



FINANCIAL INSTRUMENTS IN RURAL DEVELOPMENT POLICY 2014-2020

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Disclaimer

- *This presentation brings together the elements expressed in the current legal texts, which are still in the process of adoption, as well as the debates within the specific working groups on financial instruments*
- *It is based on the Commission proposal laying down common provisions on the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) covered by the Common Strategic Framework (COM(2011) 615 final) as well as on the ideas related to its secondary legislation (Delegated and Implementing Act)*
- *It is also based on the latest agreed text for the European Agricultural Fund for Rural Development for the programming period 2014-2020, which is currently in the process of adoption*
- *Since the above mentioned proposals are currently under discussion with the European Parliament and the Council, this presentation provides **preliminary information** on financial instruments supported by the EAFRD.*

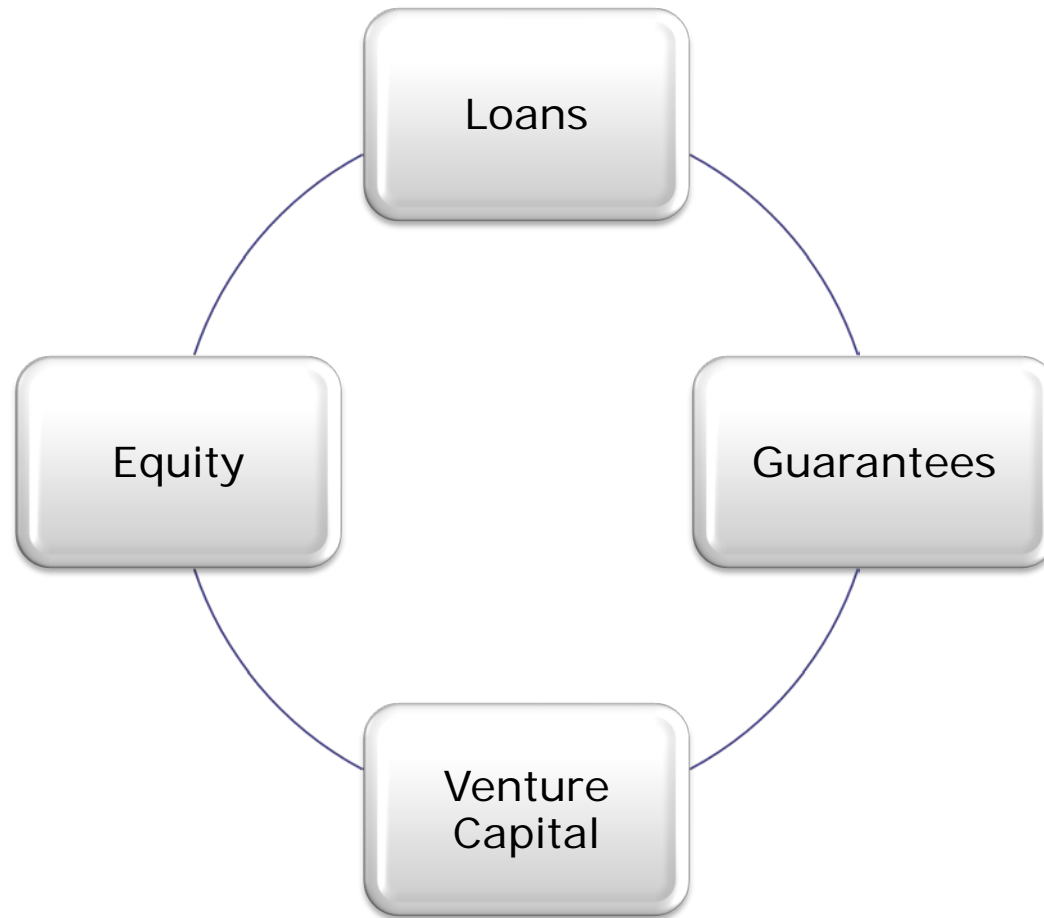
Basic legislation

- **Title IV CPR "Financial Instruments"**
 - **Article 32 Financial instruments**
 - **Article 33 Implementation of financial instruments**
 - **Article 34 Management and control of financial instruments**
 - **Article 35 Request for payment including expenditure for financial instruments**
 - **Article 36 Eligible expenditure at closure**
 - **Article 37 Interest and other gains generated by support from CSF Funds to financial instruments**
 - **Article 38 Use of resources attributable to the support from the Funds until the end of the eligibility period**
 - **Article 39 Use of resources after the end of the eligibility period**
 - **Article 40 Report on Implementation of Financial Instruments**
- **Regulation of the European Parliament and of the Council on support for rural development by the EAFRD**

