Foreword

Over the past ten years, the European Commission has developed significant efforts to ensure that the use of financial instruments (FIs) under European Structural and Investment Funds (ESIF) would increase. As a consequence, the amount allocated to ESIF FIs is expected to double during the current period (2014-2020) as compared to the previous one (2007-2013).

Although FIs date back to the 1994-1999 programming period, it was not until the 2007-2013 period that they experienced a real boom. The decision to expand their use was taken during negotiations about the 2007-2013 Multiannual Financial Framework (MFF). The main reason for this decision was the desire of EU institutions to increase the multiplier effect of the EU budget by leveraging additional private and public funds.

Considering the growing importance of FIs within Cohesion Policy, the CPMR has recently started a reflection on the real impact of FIs in EU territories. Namely, the CPMR General Secretariat published a briefing note on FIs in which the first conclusions from the 2007-2013 period – made available by the European Commission – were explored.

The purpose of this study is to go further by analysing the experience of FIs – from past, present and future perspectives – in the CPMR member regions. It tries to draw general conclusions on the use of FIs and suggests ways for improvement. Amongst some of the key findings are the fact that the increase of use of FIs should not be an end in itself and that cohesion policy should continue to be based on the combination of grants and financial instruments, as well as the claim for better training on the use of FIs provided by the European Commission to regions as a mean to increasing their potential benefits. These are all aspects that have been long advocated by the CPMR.

We hope these conclusions will help feed the European Commission’s reflection on FIs in order to better shape the future Cohesion Policy.

We particularly thank all the regions that contributed to this study.

Vasco CORDEIRO
President of the CPMR
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Introduction

The unprecedented financial crisis that hit the world deeply influenced the way public money is now being spent in the EU. Over the last few years, the European Commission has been encouraging an expansive use of revolving instruments to support Cohesion Policy in order to use public resources in a more sustainable and rational way. This trend was confirmed by the launch of the European Fund for Strategic Investment (Juncker Plan) that has the same logic.

The use of ESIF Financial Instruments – which were first launched during the 1994-1999 programming period – increased significantly during the 2007-2013 period. It is expected to double over the 2014-2020 period and to expand further beyond 2020.

Hence, FIs are now anchored in EU Cohesion Policy and are bound to play a critical role in the near future. Although the use of ESIF FIs is rising quickly, the existing literature concerning the 2007-2013 period shows that their effectiveness varies from one region to another depending on their characteristics. As discussions are emerging on the nature of post-2020 Cohesion Policy and the place of financial instruments within it, the CPMR General Secretariat decided to start a reflection on the effectiveness of ESIF FIs in its member regions to feed in to the CPMR position on the subject.

This study – which is the outcome of CPMR reflection on ESIF FIs – intends to draw conclusions about the experience of CPMR member regions with ESIF FIs and gather general recommendations. In doing so, it addresses two main questions:

1. Is there a territorial dimension to FIs?
   Is there a correlation between the characteristics of the regions (level of development, maturity of the markets, population, etc.) and the effectiveness of FIs?

2. Are FIs the most appropriate instruments to achieve Cohesion Policy objectives?
   Are FIs appropriate to deliver all the Cohesion’s Policy’s objectives? Are FIs likely to replace grants?

In order to answer these questions, the CPMR launched an online survey\(^1\) on the use of ESIF Financial Instruments (FIs) in its member regions in April 2016. This survey – which was sent to all the CPMR member regions – follows a briefing note\(^2\) on Financial Instruments issued by the CPMR General Secretariat in February 2016. Contributions from members were collected between May and July 2016. The aim of the survey was to:

- Get feedback from the CPMR member regions on their experience with FIs over the 2007-2013 period (main outcomes, difficulties, etc.);
- Understand prospects concerning the 2014-2020 period;
- Collect CPMR Members’ feedback on how they envisage the role of FIs within the future cohesion policy

The online survey consists of 34 questions. It was divided into two main sections. The first section looks at the results of the FIs developed during the 2007-2013 period (difficulties, lessons learnt, ways for improvement, etc.). The second section focuses on the future: it intends to understand prospects on the 2014-2020 programming period and approaches the future of Cohesion Policy.

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\(^1\) The survey is available here: https://goo.gl/forms/IrDE7UrlwDXscOHB2

This study is based on an analysis of the contributions submitted. In total, 36 regions – represented in the map below – participated in the survey.

![Map of Europe showing regions](image)

**Figure 1 (map): Respondents to the survey**

The European Commission has been carrying out several studies to analyse the effects of ESIF FIs from the 2000–2006 and the 2007–2013 periods. This study stands out as it looks at the effects of FIs from the point of view of some of the regions which set them up.

