

# **Financial Engineering: an innovative way to use EU Structural Funds**

**Dorota Kalina Zaliwska, Head of Unit  
DG Regional Policy - 'Financial engineering, major projects' Unit**

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# Content of the presentation

- **Financial Engineering**
- **Main characteristics**
- **Joint Initiatives**
- **State of Play**
- **Perspectives**



# **Financial Engineering**



# What is Financial Engineering?

## Financial Engineering in the context of Cohesion Policy:

- **Innovative way of financing (the use of innovative instruments and processes) in preference to traditional dependence on non-repayable public support through grants**



# Key advantages of Fin. Eng

- **Sustainability** by recycling funds over long-term
- **Leverage effect** by attracting other sources of finance
- **Stronger incentives towards better performance and efficiency**
- **New sources of expertise and know-how**
- **Development and/or modernisation of financial markets**



# Policy areas of Fin. Eng.

## THREE AXES in 2007-2013:

1. SMEs, including micro enterprises
  2. Urban development and regeneration
- +
3. 2010 addition: Energy efficiency and renewable energy in buildings, including in existing housing



# **Main characteristics**



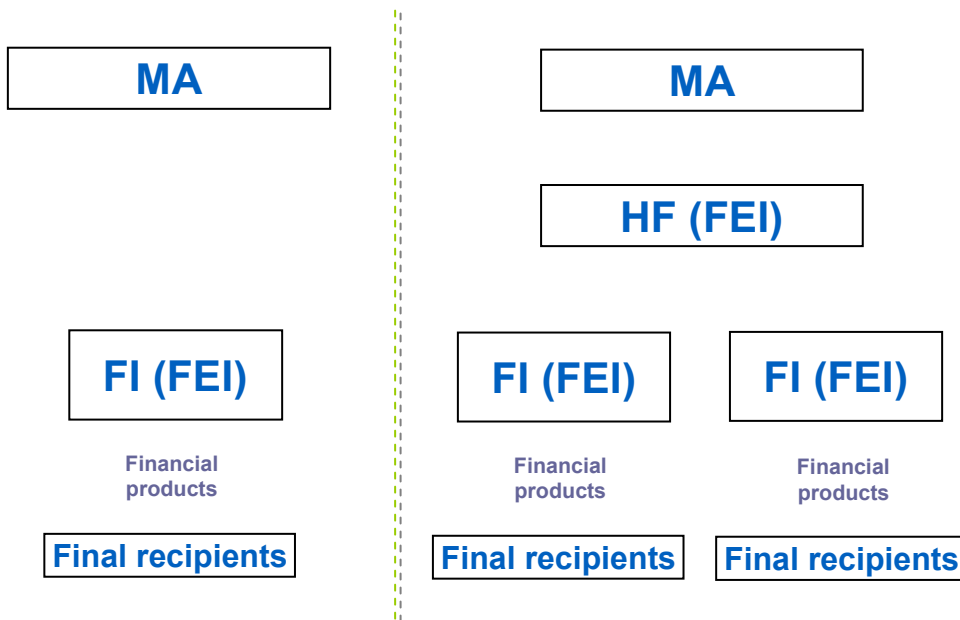
# Innovative elements

- **Repayable investments instead of once-off payment of grants**
- **Introduction of Holding Fund (Optional)**  
Flexibility, Expertise, Leverage, ...
- **Introduction of Urban Development Funds**  
Project selection, Implementation follow-up, ...
- **Close co-operation with the EIB group and other IFIs and financial institutions => joint initiatives**



