Financial Instruments in ESIF: Past, Present and Future Conditional

*Fiona Wishlade**

This article takes a backward and forward look at the role of financial instruments in the European Structural and Investment Funds. It reviews the implementation of FIs in the recently-closed 2007-13 funding period, takes stock of progress with FIs under the current programmes and considers the role of ESIF FIs post-2020.

I. Introduction

This is an opportune time to review the use of financial instruments (FIs) as tools of European Structural and Investment policy: looking back, the 2007-13 programmes have closed and reporting yields some insights into where and how FIs were used in the last programming period. Turning to the present, Managing Authorities have reported on progress in FI implementation during the first two years of the current, 2014-20, period. Going forward, attention is already turning to the ESIF reforms and the potential role of financial instruments post-2020.

II. The Past: Taking Stock of Financial Instruments in 2007-13

Managing Authorities recently reported on the closure of the 2007-13 programmes, marking the end of a programming period in which financial instruments were backed enthusiastically by the Commission, and from which several lessons were drawn for the current period. The closure reports included specific reporting on financial instruments, with additional requirements compared to the past. These returns were summarised and published by the Commission,[1] though not all of the data collected has been made public.[2]

In terms of set-up and spend, the outcomes may be summarised as follows:

- 25 Member States had established co-financed FIs (Croatia, Ireland and Luxembourg had not) involving support from 192 OPs (including one cross-border-cooperation OP).
- € 16.9 billion in OP contributions (€ 11.5 billion from the Structural Funds) had been committed to FIs, of which € 16.3 billion had been paid into holding funds or specific funds, and € 15.2 billion had reached final recipients – an overall 'absorption rate' of 90 % of OP contributions.
- 77 holding funds and 981 'specific' (i.e. loan, guarantee, equity or other funds) had been set up; of the specific funds, 469 were established within holding funds and 462 were implemented directly.
- The average holding fund size was just over € 100 million; 23 holding funds were larger than €100 million and the largest, managed by the Hungarian Development Bank, received allocations of € 822 million. In contrast, there were 12 holding funds at or below € 15 million.
- Specific funds have an average size of just over €20 million, but range from over € 100 million (16 FIs) to under € 1 million (89 FIs – of which 58 are in France).
- Most of the funds (897 specific funds) provided support to enterprises – and all Member States using FIs supported enterprises; 11 Member States financed urban development through a total 52 specific funds; and 10 Member States supported energy efficiency and renewable energy sources through 32 specific funds.

* Fiona Wishlade is a professor in and a director of the European Policies Research Centre, University of Strathclyde, Glasgow. The views expressed in this article are personal.

1 European Commission, *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* (2017), available online at <http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/closure_data_fei_2017.pdf> (last accessed 30 April 2018).