It should be noted that the study also took into consideration existing literature, including a recent report from the European Court of Auditors\(^3\). The CPMR also looked closely at two relevant papers:

- European Policies Research Centre, *Ideas and Options for Cohesion Policy Post-2020*\(^4\);
- Europaforum Northern Sweden (EFNS), *Europaforum Northern Sweden’s initial comments on cohesion policy beyond 2020*\(^5\).


Characteristics of respondents

This study is mainly based on the contributions from the CPMR members to the online survey. In total, 36 regions sent their contribution. It was ensured that the geographical distribution was balanced: 15 different Member States are represented (i.e. BG, DE, DK, EE, EL, ES, FI, FR, IT, NL, PL, PT, RO, SE, UK). 6 respondents are island regions, 3 are mainland regions and 27 are coastal regions. The distribution in terms of level of development is also balanced, as illustrated in the map below. 19 respondents are ‘more developed regions’, 7 are ‘transition regions’ and the last 10 are ‘less developed regions’.

![Figure 2 (map): Level of development of respondents](image)

The population of the regions is another characteristic that was taken into account. Among the 36 regions that participated in the survey: 17 have less than 1 million inhabitants (among these, 2 are sparsely populated regions – i.e. Kymenlaakso and Västerbotten Regions).
Methodology

This study is based on a 34-question survey that was sent to all the CPMR member regions that are part of the EU – where ESIF FIs apply. Contributions from the members were collected between May and July 2016. This study is also based on other legal and technical documents, including official reports and opinion papers.

This study focuses exclusively on FIs developed under ESI funds as it aims at assessing their efficiency in delivering Cohesion Policy’s objectives as compared to grants. The study also intends to understand what role FIs will play within Cohesion Policy in the future. By the time this study was drafted, it was still too soon to include an analysis of FIs funded under the European Fund for Strategic Investment (EFSI).

The study mainly looks at FIs funded through ERDF and – to a lesser extent – European Social (ESF) operational programmes (OPs) as up until now, the great majority of FIs developed in the CPMR regions were funded through these OPs.

The online questionnaire sent to the CRPM members consists of 3 main sections:

1. General information
2. Feedback on the 2007-2013 period
3. Prospects on the 2014-2020 period and beyond

Section I provides an analysis based on responses from respondents which were asked to specify whether they set up ESIF FIs over the 2007-2013 programming period and to provide details about their role in their implementation.

Section II focuses on the 2007-2013 period. It aims at getting details and feedback on FIs developed during this period. In the first subsection, respondents were asked to provide details about these instruments (sector, target audience, type of instrument, etc.). In the second subsection, respondents were asked to assess FIs they set up (tangible and intangible results – number of jobs created, leverage effect, impact on the market, etc. – overall satisfaction, difficulties, main drawbacks, etc.).

Section III looks at prospects on the 2014-2020 period and beyond. The first subsection focuses on FIs respondents are planning to set up (sector, target audience, type of instrument, etc.). In the second subsection, respondents were asked to give their opinion on the role FIs should play within Cohesion Policy beyond 2020.

NB: Although the results of this study confirm some trends regarding FIs, they are not necessarily representative of the whole EU as the study is based on contributions from 36 CPMR member regions.
Observations and key findings


The European Commission developed several studies to analyse the effects of FIs developed with structural funds during the 2000-2006 and 2007-2013 periods. This study adds value as it looks at the effects of financial instruments from the point of view of the regions which set up financial instruments.

Respondents were asked to tell whether they were satisfied with the results of the implementation of FIs they set up during the 2007-2013 programming period. The perception varies depending on the success of the FIs set up, but also depending on their experience as regards the implementation process.

Unsurprisingly, only the regions that did set up FIs over the 2007-2013 period (24 out of 36 respondents) answered to this question.

1.1 A majority of respondents has a positive opinion of FIs implemented over the 2007-2013 period

62.5% of the regions that set up FIs during the 2007-2013 period have a positive opinion concerning both the results produced by FIs and the implementation process (ranging from reasonably satisfied to very satisfied).

Unsurprisingly, the perception is linked to the results and achievements of the FIs set up: most of the regions that have a positive opinion reported good performance of the instruments they set up in terms of creation of jobs, number of SMEs supported, leverage effect, etc. In total, 15 regions out of the 24 that set up FIs pointed out encouraging results. Following the same logic: regions that have a negative opinion reported underperformances and difficult experiences. This is the case for 3 regions out of 24: the Calabria, Pays de la Loire and Western Greece Regions.