# Architecture & operationalisation of FEIs (1)

Operational Programme / public policies / resources



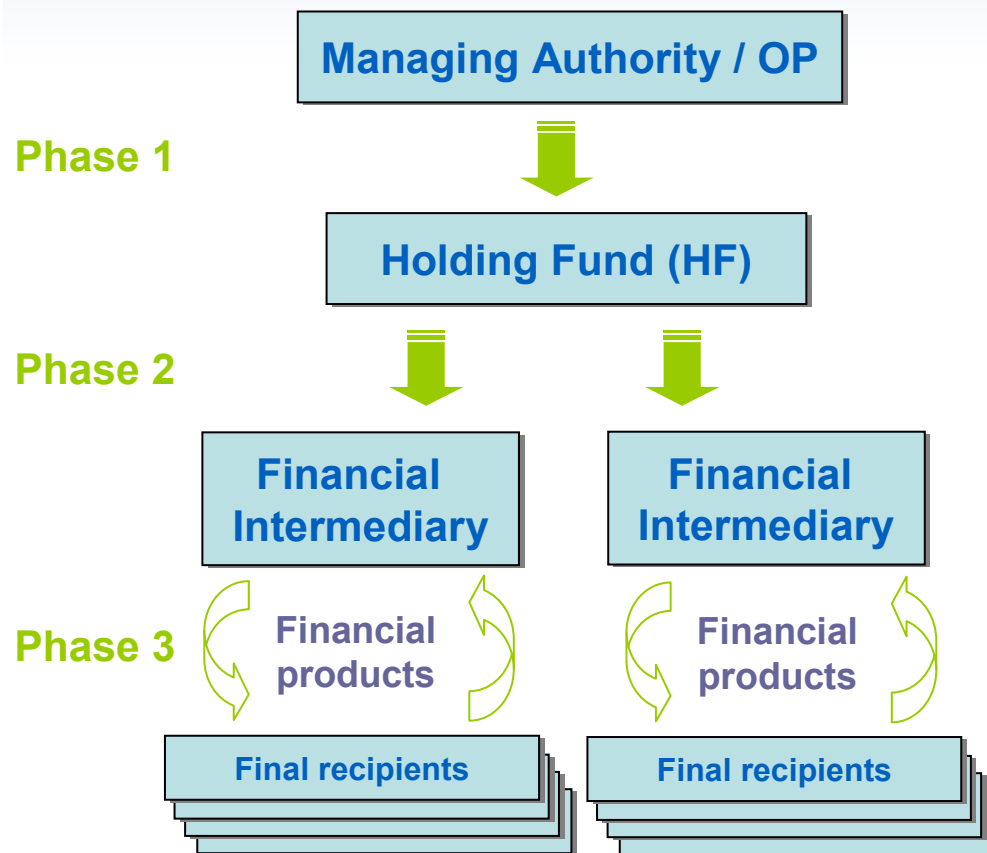
Market situation & appropriate promotional instruments

**Evaluation & design phase:**  
Gap analysis / evaluation to customise

- **FEI architecture** (HF / no HF) and main building blocks
- **Overall promotional (investment) strategy**
  - Promotional resources & contributions available,
  - Target sectors and recipients,
  - Envisaged financial products & conditions,
  - ...



## Architecture & operationalisation of FEIs (2)



### Implementation phases

- 1. Selection of HFs:**  
Transparent **selection** procedure in line with applicable EU and national law, in particular procurement law and State aid rules
- 2. Selection of financial intermediaries (other than HFs):**  
similar principles apply (e.g. calls for expression of interest)
- 3. Selection of final recipients for actual investments:**  
similar principles apply (transparent procedure, etc.)



# **Joint initiatives**



# Joint initiatives

- **JEREMIE and JESSICA developed and rolled out by the Commission in co-operation with the EIB Group (and also CEB in the case of JESSICA)**
  - Joint awareness raising activities
  - Support to MAs in evaluation and design phase
  - EIB and EIF acting as Holding Funds
  - IFIs providing financial and technical expertise as well as co-financing opportunities together with other market actors
- **Other Commission partners in the initiatives:**  
Member States, regions, cities, national and regional financial institutions, other investors



# JEREMIE & JESSICA

- **JEREMIE = Joint European Resources for Micro to Medium Enterprises (EC/EIF)**
  - Objective: provision of debt, equity and/or guarantees to finance SMEs expansion or new business creation
- **JESSICA = Joint European Support for Sustainable Investment in City Areas (EC/EIB/CEB)**
  - Objective: promotion of sustainable investments in urban development and regeneration