2 It also seems that not all of the data is final.

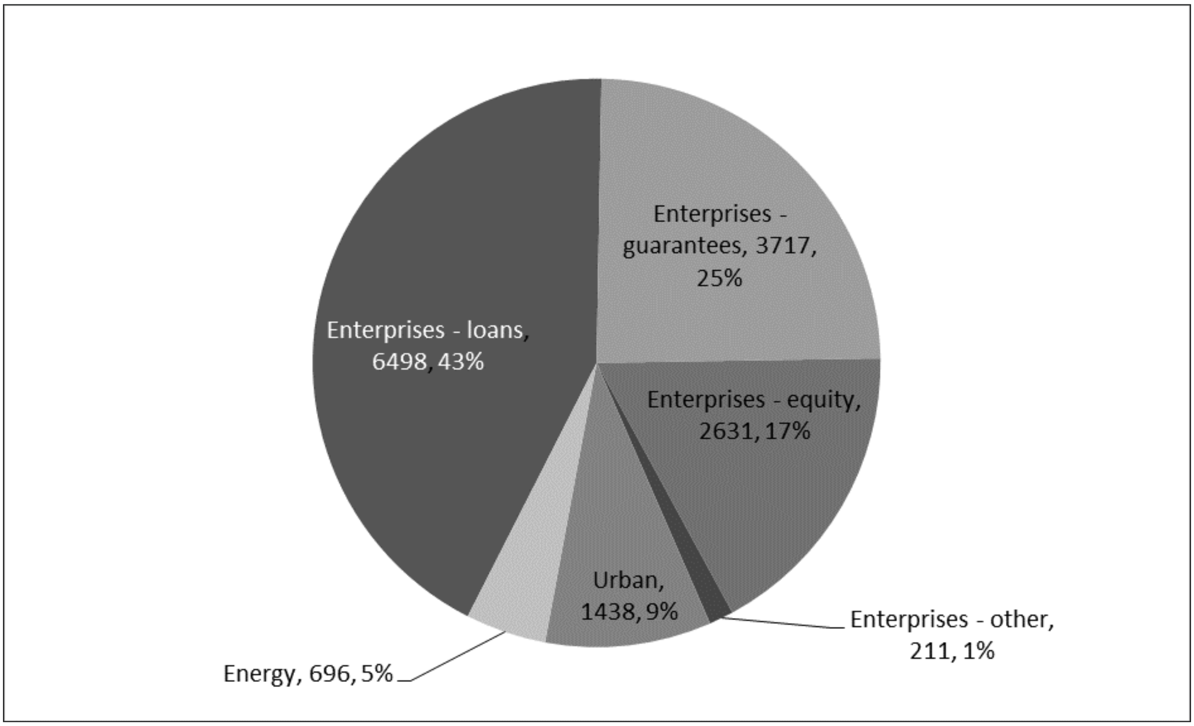

Figure 1: Amounts disbursed to final recipients (€m) and share of total at closure.
Source: Authors' calculations from European Commission 2017.

- Of the total disbursed at closure, some 87 % was in the form of support to enterprises; (see Figure 1); overall, most support – 56 % - was in the form of loans.
- A total of 314,968 final recipients were supported with 372,049 financial products; 318,368 of the final recipients concerned support for enterprises; 1,639 urban projects; and 52,042 energy efficiency and renewables projects.
- The three main types of financial products differ in uptake: the average loan was estimated at € 45,000; the average amount set aside for guarantees was estimated at € 16,000; and the average equity invested estimated at € 410,000.[3]

While the absolute amounts invested in final recipients vary considerably between policy areas, the 'absorption' or the extent to which the sums allocated have been used varies much less. Indeed, for all three policy areas, over 90 % of the sums allocated had been invested by the time of programme closure (see Table 1).

In part, this suggests a considerable acceleration of activity in the final stages of the programmes, since only around 75 % of funds committed had been invested by the end of 2015,[4] and much less in the case of urban development and energy efficiency and renewables. On the other hand, some countries decommitted fairly substantial sums from OP contributions to FIS. For example, in Greece, the commitment reported in 2015 was € 1,789 million, but at closure was € 1,081 million. Similarly, in Spain commitments were reduced from € 1,273 million to €989 million and in Portugal from € 854 million to € 610 million. In any case, the data on 'absorption' must be treated with some caution – the Commission notes a number of reporting errors in the information provided with so-called 'overbooking', interest payments and revolving amounts being included erroneously to the extent that the amounts paid

3 Estimates are due to incomplete data provided by Managing Authorities.

4 European Commission, *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* (2016).

Table 1: OP Contributions Reaching Final Recipients and Remaining in Funds (€m at closure).

	OP contributions paid to HF or specific funds (€m)	OP contributions paid to final recipients (€m)	OP contributions remaining in funds (€m)	Absorption at closure (%)	Absorption at end 2015 (%)
Enterprises	14058	13058	1000	92.8	76.9
Urban development	1596	1438	157	90.1	68.6
Energy Efficiency	730	696	34	95.3	50.5

Source: Own calculations from European Commission 2016 and 2017.

to final recipients may be up to seven percentage points lower than that reported by Managing Authorities.

One of the key benefits claimed for FIs is their sustainability – the scope for funds to be returned and reinvested for the same purpose. The total value of the legacy attributable to the Structural Funds is estimated at € 8,464 billion. For the purposes of reporting at closure, the legacy is calculated as the sum of resources returned, gains from investment and resources yet to be paid back by final recipients. The Commission suggests that for FIs within holding funds, the legacy amounts to around 87 % of the Structural Fund contributions invested in final recipients; for specific funds outside holding funds the corresponding figure is around 81 %. However, the Summary report does not include data on resources returned at the level of financial products, or indeed by Member State, so that no comparative analysis on legacy is possible from the information published.

Another advantage claimed for FIs over grants is their capacity to leverage funding from private sources. Private finance may come in at different points in the funding cycle – for example, private co-financing may take place at the level of the Operational Programme or through co-investment by financial intermediaries at the level of the investment project. Private co-financing at the level of the OP is only significant in Austria, Denmark, Latvia, the Netherlands and the United Kingdom. The total recorded is just € 724 million – about 4.4 % of total OP contributions paid to FIs. Of this, most (€ 423.9 million) is accounted for by the United Kingdom where several OPs use EIB loans as co-financing – and EIB resources are classified as private for these purposes.