25% of respondents had either a neutral opinion (12.5%) or did not answer (12.5%). Most regions that belong to this category faced difficulties in the implementation of FIs or had mixed results. Only 3 regions (12.5%) had a clear negative opinion as regards the implementation of FIs.
1.2 The perception varies depending on the level of development

Interestingly, the perception of respondents varies considerably depending on the category of development. For the 2007-2013 programming period, there were two categories of regions in terms of the Cohesion Policy architecture: Competitiveness and Employment Regions and Convergence Regions. Among the 24 regions that did use FIs during the 2007-2013 period which took part in the survey, 16 belong to the ‘Competitiveness and Employment’ category and 8 to the ‘Convergence’ category.

- A clear majority (73.33%) of respondents belonging to the category of ‘Competitiveness and Employment Regions’ were satisfied with the results of the implementation of FIs over the 2007-2013 period, whereas only 6.66% have a negative opinion.
- The outcome of the ‘Convergence regions’ category is more mixed: 44.44% of respondents are satisfied, 22.22% are unhappy and 33.33% have a neutral opinion or did not answer.

Figure 4 (graph): Level of satisfaction concerning the use of FIs over the 2007-2013 period per category

Statistics about the perception of respondents and variations in terms of use of FIs between the 2007-2013 and the 2014-2020 periods show that FIs tend to be more popular among ‘more developed’ and ‘transition’ regions than in ‘less developed’ regions.

There is also a correlation between the category of region (‘more developed’, ‘transition’ and ‘less developed’) and the decision to set up FIs during the 2014-2020 period. Variations in the use of FIs between the 2007-2013 and 2014-2020 periods confirm that FIs are more popular among ‘more developed’ and ‘transition’ regions. Regions belonging to the ‘less developed’ category appear to be less keen to develop new FIs over the 2014-2020 period.

It is also interesting to look at variations in more details so as to determine which regions decided not to use FIs and for which reason.

- During the 2007-2013 period: 24 regions decided to set up FIs; 12 decided not to
- During the 2014-2020 period: 23 regions decided to set up FIs; 11 decided not to; 2 regions are still hesitating (Noord-Holland and Western Greece)
Taking the categories of the current period’s eligibility criteria for Structural Funds (‘more developed’, ‘transition’ and ‘less developed’) as a reference, it appears that:

- The number of ‘more developed’ regions using FIs **has remained stable**:  
  - 13 regions set up FIs during the 2007-2013 period; 6 regions decided not to  
  - 13 regions will set up FIs during the 2014-2020 period; 5 regions decided not to; 1 region (Noord-Holland) is hesitating because of their lack of efficiency  
  - **Variations**: 2 regions (Aragón and País Vasco) that did not use FIs before will use them during the 2014-2020 period; 1 region (Pays de la Loire) that used FIs before will not renew the experience

- The number of ‘transition’ regions using FIs **has increased**:  
  - 3 regions set up FIs during the 2007-2013 period; 3 regions decided not to  
  - 5 regions will set up FIs during the 2014-2020 period; 1 region (Western Isles) will not  
  - **Variations**: 2 regions (Murcia and North Aegean) that did not use FIs before will use them during the 2014-2020 period

- The number of ‘less developed regions’ using FIs **has decreased**:  
  - 8 regions set up FIs during the 2007-2013 period; 3 regions decided not to  
  - 5 regions will set up FIs during the 2014-2020 period; 5 regions decided not to; 1 region is hesitating (Western Greece)  
  - **Variations**: 1 regions (Cornwall) that did not use FIs before will use them during the 2014-2020 period; 3 regions (East Macedonia-Thrace, Galati and Tulcea) that used FIs before will not renew the experience

In total, 4 regions (1 belonging to the ‘more developed’ category and 3 to the ‘less developed’ one) that set up FIs during the 2007-2013 period decided not to renew the experience. The reason for not setting up new FIs that the East Macedonia-Thrace region put forward is that the results from the previous programming period (2007-2013) were not really satisfying. As far as the Noord Holland and Pays de la Loire regions are concerned, the reason is the complexity of the implementation of FIs in comparison to the results: “The great amount of work that has been put in creating the financial instrument has been a drawback. Overall it is maybe not worth it to use European funds to create such instrument”\(^6\).

According to the answers provided by respondents, FIs tend to be effective in most regions. However, some regions are not happy with the results of the FIs they set up. The main reason for discontent among ‘more developed regions’ is the amount of work and money FIs require to be set up as compared to the limited size of their operational programmes (OPs), whereas among ‘less developed regions’, the main explanation is the lack of results and attractiveness.

