment strategy to be agreed in the Contribution Agreement	Mandatory obligation (including Investment strategy)
Management costs and fees (MCF)	No MCF paid to an IP, except in duly justified cases, decided by the EC	MCF paid
Financial products	EU Guarantee for loans, guarantees and equity up to the risk of the provisioning rate; high leverage	Loans, guarantees and equity; possibility to take more risk
Payments	No cash payment; IP uses its own resources	Payments to the MS under shared management rules
Combination	Combination between EU&MS Compartment under a single set of rules possible	Simple combination with shared management grants under the FI; combination with InvestEU only at the level of final recipient

Main Features

	InvestEU	FIs under shared management
Reporting, monitoring and audit	Implementation under the responsibility of the IP and EC; bi-annual reporting to MS, MS can participate in the monitoring; indirect management assurance model+ECA;	Implementation under the responsibility of the MA; reporting by MS under CPR, audit by the AA, EC + ECA
Resources returned if delays or no implementation	Funds can come back to shared management (indicative deadlines: 4 months to sign the contribution agreement from the PA adoption; 9 months to conclude a Guarantee Agreement and 4 years to implement it)	Modifications of programmes needed
Reflows	Reflows at the disposal of the MSs – to be used to keep the provisioning rate at the agreed level or paid back to MSs to be used for other types of repayable support	National resources to be used during the eligibility period for FIs and during 8 years after the eligibility period, for FIs or any kind of support in line with the policy objectives

Key messages

- Consider increasing the use of repayable support
- Continue with shared management FIs
- Look at the new opportunities under InvestEU
  - Liaise closely with your MAs, in some cases concrete market analyses for all public support may be needed
  - Envisage concrete products under the MS compartment
- If you have questions or concrete product proposals the Commission services are available to support you!

Practical case:

*Near **€18bn** has been programmed by managing authorities during the period **2014-2020**, to be implemented through **over 400 financial instruments**.*

*If the respective managing authorities would like to **pursue the same objectives in 2021-2027**, should they have to **start from scratch** if they **shift to** a budgetary guarantee (**InvestEU**)?*

***Disclaimer**: the examples used in this presentation are designed for illustrative purposes. They are based on existing financial instruments but the figures are purely indicative. Other schemes may perfectly be envisaged.*

European Commission

Assuming three financial instruments set up in a Member State during the period 2014-2020:

FI 1 €20m	FI 2 €40m	FI 3 €30m
Microfinance loans (expected losses 40%)	Guarantee on SME loans (expected losses 85%)	Venture Capital (expected losses 25%)
Nat. contrib. €3m / ESF €17m (85%)	Nat. contrib. €10m / ERDF €30m (75%)	Nat. contrib. €7.5m / ERDF €22.5m (75%)
€20m	€40m	€30m
Financial intermediary (+0%) (e.g. non-profit org.)	Financial intermediary (+50%) (e.g. commercial bank)	Financial intermediary (+70%) (e.g. venture capital fund)
€20m	€80m	€100m
Beneficiaries	Beneficiaries	Beneficiaries
Final reflow to MS: €12m	Final reflow to MS: €6m	Final reflow to MS: €22.5m

Assuming three financial instruments set up in a Member State during the period 2014-2020 (ESIF total contribution €69.5m):

FI 1 €20m
Microfinance loans (expected losses 40%)

Nat. contrib.	ESF
€3m	€17m (85%)

€20m

Financial intermediary (+0%)
(e.g. non-profit org.)

€20m

Beneficiaries

Final reflow to MS: €12m

FI 2 €40m
Guarantee on SME loans (expected losses 85%)

Nat. contrib.	ERDF
€10m	€30m (75%)

€40m

Financial intermediary (+50%)
(e.g. commercial bank)

€80m

Beneficiaries

Final reflow to MS: €6m

FI 3 €30m
Venture Capital (expected losses 25%)

Nat. contrib.	ERDF
€7.5m	€22.5m (75%)

€30m

Financial intermediary (+70%)
(e.g. venture capital fund)

€100m

Beneficiaries

Final reflow to MS: €22.5m

European Commission

Options in 2021-2027 for the continuation of the same three instruments:

As financial instruments, idem previous slide (contracts with financial intermediaries to be renewed through public procurement).