Some Managing Authorities provided data on contributions outside the OP. These amount to €384 million and, for the FIs concerned, are reported as increasing the resources available by around 45 %. The provision of data on leverage ratios was not mandatory for 2007-13, with the result that the data is patchy (and non-mandatory data is only available in aggregated form). Nevertheless, where information *has* been provided, the Commission estimates that loans offered may be up to 20 times higher than the ERDF or ESF contribution. These data are striking, but cannot be extrapolated more widely – indeed, it might be argued that Managing Authorities may be more likely to report outside OP contributions where these were particularly large. In any event, it should be borne in mind that ESIF co-financed FIs are intended to address situations where the market is not performing optimally, which in itself is likely to limit the scope to attract external finance. That said, guarantees are considered to provide a very significant leverage effect and ESIF cofinanced guarantees are thought to have backed loans totalling at least € 18 billion (against guarantees offered totalling € 3.7 billion) in 2007-13.

In spite of these insights, it is difficult not to conclude that information on the performance of financial instruments remains limited. It is clear from the Commission report that the returns from Managing Authorities contain significant numbers of errors. At the same time, important indicators were not collected or not collected systematically for 2007-13, with the result that little is known about the real impact of financial instruments. Information about projects financed with FIs – such as the investment associated, the number of start-ups supported, the amount spent on research and innovation – is rarely available. Indeed, the ex-post evaluation of financial instruments undertaken for the Commission concluded that reporting was insufficient for a concrete assessment of policy outcomes.[5]

III. The Present: Progress with Financial Instruments in 2014-20

The provisions for ESIF financial instruments in 2014-20 sought both to address some of the criticisms and shortcomings of the previous regulatory framework and to encourage greater uptake of FIs among Managing Authorities.[6] Among the new provisions were: the extension of the scope to use FIs to all of the thematic objectives of the new policy; the requirement to undertake an ex ante assessment of the finance gap that FIs could fill; new implementation options, including the possibility of assigning OP resources to joint or EU-level instruments or to design FIs using 'ready-made' templates – so-called 'off-the-shelf instruments'; and more guidance and more technical assistance.

Changes to the regulations required Managing Authorities to indicate in the Operational Programmes their intention to use financial instruments. However, the actual sums to be allocated are decided after the *ex ante* assessment, which itself must be done before financial commitments are made. As reported previously,[7] analysis of the indicative plans for FIs contained in the OPs suggested some significant shifts, partly in response to Commission pressure to increase the use of FIs. Collectively, OP indicative allocations suggest planned spend on FIs could almost double from €11.5 billion (Structural Funds only) in 2007-13 to over €20 billion in 2014-20; overall, this is still rather modest at less than six % of the ESIF total. However, the proposed direction of travel is not the same for all Member States: most (19) intended to increase spend on financial instruments; five (Austria, Belgium, Finland, Greece and Italy) planned to lower FI spend; and four (Cyprus, Denmark, Ireland and Luxembourg) did not plan to use FIs at all.[8] (See Table 4 for a breakdown of OP indicative amounts by country).

The 2014-20 regulations allow for FIs to be used for any of the new 'thematic objectives' (TOs) – i.e not just enterprises, urban development and energy efficiency and renewables. The Commission also recommended that Member States deliver through FIs a percentage of the allocations made in their Partnership Agreements to each of "the key investment areas" as follows: 50 % in the field of SME support; 20 % in the field of energy efficiency/renewables (CO2 reduction) measures; 10 % in the field of Information and Communication Technology; 10 % in the field of sustainable transport; 5 % in the field of support for Research Development and Innovation; and 5 % in the field of environmental and resource efficiency. In practice, these targets were not met for aggregate OP allocations, except in the case of research and innovation (see Table 2), where overall indicative allocations for FIs were six % of the total allocated, against a target of 5 %. However, for some TOs some Member States did meet the targets – most notably for low carbon economy where several countries exceeded the target by a wide margin.

Included in Table 2 are decisions to contribute to the SME Initiative, for which a separate OP had to be prepared. Six Member States are implementing the SME Initiative. This accounts for a total of € 1,137 million in the form of guarantees under TO3 – over a third of the total planned for TO3 guarantees. Of this, most is accounted for by Spain (€800 million) with a further € 100 million or so each planned by Bulgaria, Romania and Italy, and smaller amounts in Finland and Malta.