\(^6\) Quote from Noord Holland’s contribution to the survey.
II. THE EUROPEAN COMMISSION’S ASSUMPTIONS REGARDING THE BENEFITS OF FIS WERE CONFIRMED IN SEVERAL REGIONS

When promoting an increased use of ESIF FIs over the 2014-2020 period, the European Commission invoked a series of benefits that FIs could bring, including:

- Increasing the scope, effectiveness and efficiency of policy measures;
- Reusing the capital mobilised for managing public resources more sustainably and ultimately achieve a self-sustaining system;
- Generating leverage by mobilising resources from other public and private sector resources and encouraging co-financing and co-investment;
- Encouraging private sector participation and actually benefit from an exchange of knowledge and expertise;
- Improving the quality of investments (only economically viable investments can attract private capital).

Respondents were asked to provide information about the main achievements of the FIs developed during the 2007-2013 programming period in their region in terms of tangible results (jobs created, SMEs created or supported, etc.) and intangible results (capacity to support riskier projects, etc.).

The feedback from the 2007-2013 period gathered in this study shows that the Commission’s assumptions on the benefits of FIs are true only to a limited extent, depending on the characteristics of the regions. Opinions on these assumptions vary depending on the profile of the regions and their own experience.

It is thus difficult – and maybe too soon – to draw general conclusions regarding the real benefits of FIs. The ex-post assessment of the 2014-2020 period will be critical in this regard. However, some trends already emerge from the survey responses.

2.1 FIs helped boost growth and create jobs in several regions

In the section of the survey dedicated to the main achievement of FIs developed during the 2007-2013, respondents provided tangible information concerning the results of FIs set up. Some regions specified the number of SMEs supported, others the number of products granted (loans, guarantees, etc.) and others the number of jobs created.

The information provided here is not uniform and does not allow for harmonised and therefore comparable statistics. The results vary from one region to another, depending on the type of fund that was set up and the sector.

However, it should be noted that 15 regions – out of the 24 that made the choice to set up FIs over the 2007-2013 period – pointed out encouraging results, as illustrated in the map hereafter.

In most cases where FIs were set up, good results were achieved not only in terms of attractiveness of the products set up but also in terms of performance. For instance, 4 regions pointed out the creation of more than 1000 jobs (up to 15000 jobs in Languedoc-Roussillon7) as a result of the support provided to SMEs through FIs.

A few regions also highlighted a number of indirect results obtained through FIs. The Catalonia region notably mentioned the capacity to support projects with a higher financial risk as one of the achievements of FIs developed during the 2007-2013 period.

7 NB: Former Languedoc-Roussillon merged with Midi-Pyrénées in 2016 and became Occitanie.
On the other hand, it is also important to note that some regions reported mixed results. This is the case for the Calabria, Western Greece and East Macedonia–Thrace regions, which were not fully satisfied with the FIs they set up. For instance, the Calabria region stressed that some of the FIs it implemented strongly underperformed because of a lack of interest from financial intermediaries and final recipients. FIs developed in the Western Greece and East Macedonia regions did not perform well.

2.2 Capacity to generate leverage

The capacity to generate leverage is one of the benefits the European Commission put forward when promoting the use of FIs.

Several regions particularly insisted on the capacity of FIs to generate leverage – especially as regards the support to SMEs and innovative SMEs sector – irrespective of their level of development. This was considered as an added value as compared to grants as it is a way of mobilising other resources and fostering co-financing.

Five regions (Madeira, Västerbotten, Bretagne, Languedoc-Roussillon, and Hauts-de-France) specifically referred to leverage as one of the main achievements of the FIs they set up.

The Languedoc-Roussillon region even quantified the leverage effect generated through the JEREMIE instrument. The total €30 million allocated to this fund helped support 1 370 SMEs and create 15 000 jobs, for an amount equal to €172 million. This represents a leverage effect of 5.8 times the original amount.
2.3 Capacity to attract private investment

Several respondents – especially those which reported good results as regards the implementation of FIs over the 2007-2013 period – expressed satisfaction with the capacity of FIs to attract private investment. Regions that insisted on this are: Bretagne, Catalonia, Madeira, Västerbotten and Languedoc-Roussillon.

The Catalonia region stressed that the participation of the private sector in the FIs it set up was encouraging. The participation varies depending on the product: it was 20 times higher than the public contribution for guarantees and around 3.5 times higher than the public contribution for joint loans, venture capital, loans and microloans.

However, it must be noted that some other regions were less enthusiastic in this regard. This is notably the case for the Calabria region, where two specific instruments (guarantee fund and equity fund for innovative SMEs) gave poor results and had low success among the final recipients.