Introduction to financial instruments

- ➔ **Support investments which are expected to be financially viable and do not give rise to sufficient funding from market sources**
- ➔ **Investments supported can't be physically completed or fully implemented**
- ➔ **Financial instruments may be combined with grants, interest rate subsidies and guarantee fees and may cover the same expenditure, provided that the sum of all supports doesn't exceed the total amount of expenditure**
- ➔ **Contributions in kind are not eligible (except for land or real state)**
- ➔ **VAT is eligible expenditure if non-recoverable for final recipient**

Financial Instruments

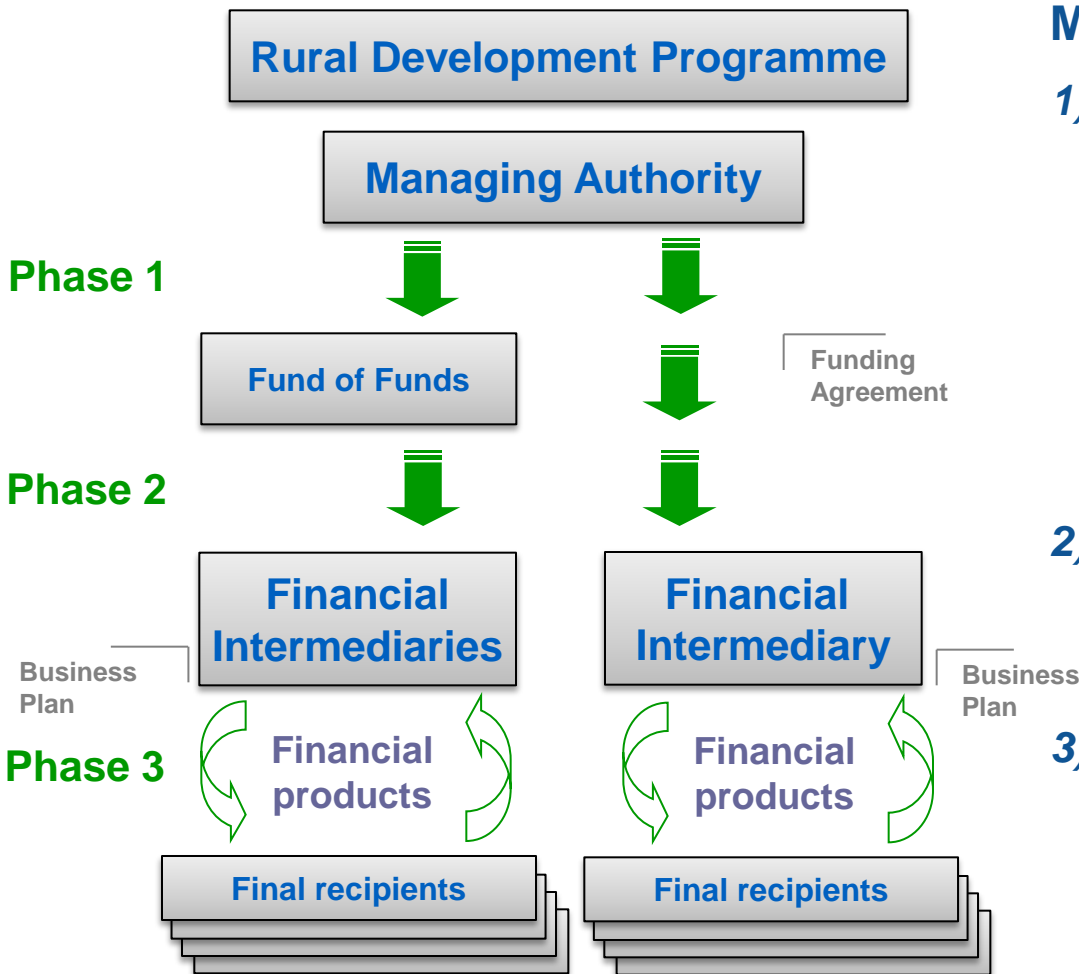


Ex-ante assessment - Art. 32

- ⇒ Analysis of market failures, suboptimal investment situations and investment needs**
- ⇒ Assessment of the value added of the financial instrument**
- ⇒ Additional public and private resources**
- ⇒ Assessment of lessons learnt from similar experiences**
- ⇒ Proposed investment strategy**
- ⇒ Expected results**
- ⇒ Provisions for revisions and updating**