Comparisons of the policy focus of FIs between the two funding periods are not entirely straightforward. That said, the data in Table 2 suggest that overall proposals for the use of FIs were, unsurprisingly, not radically different. In particular, the main policy focus of FIs is on SMEs and as before, loans predominate as the main financial product. Support for ur-

5 Wishlade, F. *et al*, 'Financial Instruments for Enterprises in 2007-13: a practice run for 2014-20?' [2017] EStIF (2), 111-119.

6 Wishlade, F. and Michie, R., 'Financial Instruments in ESI Fund Programmes: a Look to the Future with a View to the Past' [2016] EStIF (4), 204-213.

7 *Ibid.*

8 Luxembourg and Ireland had not used FIs in 2007-13 either. According to Open data on Cohesion policy, view online at <https://cohesiondata.ec.europa.eu/EU-Level/ESIF-2014-2020-categorisation-ERDF-ESF-CF-planned/9fpg-67a4> (last accessed 30 April 2018), there are now indicative allocations to FIs in Cyprus.

Table 2: OP Indicative Allocations to FIs by Thematic Objective 2014-20, EU Amounts (€m) and FIs as a % of OP Totals.

	Loans	Equity	Guarantees	Total	% of OP allocation
Competitiveness of SMEs (TO3)	3112.9	2636.7	2719.9	8469.5	32.0
Multi TO	4008.3	1211.8	423.8	5643.9	9.4
Low-Carbon Economy (TO4)	1496.7	168.0	582.5	2247.2	7.1
Research & Innovation (TO1)	1258.3	745.7	242.9	2247.0	6.0
Sustainable & Quality Employment (TO8)	389.4	50.6	83.0	523.0	6.0
Environment Protection & Resource Efficiency (TO6)	182.6	9.9	182.8	375.3	1.5
Social Inclusion (TO9)	307.7	1.7	43.4	352.7	1.3
Network Infrastructures in Transport and Energy (TO7)	40.0	119.0	0.0	159.0	0.3
Information & Communication Technologies (TO2)	6.0	7.0	20.4	33.4	0.3
Educational & Vocational Training (TO10)	14.4	0.0	10.1	24.4	0.1
Efficient Public Administration (TO11)	8.4			8.4	0.0
Total	10824.7	4950.3	4308.9	20083.8	5.7

Note: These data do not include FIs under the EAFRD; although labelled in the data as FIs, interest rate subsidies are not included in the above data.

Source: Open data on Cohesion policy, view online at <https://cohesiondata.ec.europa.eu/EU-Level/ESIF-2014-2020-categorisation-ERDF-ESF-CF-planned/9fpg-67a4> (last accessed 30 April 2018).

ban development likely mainly falls under OP priority axes which address more than one thematic objective (eg TO4 and TO7), but the reformulation of policy objectives in line with the aims of Europe 2020 does not enable urban development to be identified specifically.

While Table 2 provides an interesting snapshot of supposed intent, these data should be treated with caution. Managing Authorities have dealt differently with the obligation to 'set down a marker' for FIs in their OPs: some provided an indicative amount; others gave no indication, but the narrative of the OP left open the possibility of using FIs; others still have explicitly altered the indicative amounts since the OP was first adopted. Some plans for using FIs have also been affected by the outcomes of the now mandatory ex ante assessments, which can increase or decrease financial allocations or alter their thematic profile. OP plans for FIs may also alter if economic conditions or local domestic priorities change.

As to the implementation of these plans, the Commission has recently published the second annual report on the implementation of ESIF FIs,[9] covering the period to the end of 2016 – two years into the cur-

9 European Commission, *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 Regulation (EU) No 1303/2013 of the European Parliament and of the Council* (2017); available online at <http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/summary_data_fi_1420_2016.pdf> (last accessed 30 April 2018).

Table 3: Progress in the Implementation of FIs by Fund – EU Amounts € Million.

	Committed to FI	Paid to FI	Committed to final recipients	Paid to final recipients
ERDF	10,095.1	3,021.4	1,106.0	996.6
ESF	298.1	59.4	0.8	0.7
CF	166.2	44.1	-	-
EAFRD	51.9	19.5	15.2	7.3
YEI	20.0	14.7	-	-
Total	10,631.2	3,159.2	1,122.1	1,004.6

Note: Amounts 'committed to FIs' refers to amounts committed in funding agreements.