2.4 Absorption of funds allocated to FIs

Several regions pointed out the good absorption rate of the share of their operational programmes allocated to FIs. Some regions even shared their result: the absorption rate of the Norte and Provence-Alpes-Côte d’Azur regions reached 100%. The Bretagne region’s absorption rate was 99% and the Hauts-de-France’s one ranges between 95% and 99%.

This rate can be considered as a performance indicator for FIs as it reflects the success of FIs among final recipients.

On the contrary, other regions pointed to the fact that FIs did not have the expected impact. This is the case for the Calabria and Western Greece regions, which reported that the funds they set up underperformed due to the economic situation (lack of demand, weak engagement from the financial institutions, etc.). In the Calabria region, the first FI that was set up did not deliver at all and received very negative feedback from the European Commission. The region therefore expects that the expenditure targets will not be met.

2.5 Several regions see the revolving nature of FIs positively in times of scarcity of public resources

The revolving nature of FIs is one of the arguments the European Commission raised to encourage the use of ESIF FIs. Indeed, the European Commission considers that FIs can help establish a more sustainable way of using public resources by reusing the capital mobilised and ultimately achieve a self-sustaining system.

Some regions stressed that this is perceived as a big advantage as it enables them to use the money that was returned from final beneficiaries for new products. The amount of money available will thus progressively increase and will consequently increase the capacity of regions to support businesses and projects with FIs. Regions that particularly insisted on this point are: Hauts-de-France, Norte, Bretagne, Provence-Alpes-Côte d’Azur and Madeira.

Besides, some regions reported that the funds that were returned from final beneficiaries could be recycled and used for other SMEs in some cases. In other cases, unspent funds over the period will be used for new FIs. For instance, the Hauts-de-France region recycled unspent funds under the ERDF operational programme (nearly €13 million) in favour of regional SMEs. In the Norte region, the money refunded from the JESSICA instrument was recycled and used for new loans.
III. COHESION POLICY SHOULD NOT BE BASED ONLY ON FIS

Respondents were asked to give their opinion on the role of Financial Instruments in the post-2020 Cohesion Policy, particularly in relation to grants. Although it is clear that the importance of FIs within Cohesion Policy is likely to grow in the years to come, most respondents argued that grants will still be needed and should not be completely replaced.

The survey responses confirm what was pointed out in the paper from the European Policy Research Centre (EPRC) entitled “Ideas and Options for Cohesion Policy Post-2020” regarding the use of FIs in the future. In its paper (p.55), the EPRC recalls that FIs cannot totally replace grants, which are still needed in some categories of regions – especially less developed or less populated ones – or for some specific sectors to support risky projects or “projects that do not generate immediate returns”.

Respondents to the survey claimed that grants are still needed in a variety of sectors, such as research, social issues, infrastructure investments, active labour market policy, etc. On the other hand, it appears that FIs are perfectly fit for areas close to the market, i.e. energy, support to SMEs and urban development.

3.1 FIs should not replace grants

Although FIs first appeared during the 1994-1999 programming period, it was not until the 2007-2013 period that they started to be commonly used. Up until then, Cohesion Policy was almost exclusively grants-based. The growing importance of FIs within Cohesion Policy is generating concerns from a number of regions that the use of FIs will be imposed in the future for some categories of regions. This is because FIs allow a more sustainable and efficient use of public resources.

However, the existing literature – especially documents that address the issue of the future of FIs within Cohesion Policy – point to the fact that grants are still needed to support specific actions.

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11 regions specifically insisted on the importance of grants within Cohesion Policy to support specific sectors and actions that are far from the market, i.e. support to very small businesses, first steps of innovation, small development projects in rural areas, agriculture, food industry, etc.

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The survey responses consolidate EPRC’s position, according to which: “grants remain necessary to support firms [...] particularly [...] in the context of less developed or less populated regions [...] for risky projects that may not meet the necessary conditions for support under FI schemes, for projects that do not generate immediate returns (e.g. projects in the fields of research, social projects, some infrastructure investments, active labour market policy).”

Many regions also raised concern about whether potential recipients would rather use loans instead of grants, especially in times of low interest rates.

3.2 The use of FIs should not be generalised

Many respondents consider that they should be able to decide whether to implement FIs or not and in which sector, based on sound ex-ante analysis. Several respondents also stated that they would prefer to set up FIs specifically adapted to their needs rather than tailor-made instruments. This is the case for the Aquitaine, País Vasco and Provence-Alpes-Côte d’Azur regions.

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8 http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports(Public)/ThematicPaper38(2).pdf
Several respondents fear that the use of FIs will be imposed in the future

Recent initiatives carried out by the European Commission with regard to FIs indicate that FIs might become compulsory tools in support to Cohesion Policy. Indeed, the European Commission expects that the share of FIs within Cohesion Policy will continue to grow in the years to come.

