



The territorial dimension of Cohesion Policy financial instruments

Summary of key findings

I. Introduction

The traditional means of supporting growth and jobs – grants and subsidies – at European level is undergoing a profound revolution. The unprecedented financial crisis that has 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 financial instruments to support Cohesion Policy in order to use public resources in a more sustainable way. Hence, the use of financial instruments in the framework of Cohesion policy – which were first launched during the 1994-1999 period – increased significantly during the 2007-2013 period and are a priority for the 2014 – 2020 period.

As a consequence of the growing use of ESIF FIs, the CPMR launched an online survey¹ on the use of ESIF Financial Instruments (FIs) in its member regions in April 2016. This survey follows a briefing note² on Financial Instruments issued by the CPMR General Secretariat in February 2016.

This study explores 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? Can FIs replace grants?

Although 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.

¹ The survey is available here: <https://goo.gl/forms/lrDE7UrlwDXscOHB2>.

² http://www.crpm.org/pub/docs/456_en_note-instruments_financiers_02-2016.pdf.

This note summarises the key findings of the CPMR study on the use of FIs. The study is based on a 34-question online survey aiming at getting feedback from the previous programming period (2007-2013), understand prospects concerning the 2014-2020 period and look at the role of ESIF FIs within the future Cohesion Policy. 36 regions contributed to the survey.

The geographical coverage is quite broad and balanced: 15 Member States are represented (BG, DE, DK, EE, EL, ES, FI, FR, IT, NL, PL, PT, RO, SE, UK). Among respondents, 6 are island regions, 3 are mainland regions and 27 are coastal regions. The map below shows the regions that participated in the survey as well as their level of development.

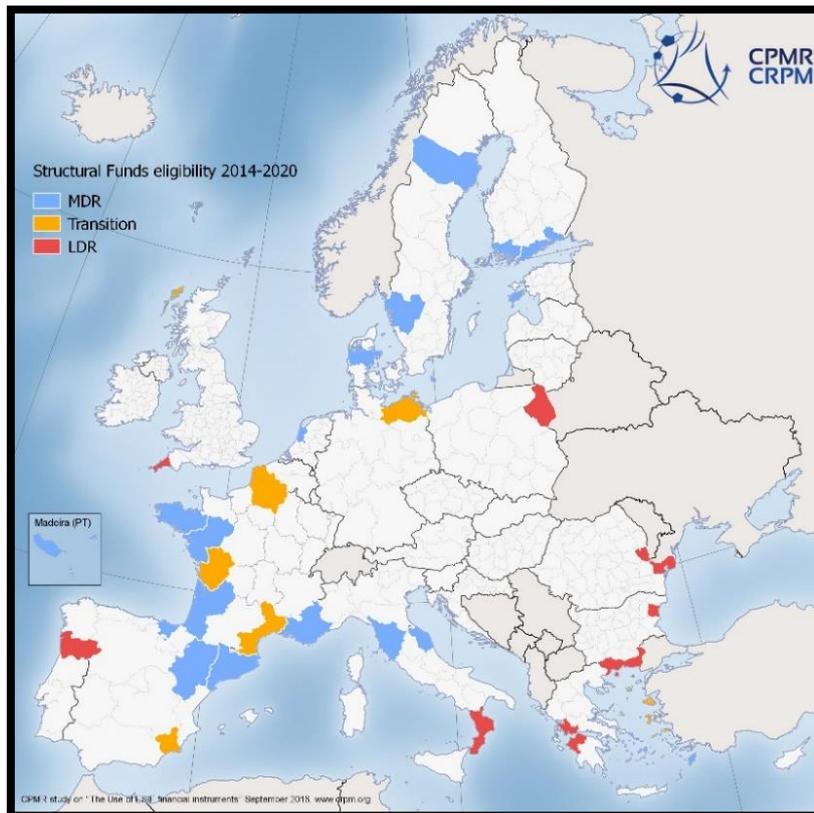


Figure 1 (map): Level of development of respondents

II. Observations and key findings

MESSAGE 1: There is a correlation between the perception regions have of FIs – based on the results of the 2007-2013 period – and their level of development

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.