# State of Play



# JEREMIE



# JEREMIE state of play (1)

**Current ERDF allocation to FEIs - EUR 6 billion:**

- **EUR 2.3 bil. directly via FEIs**
- **EUR 3.7 bil. via 30 HFs in 15 MS**

**HFs total EUR 3.7 bil, of that:**

- **19 HFs – EUR 2.5 bil. - national/regional inst.**
- **11 HFs – EUR 1.2 bil. – EIF (11 MSs)**



## JEREMIE state of play (2)

- **Performance of HF/FEIs vary substantially across different funds and Member States (e.g. HFs where selection process of FEIs is still ongoing; HFs structures with steady flow of investments to SMEs);**
- **At the level of HFs significant majority of funds are publicly owned entities or are managed by EIF and public financial institutions / development agencies;**
- **At the level of loan, guarantee and venture capital funds the situation is more diversified. There are several countries with important share of private sector involvement (e.g. UK, HUN, EIF HFs).**



# JEREMIE Holding Funds

**Greece**

**Romania**

**Latvia**

**Lithuania (\*)**

**Languedoc-Roussillon (FR)**

**Campania (IT)**

**Slovakia (EIF with SZRB)**

**Cyprus**

**Bulgaria**

**Sicily (IT)**

**Malta**

**Hungary**

**Lithuania (\*)**

**Lombardia (IT)**

**UK: Wales, North East England,  
Yorkshire&Humberside, North  
West England**

**Spain: national, Andalusia,  
Cataluña**

**Poland: national, 5 regional and  
one multi-regional**

**Auvergne (FR)**

**Slovenia**



# JEREMIE implementation

## Key points:

- **based on-going assessment of implementation  
MAs / HFs shall be prepared to implement new  
products or modify existing products based on  
market response/ requirements**
- **selection of the financial intermediary is key for  
a successful implementation**
- **complementarity with existing instruments at the  
market**
- **increased use of co-investment schemes**



# JESSICA



# JESSICA state of play

- **About 55 JESSICA Evaluation Studies** launched in 19 Member States with either a national or a regional scope; 40 studies already published  
[http://ec.europa.eu/regional\\_policy/funds/2007/jjj/jessica\\_en.htm](http://ec.europa.eu/regional_policy/funds/2007/jjj/jessica_en.htm)
  
- **By January 2011, EUR 1.65 bn legally committed to 19 JESSICA instruments in 11 Member States** (5 funds at national level and 14 at regional level)
  - **15 JESSICA operations** implemented with the EIB assuming Holding Funds tasks (EUR 1.49 billion)
  - **1 Holding Fund** implemented through a national financial institution (Estonia)
  - **3 Operations implemented directly through Urban Development Funds** without Holding Fund (Brandenburg/DE, East Midlands/UK and Wales/UK)



# JESSICA operations

Fund	Type of Interventions	Fund	Type of Interventions
<b>Wielkopolska (PL)</b>	Urban Development and Regeneration	<b>Estonia</b>	Energy Efficiency (Housing)
<b>Andalucía (SP)</b>	Urban Regeneration (tourism, culture / sports)	<b>Brandenburg (DE)</b>	Urban Development and Regeneration
<b>Western Pomerania (PL)</b>	Urban Regeneration / Urban Infrastructure	<b>Wales (UK)</b>	Urban Regeneration (Brownfield revitalisation)
<b>Lithuania</b>	Energy Efficiency (Housing)	<b>East Midlands (UK)</b>	Urban Regeneration
<b>Portugal</b>	Urban Regeneration, Energy Efficiency	<b>Scotland (UK)</b>	Urban Regeneration, Workspace creation, Energy Efficiency
<b>London (UK)</b>	Energy Efficiency in Urban Infrastructure	<b>Greece</b>	Urban regeneration, solid waste management
<b>Northwest England (UK)</b>	Urban Regeneration	<b>Silesia (PL)</b>	Brownfield and city regeneration
<b>Sicily (IT)</b>	Urban Development / Energy Efficiency	<b>Pomerania (PL)</b>	Brownfield and city reg, public transport, energy infrastructure, energy efficiency
<b>Campania (IT)</b>	Urban Regeneration	<b>Bulgaria</b>	Urban regeneration
<b>Moravia Silesia (CZ)</b>	Urban Regeneration (Brownfield revitalisation)		22