This simplistic approach has been widely criticised by several actors involved in Cohesion Policy, who warned that FIs are not necessarily fit for all the sectors and actions covered by Cohesion Policy. However, this approach was discarded by EU policy makers. In a recent interview10, Commissioner Crețu’s Head of Cabinet, Nicola De Michelis, claimed that the use of FIs should not be based on the level of development of regions but rather on the sectors and actions they can support.

The survey responses go in the same direction. Most respondents consider that the use of FIs should not be imposed, even in more developed regions. According to them, the assumption that that ESIF should be used in conjunction with FIs exclusively in more developed regions in the future is ill-conceived.

Some regions consider that they should be able to decide whether to implement FIs or not and in which sector, based on sound ex-ante analysis.

FIs are not fit for all regions

The survey responses pointed to the fact that FIs are not fit for all types of regions. Some regions belonging to the ‘more developed’ category insisted on the fact that although the European Commission advises to use FIs, criteria different than the level of development must be taken into account.

Use of FIs could be decided on a voluntary basis. Respondents pointed to the fact that some regions are less adapted to FIs – especially those whose market is small or underdeveloped. This is especially the case for some ‘less developed’ regions and some ‘sparsely populated’ regions, i.e. South Aegean, Western Greece, Southwest Finland and Västerbotten.

3.3 Trends tend to confirm that FIs are particularly fit for sectors close to the market

Over the 2007-2013 period, ESIF FIs could only be developed in 3 sectors: support for SMEs; urban development; energy efficiency and renewable energy in buildings.

![Figure 6 (graph): Sectors in which FIs were developed - 2007-2013 programming period](https://www.contexte.com/article/pouvoirs/une-politique-regionale-sans-categorie-de-regions_52809.html)
The distribution per sector among regions that developed FIs during the 2007-2013 period was the following:

- Support to SMEs: 20/24 regions
- Urban development: 6/24

It shows that the ‘support to SMEs’ sector is the most popular one among respondents in terms of development of FIs.

It must also be noted that all the regions that set up FIs during the 2007-2013 period (24 in total) set up FIs under their ERDF OP whereas only 3 out of 24 (Calabria, Galati, Marche) developed FIs under their ESF OP.

The information provided by respondents as regards the FIs developed during the 2007-2013 period also points to the fact that most of the FIs set up aimed at supporting SMEs at different stages:

- 6 regions (Aquitaine, Hauts-de-France, Languedoc-Roussillon, Poitou-Charentes, Provence-Alpes-Côte d’Azur, Toscana) set up a co-investment fund targeting SMEs (especially SMEs in seed)
- 6 regions (Bretagne, Calabria, Hauts-de-France, Madeira, Marche, Toscana) set up a guarantee fund targeting SMEs operating in any sector
- 6 regions (Calabria, Catalonia, Noord-Holland, Poitou-Charentes, Toscana, Västerbotten) set up loans for innovative SMEs

Over the 2014-2020 period, ESIF FIs could be developed under any TO\textsuperscript{12}. The most popular are\textsuperscript{13}:

- TO3 (SMEs competitiveness): 17/24
- TO1 (research, development and innovation): 11/24

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure7.png}
\caption{Figure 7 (graph): TOs under which FIs were developed - 2014-2020 programming period}
\end{figure}

\textsuperscript{11} NB: Former Aquitaine merged with Poitou-Charentes and Limousin in 2016 and became Nouvelle Aquitaine.
\textsuperscript{12} The list of thematic objectives for the 2014-2020 programming period is available here: \url{http://ec.europa.eu/regional_policy/en/policy/what/glossary/t/thematic-objectives}.
\textsuperscript{13} See also the table below.
It must be noted that a specific percentage of ERDF operational programmes – depending on the category of development – must be earmarked for one or several of the first four TOs: 80% in MDR, 60% in ‘transition’ regions and 50% in LDR.

Nevertheless, results for the 2014-2020 period show that FIs are not designed for delivering all the objectives of Cohesion Policy, particularly those supported by the ESF. The other 7 TOs are those mostly related to environment, education, social issues (social inclusion, poverty), infrastructure investments and active labour market policy.
IV. THE SUCCESS OF FIS DEPENDS ON THE CHARACTERISTICS OF EACH REGION

The survey responses tend to show that it is difficult to draw general and universal conclusions as regards the choice to use FIs. This choice is not only influenced by the economic and market characteristics of the region, but also by the characteristics of the regional actors and financial institutions, and the existing domestic products.