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

- *A clear majority of respondents has a positive opinion of FIs implemented over the 2007-2013 period. Indeed, 62.5% of the regions have a positive opinion of FIs. Only 12.5% (3 regions) have*

a negative opinion. The remaining 25% have either a neutral opinion (12.5%) or did not answer (12.5%).

- *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. Following the same logic: regions that have a negative opinion reported bad experience.
- *The perception varies depending on the level of development.* ‘Competitiveness and employment regions’ tend to have a better opinion of FIs than ‘convergence regions’. 71.4% of ‘competitiveness and employment regions’ have a positive opinion of FIs whereas only 33% of ‘convergence regions’ share the same opinion. By the same token, only 7.2% of ‘competitiveness and employment regions’ have a negative perception of FIs whereas 33.33% of ‘convergence’ regions think alike.
- Variations in terms of use of FIs between the 2007-2013 and 2014-2020 periods show that FIs tend to be more popular among ‘more developed’ and ‘transition’ regions than in ‘less developed’ regions. 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:
Variations: 2 regions (Aragón and País Vasco) that did not use FIs before will use them during the current period; 1 region (Pays de la Loire) that used FIs before will not do it again.
 - ✓ The number of ‘transition’ regions using FIs has increased:
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:
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.

MESSAGE 2: The European Commission’s assumptions regarding the benefits of FIs were confirmed in several regions

Respondents were asked to provide information about the main achievements of the FIs developed during the 2007-2013 programming period 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 show that some assumptions of the European Commission as regards the benefits of FIs were confirmed by several regions.

- *FIs helped **boost growth and create jobs** in several regions.* 15 regions - out of the 24 that set up FIs over the 2007-2013 period - pointed out encouraging results (i.e. creation of jobs). The results vary from one region to another, depending on the type of fund that was set up and the sector.