## EIB Holding Funds – implementation progress (end 2010)

Country	Region	Funding Agreement		UDF			
		Signature date	Amount signed in EUR equivalent	Call	No of Eols	Manager	Amount signed in EUR equivalent
Poland	Wielkopolska	29.04.2009	80	Call 1	9	BGK	19
	Westpomerania	30.07.2009	38	Call 1 Lot 1 Call 1 Lot 2	7	UDF selected UDF selected	
Lithuania		11.06.2009	227	Call 1 Lot 1	7	Siauliu Bankas AB	6
				Call 1 Lot 2		Swedbank AB	6
				Call 1 Lot 3		UDF selected	
				Call 1 Lot 4 Call 2	1	Siauliu Bankas AB	20
Spain	Andalucía	8.05.2009	86	Call 1 Lot 1	6	UDF selected	
				Call 1 Lot 2		UDF selected	
UK	London	28.10.2009	116	Call 1	6	UDF selected	
				Call 2		Call launched	
	NorthWest region of England	12.11.2009	117	Call 1 Lot 1 Call 1 Lot 2	2 1	UDF selected UDF selected	
Portugal		20.07.2009	130	Call 1 Lots		Call launched	
Italy	Sicily	19.11.2009	148	Call 1		Call launched	



# JESSICA implementation

## Key points:

- **Holding Funds already established are launching calls for expression of interest to select Urban Development Funds through which financial support will effectively start flowing into actual urban projects.**
- **First project investments are already taking place in Estonia, Brandenburg (DE) and Lithuania.**
- **Actual investments and disbursements at project level to increase significantly in 2011.**



# Perspectives



# Monitoring of FEIs (1)

- **Crucial for both MAs and Commission (e.g. to gather evidence on the effectiveness of FEIs, to address implementation challenges or to adapt future framework).**
- **In the absence of formal reporting obligations, MAs requested to report annually on FEI implementation on a voluntary basis.**
- **Monitoring template proposed by Commission, including an indicative list of reporting items (Annex II to most recent COCOF note on FEIs).**



## **Monitoring of FEIs (2)**

- **Monitoring at HF level & the level of individual FEI**
- **Modular structure of monitoring template:**
  - **General Information**
  - **Contributions to FEIs**
  - **Investments in final recipients**
  - **Investment recycling & returns (legacy funds)**
  - **National co-financing at various levels of the FEI**
  - **Management costs and fees**
  - **Exits & withdrawals from FEI**
  - **Indicators (such as jobs created)**



# First lessons learned

- **Topics to be examined for the future include:**
  - **Extension of the scale and the scope, and other financial products;**
  - **Right balance between simplification and operational effectiveness/ sound financial management (public money);**
  - **Possible combination of repayable instruments with grants in the same financial package;**
  - **Flexibility – fit for purpose;**
  - **More flexibility regarding geographical scope, etc.**
- **Objective: Capitalise on implementation experience and good practice for setting post-2013 directions.**



# General outlook post-2013

- **Future prospects – the financial instruments should play more important role in the next programming period - discussion is ongoing, but the approach should be**
  - **to make the environment as friendly as possible towards financial instruments**
  - **removing EU or national regulatory obstacles**
  - **and where possible offering standardised instruments at EU level and provide well-targeted incentives.**



# Thank you for your attention!

For further information:

Website:

<http://jeremie.europa.eu>

<http://jessica.europa.eu>

E-mail:

[REGIO-JEREMIE@ec.europa.eu](mailto:REGIO-JEREMIE@ec.europa.eu)

[REGIO-JESSICA@ec.europa.eu](mailto:REGIO-JESSICA@ec.europa.eu)

DG Regional Policy – Unit D3 – Financial engineering, major projects