Source: Own calculations from <https://cohesiondata.ec.europa.eu/Country-Level/ESIF-2014-2020-Financial-Instruments-Implementatio/dcsc-7x87/data> (last accessed 30 April 2018).

rent programming period. This data is also published online, incorporating some checks and corrections to the data.[10] In principle reporting on financial instruments covers all of the ESI Funds, though to date no activity has been noted under the fisheries funds (EMFF).

Table 3 shows that, as would be expected, the ERDF[11] accounts for the bulk of commitments to FIs. However, while over € 10 billion has been committed in funding agreements with financial intermediaries, only around € 1 billion of this has reached final recipients. The degree of progress varies considerably between countries.[12]

Table 4 provides an overview of progress with financial instruments, showing the amounts that Member States anticipated allocating to FIs based on their Operational Programmes, and the amounts actually committed and invested in final recipients by end 2016.

This suggests that, on average, around half the sums indicated in the Operational Programmes have been committed in funding agreements; however, in some countries, the full indicative amounts (or even more)[13] have been committed – as in Austria, Estonia, Hungary, Latvia, Sweden and Slovakia - whilst in others (Cyprus, Czech Republic and Slovenia) no funding commitments had been made by end 2016. As mentioned, the amounts given in the OPs were purely indicative with actual amounts to be decided after the *ex ante* assessment. To this extent, longer term – when the *ex ante* assessments still in the pipeline are complete and final decisions on FI funding have been made – the amounts committed in funding agreements will provide a better baseline of managing authority intent than the indicative amounts in the OPs. Nevertheless, it is noteworthy that some Member States which had planned significant allocations have so far committed rather modest amounts. This is most striking in the case of Italy and Portugal which between them have indicative allocations of € 4.8 billion, but which have committed just € 767 million in funding agreements. This raises questions about whether the Commission's ambition to double the use of FIs under the ESI Funds can ultimately be met.

10 As a result, there are some differences between the online and published data, though both cover the period to end 2016, based on the Annual Implementation Report returns. This article uses the online data available at April 2018: <https://cohesiondata.ec.europa.eu/Country-Level/ESIF-2014-2020-Financial-Instruments-Implementatio/dcsc-7x87/data> (last accessed 30 April 2018).

11 The Cohesion Fund could not be used for FIs in 2007-13. In 2014-20 the CF can finance FIs, but the extent to which it is being used to this end is extremely small – just € 645 million (EU amount) is planned in the OPs; most of this (€ 375 million) is in Portugal.

12 Though some of the differences may be due to gaps in Managing Authority reporting and errors, so strict comparisons should be treated with caution.

13 As these amounts were purely indicative, Managing Authorities could exceed them once the *ex ante* assessments had been undertaken.

Progress in translating commitments in funding agreements into payments to FIs also varies. Importantly, however, new provisions on phasing of payments apply under the 2014-20 Common Provisions Regulation. The effect of this is that while the first interim payment is generally 25 % of the total commitment to FIs, the second tranche of 25 % is only payable when 60 % of the first tranche has been invested. This is a new provision in the 2014-20 Regulations which aims to prevent so-called 'parking' of funds to avoid decommitment. An exception to the general rule applies to the SME Initiative, under which Managing Authorities can claim 100 % of the amount to be paid to the European Investment Fund (EIF).[14] This explains the comparatively high level of payments (as a proportion of commitments to FIs) in Spain, Bulgaria and Malta.[15]

Most important, of course, are the amounts actually reaching final recipients. Of the 21 Member States which report having paid funds to FIs, only 13 reported investments in final recipients. Strikingly, of the € 1,004 million total invested by end 2016, over two-thirds was in Spain – € 679.7 million, all of it under the SME Initiative. Elsewhere, only in Estonia and Lithuania did payments to final recipients exceed 20 % of commitments to FIs.

As shown in Table 2 above, the OP indicative allocations envisaged that SME competitiveness would be the single most significant thematic objective for FIs. This is carried into the commitments made in funding agreements, 46 % of which target TO3, as shown in Figure 2.

There is also some evidence to suggest that plans for FIs in the field of SME support are more quickly and easily operationalised than those in areas such as research and innovation and environmental protection where planned spend has been slower to translate into financial commitments. This is scarcely surprising given the comparatively long experience with FIs for enterprises and the more generalist (and therefore more widely available) input from financial intermediaries with FIs often set up as blocks of finance within existing financial institutions, rather that requiring specialist fund managers.