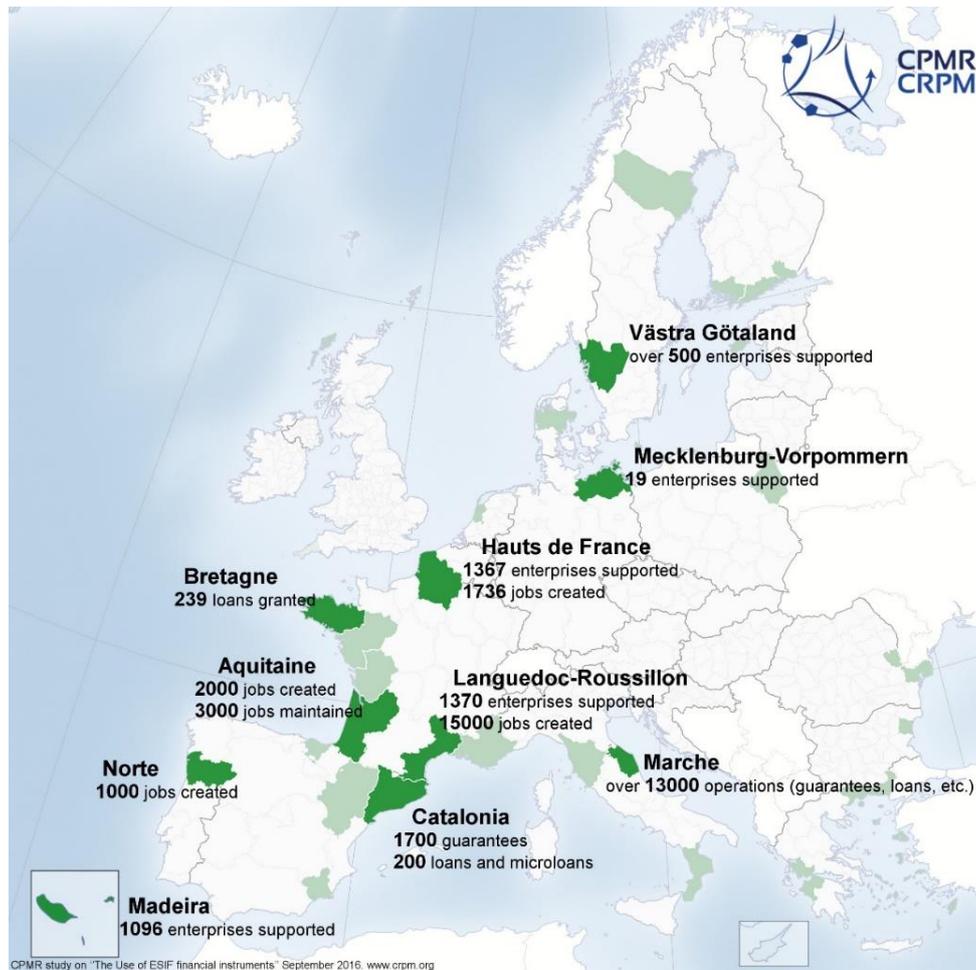


Figure 2 (map): Main achievements of FIs developed during the 2007-2013 period

- Five regions particularly insisted on the **capacity of FIs to generate leverage** 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 expressed satisfaction with the capacity of FIs to **attract private investment**.
- Several regions pointed out the **good absorption rate** of the share of their Operational Programmes allocated to FIs. 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.
- Several respondents mentioned the **revolving nature of FIs** as one of the benefits of the instruments they set up. The Commission considers that FIs can help establish a more sustainable way of using public resources by reusing the capital mobilised and achieve a self-sustaining system.

MESSAGE 3: 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.

- **Several respondents raised concern over the possibility of FIs completely replacing grants.** 11 regions specifically insisted on the importance of grants within Cohesion Policy to support specific sectors and actions that are far from the market. **FIs mainly target profitable and mature sectors** as they are revolving instruments. Hence, they cannot support any kind of sectors and actions under Cohesion Policy.
- **The use of FIs should not be generalised.** 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 – notably the more developed ones. 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. Many respondents also stated that they would prefer to set up FIs specifically adapted to their needs rather than tailor-made instruments.
- **Trends tend to confirm that FIs are particularly fit for sectors close to the market.** Over the 2007-2013 period, 20 regions out of 24 set up FIs in the ‘support to SMEs’ sector. Over the 2014-2020 period, FIs were mainly concentrated on Thematic Objectives (TO) 3 (SMEs competitiveness), TO1 (research, development and innovation) and TO4 (low carbon economy).

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.

MESSAGE 4: The success of FIs depends on the characteristics of each region

- *FIs should not be following ‘one size fits all’ set of rules.* **The effectiveness of FIs tend to vary from one region to another.** FIs tend to be more attractive for regions where markets are mature. Some sparsely populated regions belonging to the ‘more developed’ category stressed that ESIF FIs are not necessarily widespread in their territory and that they mostly rely on grants.
- **Seven regions pointed out that ESIF FIs are in competition with domestic financial products.** National or regional instruments are often less costly and easier to set up.

MESSAGE 5: There are still improvements to be made as regards the implementation of FIs

Regions that decided to use FIs over the 2007-2013 period had to face several problems as regards their implementation. Although there has been an attempt to address shortcomings for the 2014-2020 programming period, respondents report that several problems remain.

- *Several regions reported **delays in the implementation of FIs during the 2007-2013 period.*** These delays were caused by several factors: the regulation and guidance provided by the European Commission came late; there were important delays because of the complexity of the exercise; several regions reported delays due to the lack of preparedness of the staff.
- *Several respondents **implementation of FIs is lengthy and complex.*** This is mainly due to various reasons: several legislations applying to FIs are conflicting (EU, state aid guidelines, national

legislation); the quantity of guidance provided by the European Commission; monitoring and reporting procedures are too complex.

- **There is a lack of flexibility and adaptability in the implementation of FIs.** Some respondents stressed that the regulatory limitation of eligibility of final recipients was sometimes an obstacle that hindered the effectiveness of FIs. Respondents also regretted that FIs were not flexible enough to adapt to the socioeconomic changes.
- *Many regions reported an **administrative capacity issue** in relation to 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. However, big improvements were witnessed in some regions thanks to the experience they had during the 2007-2013 period. It must also be noted that **the level of expertise and capacity varies from one region** to another depending on the staff's background.

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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The Conference of Peripheral Maritime Regions (CPMR) brings together some 160 Regions from 25 States from the European Union and beyond.

Representing about 200 million people, the CPMR campaigns in favour of a more balanced development of the European territory.

It operates both as a think tank and as a lobby group for Regions. It focuses mainly on social, economic and territorial cohesion, maritime policies and accessibility.

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