4.1 FIs should not be following ‘one size fits all’ set of rules

Many regions insist on importance of ex-ante assessment (analysis of market needs and financial gaps) to determine when and where FIs are needed.

As previously mentioned, the effectiveness and attractiveness of FIs tend to vary from one region to another. It is therefore difficult to support the idea that every single region in Europe should set up FIs, irrespective of its characteristics (level of development, maturity of the market, population, etc.). Yet, it is also difficult to determine which category of regions is more likely to be fit for FIs.

Contributions from respondents helped establish some general observations:

- FIs tend to be more attractive for regions where markets are mature; regions where the market is small or underdeveloped tend to be less attracted to FIs.
- Some sparsely populated regions belonging to the ‘more developed’ category stressed that ESIF FIs are not necessarily popular in their territory and that they mostly rely on grants. This is notably the case for the Västerbotten and Kymenlaakso regions.
- Two regions belonging to the category of ‘more developed regions’ (South Aegean and Southwest Finland) pointed out that it was not worth setting up FIs – which are costly to implement – due to the small size of their OP.

However, it must be noted that the results of this study show that FIs are not necessarily attractive for all advanced regions. Neither are all FIs developed in ‘less developed regions’ underperforming. Several criteria must also be taken into account to determine whether the use of FIs is relevant or not.

4.2 ESIF FIs are often in competition with domestic financial products

The survey responses show that the success of FIs is sometimes undermined by domestic instruments that are often preferred to ESIF FIs. This is particularly true in regions where domestic instruments are performing well.

7 regions (Murcia, País Vasco, Calabria, Bornholm, Noord-Holland, Pays de la Loire and Southwest Finland) – regardless of their level of development – pointed out that ESIF FIs are in competition with their own domestic products. National or regional instruments are often less costly, more attractive and easier to set up. This is notably one of the reasons why some of these regions (i.e. País Vasco) decided not to set up FIs during the 2007-2013 period or decided not to renew the experience for the 2014-2020 period (Pays de la Loire). The Noord Holland region is still hesitating on whether it should set up FIs during the 2014-2020 period or content itself with the existing regional instruments, as ESIF FIs are costly and the Noord Holland region’s ERDF OP is small.

The Calabria region also reported a weak engagement from financial institutions or banks as regards the promotion of ESIF FIs. The reason for this is that these institutions operate similar services and products and are not keen on promoting the use of competing products funded by the region.
V. THERE ARE STILL IMPROVEMENTS TO BE MADE REGARDING THE IMPLEMENTATION OF FIS

Respondents were asked to mention the main difficulties regions encountered when implementing FIs during the 2007-2013 period and to give precisions about the lessons learnt during this period. They were also asked to tell whether they consider their staff had relevant expertise to manage FIs.

Regions that decided to use FIs over the 2007-2013 period had to face several problems as regards their implementation. The main ones have been gathered in this section. It must be noted that some of these issues have already been identified and taken into account by the European Commission. However, although there has been an attempt to address shortcomings with the new legislation for the 2014-2020 programming period, respondents report that several problems remain. Most of these obstacles were also mentioned in the report from the European Court of Auditors entitled “Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period”\(^\text{14}\).

5.1 Several regions reported important delays in the implementation of FIs during the 2007-2013 period

The implementation of ESIF FIs over the 2007-2013 period suffered from important delays in their implementation for several reasons. These delays sometimes hindered their effectiveness and provoked a loss of credibility among final recipients. 5 regions particularly stressed this issue (Catalonia, Aquitaine, Hauts-de-France, Languedoc-Roussillon and Norte).

The delays observed in the setting up of ESIF FIs were caused by several factors. The main ones are described below.

- Regulation and Guidance provided by the European Commission came late

Although regions had decided to set up FIs from the beginning and had planned it in their OPs, in many cases, it was not until the end of the programming period that they were actually able to set them up. The Hauts-de-France region reported that ESIF FIs for the 2007-2013 period could only be set up between 2012 and 2015.

- There were important delays because of the complexity of the exercise

The implementation of FIs is a complex exercise that requires a lot of time. Some respondents stated that this was due to the fact that legislation was designed for grants. The complexity of the implementation of FIs is mainly due to three factors: 1. lengthy control and audit procedures; 2. difficulty in selecting financial intermediaries; 3. excessive bureaucracy.

- Several regions reported delays due to the lack of preparedness of the staff

As mentioned before, the use of ESIF FIs is a quite recent exercise for most regions as grants had been prevailing so far. As a consequence, the staff in charge of implementing OPs has limited knowledge of FIs and lack experience in setting them up.