It is tempting to look back and compare progress in implementation with 2007-13 at the same stage in the programming cycle to see whether experience has enabled FIs to be operationalised more quickly, or whether the additional requirement for an ex ante assessment and other changes have slowed the process down. However, for the 2007-13 planning period, the Commission did not begin to collate information on FIs until 2011.[16] This covered the situation as at end 2010 – three years into the 2007-13 programmes, whereas current data only covers the first two years of the 2014-20 programmes. That said, the real obstacle to direct comparisons between programmes is the quality of data available in the last period, especially in the early reporting.

For 2014-20, the Commission concludes that "good progress" was made with implementing FIs by end 2016 and that "no major systemic bottlenecks" were identified.[17] While this may be so, it can be argued that collectively, a number of issues have served to slow the implementation process. A general point is that FIs are still perceived to be complex to administer – even MAs with experience of both grants and financial instruments consider the latter to be harder. The proposed 'omnibus' Regulation[18] aimed to address some of these issues, especially in relation to contracting with national promotional banks and the harmonisation of rules for combinations of FI. However, at the time of writing, this had not yet been adopted.[19] The mandatory ex ante assessments introduced for 2014-20 are widely welcomed in providing an evidence base for FI funding, but have been challenging and time consuming to conduct. A further complicating factor has been the role of guidance. A major complaint among Managing Authorities in 2007-13 was the 'thinness' of the regulations on FIs and the lack of guidance; for 2014-20 the complaint is 'too much and too late'. The provisions for

14 Also exempt from the payment phasing provisions are FIs implemented directly by Managing Authorities.

15 The high figure for Austria may be the result of a reporting error.

16 European Commission, *Financial Engineering instruments Implemented by Member States with ERDF Contributions* (Synthesis Report, Situation as at 31 December 2010).

17 European Commission (2017) *op cit,* p 6.

18 European Commission, Proposal for a Regulation of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union and amending Regulation (EC) No 2012/2002, Regulations (EU) No 1296/2013, (EU) 1301/2013, (EU) No 1303/2013, EU No 1304/2013, (EU) No 1305/2013, (EU) No 1306/2013, (EU) No 1307/2013, (EU) No 1308/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014,(EU) No 283/2014, (EU) No 652/2014 of the European Parliament and of the Council and Decision No 541/2014/EU of the European Parliament and of the Council, COM(2016)605 final of 14 September 2016.

19 Some limited changes affecting only the CAP and the EAFRD were agreed in December 2017.

Table 4: Progress in Implementing Financial Instruments by Country (EU Amounts).

	OP indicative amounts (€m)	Committed to FI (€m)	Paid to FI (€m)	Paid to final recipients (€m)	Payments to final recipients as % of commitments to FIs
AT	3.0	3.0	3.0	0.3	10.6
BE	97.3	29.3	7.3	-	-
BG	635.4	493.3	187.1	-	-
CY	33.5	-	-	-	-
CZ	541.7	-	-	-	-
DE	1281.5	743.7	281.3	45.4	6.1
EE	153.2	165.4	48.3	40.2	24.3
ES	1633.3	800.0	715.3	679.7	85.0
FI	29.5	1.5	0.2	0.2	9.9
FR	634.9	135.1	39.8	3.1	2.3
GR	1117.7	522.4	130.6	-	-
HR	621.8	214.0	37.0	2.0	0.9
HU	2340.4	2,514.9	528.8	23.6	0.9
IT	2531.8	444.2	83.1	-	-
LT	552.7	607.8	294.0	173.8	28.6
LV	245.1	143.9	34.3	13.0	9.0
MT	34.0	15.0	13.8	-	-
NL	85.7	20.3	1.5	0.7	3.3
PL	2719.0	2,073.2	504.8	-	-
PT	2259.7	322.9	54.4	-	-
RO	509.3	100.0	-	-	-
SE	130.8	134.0	33.5	3.3	2.5
SI	254.6	-	-	-	-
SK	441.7	458.9	114.7	-	-
UK	1196.2	688.5	46.2	19.3	2.8

Total	20083.8	10,631.2	3,159.2	1,004.6	9.4

Note: OP indicative allocations do not include amounts for the EAFRD.

Source: Own calculations from Open data on Cohesion policy: <https://cohesiondata.ec.europa.eu/EU-Level/ESIF-2014-2020-categorisation-ERDF-ESF-CF-planned/9fpg-67a4> (last accessed 30 April 2018) and <https://cohesiondata.ec.europa.eu/Country-Level/ESIF-2014-2020-Financial-Instruments-Implementatio/dcsc-7x87/data> (last accessed 30 April 2018).