Through InvestEU (with the participation of an implementing partner(s) selected by the Commission taken into account the Member State and managing authorities proposals)

European Commission

Member State

Contribution agreement

Guarantee: €167.8m

Provisioning rate: 41.4%

ESIF contribution: €69.5m

Commission

Guarantee agreement €167.8m

Implementing Partner (e.g. NPB) (+25%)

Microfinance loans (expected losses 40%)

€53.1m

Financial intermediary (+0%) (e.g. non-profit org.)

€53.1m

Beneficiaries

No final reflows

Guarantee on SME loans (expected losses 85%)

€44.1m

Financial intermediary (+50%) (e.g. commecial bank)

€88.2m

Beneficiaries

No final reflows

Venture Capital (expected losses 25%)

€112.5m

Financial intermediary (+70%) (e.g. venture capital fund)

€375m

Beneficiaries

No final reflows

Member State

Contribution agreement

Commission

Guarantee: €167.8m

Provisioning rate: 41.4%

ESIF contribution: €69.5m

Guarantee agreement €77.8m

Implementing Partner 1 (e.g. NPB) (+25%)

Guarantee agreement €90m

Implementing Partner 2 (e.g. EIF) (+25%)

Microfinance loans (expected losses 40%)	Guarantee on SME loans (expected losses 85%)	Venture Capital (expected losses 25%)
€53.1m	€44.1m	€112.5m
Financial intermediary (+0%) (e.g. non-profit org.)	Financial intermediary (+50%) (e.g. commercial bank)	Financial intermediary (+70%) (e.g. venture capital fund)
€53.1m	€88.2m	€375m
Beneficiaries	Beneficiaries	Beneficiaries
No final reflows	No final reflows	No final reflows

Overall financing (€m):

	Fin. Instr.	InvestEU
ESIF contribution	69.5	69.5
National co-financing	20.5	0
EU guarantee	N/A	167.8
Member State contingent liability	0	98.3
Financing provided to beneficiaries	200	516.3
Leverage (financing/ESIF) (*)	2.9	7.4
Final reflows to Member State	40.5	0

(*) the leverage used here is the one that highlights the financing mobilised by the same amount of ESIF contribution. It is different from the usual leverage metrics used in financial instruments and budgetary guarantees.

Conclusion:

Existing financial instruments can be relatively easy continued in 2021-2027 as budgetary guarantee (InvestEU).

⚠ *This practical case only addresses the **practicalities** of the two options. It does not recommend any of the two options. The choice between the two options will depend on the assessment by the managing authorities of the governance, administrative and financial features of each option (see previous presentation).*

Instrument	Expected losses (a)	ESIF contribution (b)	Provisioning rate (c) = (a)	EU guarantee (d)=(b)/(c)	Impl. Part. own contribution (e)	Fin. Interm. own contribution (f)	Financing provided (g) (*)
Microfinance loans	40%	€17m	40%	€42.5m	25%	0%	€53.1m
Guarantee on SME loans	85%	€30m	85%	€35.3m	25%	50%	€88.2m
Venture capital	25%	€22.5m	25%	€90m	25%	70%	€375m
TOTAL		**€69.5m**	[41.4%] (**)	**€167.8m**			**€516.3m**

(*) (g)=(d)*[1+(e)]/[1-(f)]

(**) 41.4% = 69.5 / 167.8

Q&A Session

Contact point: **EC-INVESTEU-CONTACT@ec.europa.eu**

Contact point for Pillar Assessment: **EC-INVESTEU-PILLARASSESSMENT@ec.europa.eu**

BREAK-DOWN *15:00 - 17:30*

POLICY WINDOWS BILATERALS:
Meeting rooms - according to assigned time-slots

Pillar Assessment, MS compartment, structuring of financial products & advisory:
Main venue - open discussions

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