5.2 The implementation of FIs is lengthy and complex

Several respondents reported that the implementation of FIs was a difficult exercise, sometimes more difficult than the implementation of grants. According to some respondents, final recipients might be reluctant to use FIs, which are as difficult to implement as grants, though often less attractive. It must also be noted that 2 regions mentioned complexity as one of the reasons why they did not implement FIs (i.e. País Vasco and Pays de la Loire).

Respondents identified several factors responsible for the complexity of the setting up of FIs.

- According to respondents, the complexity is mainly due to the fact that several legislations applying to FIs are conflicting (EU legislation, state aid guidelines, national legislation). This was raised by 4 regions (Aquitaine, Poitou-Charentes, Catalonia and Västra Götaland).

- Some regions also claimed that the complexity of implementing FIs is due to the fact that legislation applying to ESIF was designed for grants. The Catalonia region stated that: “CPR and local regulation have been designed and are audited under the prism of grant management”.

- Another reason for the complexity of implementing FIs is the quantity of guidance provided by the European Commission. The European Commission argued that guidance was requested by managing authorities to clarify specific aspects. However, the clarifications provided by the Commission was often considered as excessive in number and overly complex. Some respondents argued that clearer legislation and rules should have been provided since the beginning.

- Respondents also pointed out the fact that controls reach out to final recipients, which goes against the attempt to simplify procedures and is perceived as a lack of time and effectiveness.

- They finally find it complicated to design adequate monitoring and reporting tools in order to cope with the requests for information from EU, national and regional entities.

5.3 There is a lack of flexibility and adaptability

One of the difficulties encountered by regions when setting up FIs was also the rigidity of rules applying to the products implemented.

Some respondents stressed that the regulatory limitation of eligibility of final recipients was sometimes an obstacle that hindered the effectiveness of FIs. This was the case for Madeira and Calabria. The Calabria region even claimed that some of the FIs it implemented underperformed because of the too narrow eligibility criteria.

Respondents also regretted that FIs were not flexible enough to adapt to the socioeconomic changes. It cannot be guaranteed that FIs set up at a given point in time will have the same success and impact throughout the whole programming period. The Catalonia region stated that: “Fund managers need to be flexible to adapt the supply of financial instrument to demand especially in a period of financial instability. As performance and take-up was below expectations in some of the initially designed schemes, it was necessary to transfer part of the allocation among them and to adapt the financial instruments to facilitate take-up.”
5.4 Many regions reported an administrative capacity issue

Many respondents claimed that the lack of preparedness of their staff was a serious obstacle in the implementation of FIs. In several cases, the staff that was appointed to implement FIs had no previous experience in working with financial instruments and financial institutions and had not receive any specific training. The Hauts-de-France and Noord Holland regions stressed the fact that their staff did not have the required skills to set up FIs, which is considered as one of the obstacles they had to face in the implementation process.

Some other observations can also be made as regards the ability of the staff to set up FIs:

- The level of expertise and capacity varies from one region to another depending on the staff’s background

Some regions had better knowledge and understanding of FIs as others. Other regions had a successful experience with FIs thanks to the background of their staff. For instance, the Provence-Alpes-Côte d’Azur region stated that part of its staff had previous experience in the previous sector (banking sector, notably), which was useful.

- Big improvements were witnessed in some regions thanks to the experience they had during the 2007-2013 period

Some regions stressed that their experience with FIs over the 2007-2013 period helped them gain expertise and will be useful for the current period.
Recommendations

- **Cohesion Policy** should combine grants and financial instruments in the future
  Some Cohesion Policy objectives seem to be well suited to financial instruments, whereas grants have a proven track record for being more effective for other objectives.

- The increase of the use of FIs should not be an end in itself
  Considering that FIs are not always efficient, even in ‘more developed regions’, and that some regions prefer to use their own domestic products, the European Commission should not set objectives in terms of share of FIs within Cohesion Policy. The Commission should carry out a detailed evaluation of the effectiveness of financial instruments on a thematic basis to feed in policy proposals for post-2020 Cohesion Policy.

- **Legislation** should be more flexible and adaptable
  Several regions ask for more flexibility in the implementation of FIs in order to better adapt the supply to socio-economic variations. Legislation should also take into account the different risks and characteristics of market financial instruments in order to design simplified control and audit procedures.

- The choice to set up FIs could happen on a voluntary basis according to domestic needs and not to the level of development
  Many regions suggest that the choice of setting up FIs should be based on sound ex-ante analysis to identify the sectors most suited for FIs. Many regions also suggest to create FIs adapted to specific regional needs instead of using tailor-made and off-the-shelf instruments.
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