FIs in this period comprise a large body of regulations and supporting guidance; however, the guidance was published much later than the regulations – often too late to be really useful – and its status with respect to audit requirements is often unclear. In consequence, scarcely halfway through the 2014-20 planning period, consideration was already being given to how FIs might be reformed post-2020.>[20]

IV. The Future: What Role for ESIF Financial Instruments post-2020?

Looking ahead, the role of ESIF financial instruments is set within a wider policy debate about the future of the ESI funds, the role of FIs in the EU budget and concerns at the complexity of the broader FI 'landscape'. The European Commission's reflection paper on the Future of EU Finances[21] envisaged five scenarios – all of these would involve lower spending on ESI Funds and a more significant role for financial instruments in general. More recently, in relation to financial instruments, the Commission has observed that:[22]

> "the current landscape of EU market-based instruments is fragmented, with almost 40 financial instruments and three budgetary guarantees managed centrally [...]. [I]n the area of SMEs alone there are seven financial instruments managed centrally and several hundred in shared management."

It went to suggest that an option to improve the impact and efficiency of financial instruments could be their inclusion in a "single investment support instrument"; the Commission did not, however, say whether such a 'pot' would include ESIF.

The complexity of the FI landscape has emerged as an important issue in the wake of the crisis with three distinct, but overlapping groups of financial instruments. First, EU level initiatives such as COSME, H2020, Creative Europe, Connecting Europe Facility, Erasmus+ provide financial instruments for *horizontal* objectives, such as innovation SMEs, network infrastructure and training. Second, since the orientation of Cohesion policy towards the Europe 2020 agenda, these same horizontal objectives are addressed through ESIF financial instruments, albeit with an implicit *spatial* bias in favour of the less developed regions. Third, the European Fund for Strategic Investments (EFSI) supports many of the same aims, but with an overtly market-led perspective and often through instruments within a 'wrapper' or 'window'[23]. At the point of delivery, the 'modalities' of finance vary but the precise purpose or value-added of the different instruments, and even the ultimate sources of funds is often unclear.

Among the strengths of Cohesion policy FIs are their capacity to adapt to local conditions, to develop regional financial markets and to improve the geographical equity of spend – there is a tendency for horizontal instruments to be demand-driven, with the uptake higher in the more prosperous regions, and to be less focussed on addressing regional economic weaknesses. Cohesion policy FIs also have shortcomings – some of the regulatory aspects demand significant administrative capacity, and monitoring and reporting requirements, as well as the caps on remuneration, can deter the involvement of financial intermediaries – especially private sector actors. Also, many ESIF FIs are small, and may lack the critical mass to be effective and cost-effective, a

20 Wishlade, Michie, Robertson and Vernon (2017) Improving the take-up and effectiveness of financial instruments, Final report to DG Regio, European Commission, available online at <http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/improve_effective_fei_en.pdf> (last accessed 30 April 2018).

21 European Commission, *Reflection paper on the future of EU finances* (2017), available online at <https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf> (last accessed 30 April 2018).

22 European Commission, *A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020* (COM(2018)98 final 2018), available online at: <https://ec.europa.eu/commission/sites/beta-political/files/communication-new-modern-multiannual-financial-framework_en.pdf> (last accessed 30 April 2018).

23 Formally, it should be noted that EFSI is not a financial instrument within the meaning of the Financial Regulation.

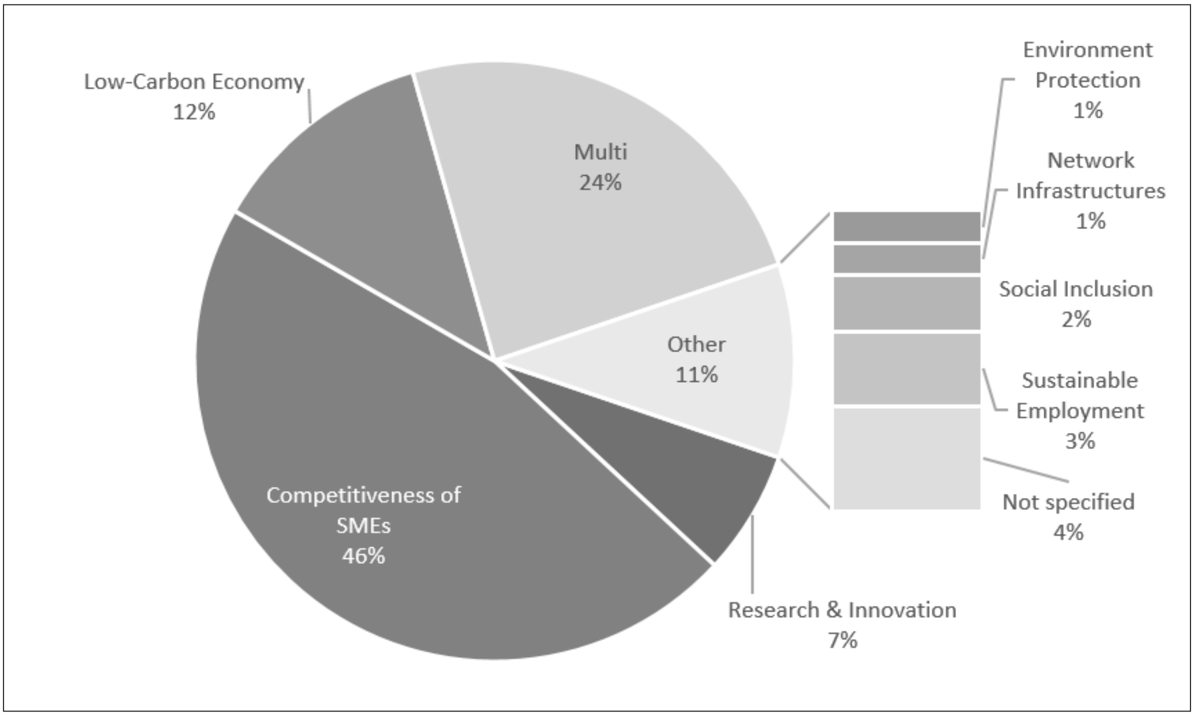

Figure 2: Commitments to FIs in Funding Agreements by Thematic Objective (EU Amount).
Source: Own calculations from: <https://cohesiondata.ec.europa.eu/Country-Level/ESIF-2014-2020-Financial-Instruments-Implementatio/dcsc-7x87/data> (last accessed 30 April 2018).

characteristics that has drawn criticism from the European Court of Auditors.[24]

The tensions between administrative complexity and administrative capacity, between scale and efficiency and between standardisation and customisation have led some to promote the SME initiative as a model. This 'hybrid' approach avoids State aid and procurement issues (typically considered the most difficult by Managing Authorities implementing tailor-made instruments) but enables a degree of adaptation to specific conditions. However, it seems premature to recommend the SMEI. Only six Member States have deployed it, and only in Spain is implementation advanced. Crucially, in a Cohesion policy context, it will be interesting to see to what extent the SMEI operates as a strictly 'horizontal' FI – with funds flowing predominately to more prosperous regions, or whether it succeeds in addressing the more intractable financing needs of disadvantaged regions. Also important, while the SMEI can usefully circumvent some of the regulatory challenges, there is a risk that 'delegating up' may inhibit the development of administrative capacity in less prosperous regions.

More generally, the centralisation of Cohesion policy FIs onto a common platform would be a difficult 'sell' among countries where there is considerable experience and expertise with FIs (whether with domestic or ESIF funds). This in turn implies at least an option for Cohesion policy FIs to continue to be implemented in much the same form as at present. Indeed, there are compelling arguments for this because of the importance of policy learning in improving policy design and implementation. Related, there are strong arguments for regulatory stability to enable policymakers to focus more on the substance of policy than on issues of compliance. That said, a useful regulatory change would be the decoupling of FI lifespans from programme lifecycles, enabling funds to be rolled forward with a fresh injection of funding based on a reassessment of the finance gap, but

24 European Court of Auditors, *Financial Instruments for SMEs co-financed by the European Regional Development Fund* (Special Report No. 2 2012), available online at <https://www.eca.europa.eu/Lists/ECADocuments/SR12_02/SR12_02_EN.PDF> (last accessed 30 April 2018).

without requiring closure and re-procurement. Whilst maintaining regulatory stability, there is also a need to clarify the status of guidance and in particular its relationship with audit to avoid illustrative content becoming elevated to mandatory status.

Ultimately, of course, and away from the minutiae that tends to characterise debates about financial instruments, the future of ESIF financial instruments will be conditional on the outcome of wider issues, not least the scale and scope of Cohesion policy itself.