Should be completed prior the decision of the Managing Authority and subject to discussion in the Monitoring Committee

Implementation mode (I) – Art. 33



MAIN IMPLEMENTATION PHASES

1) Selection of FF (optional):

Transparent selection procedure in line with applicable EU and national law, in particular procurement law

- Public contract (call)
- Award of grant (...by way of donation to a financial institution)
- Contract with EIB/EIF

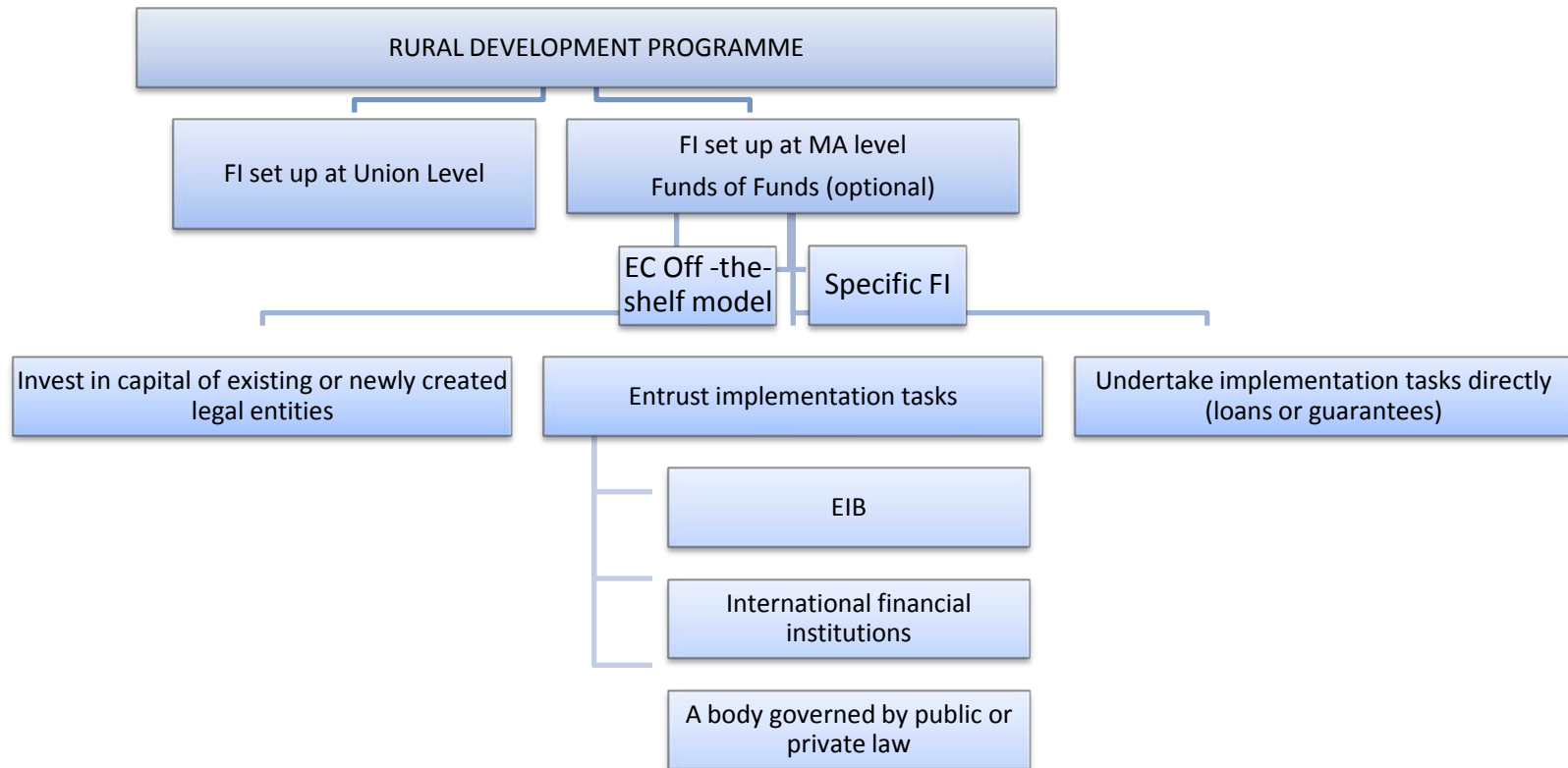
2) Selection of financial intermediary (other than FFs):

Similar principles apply (e.g. by way of calls for expression of interest)

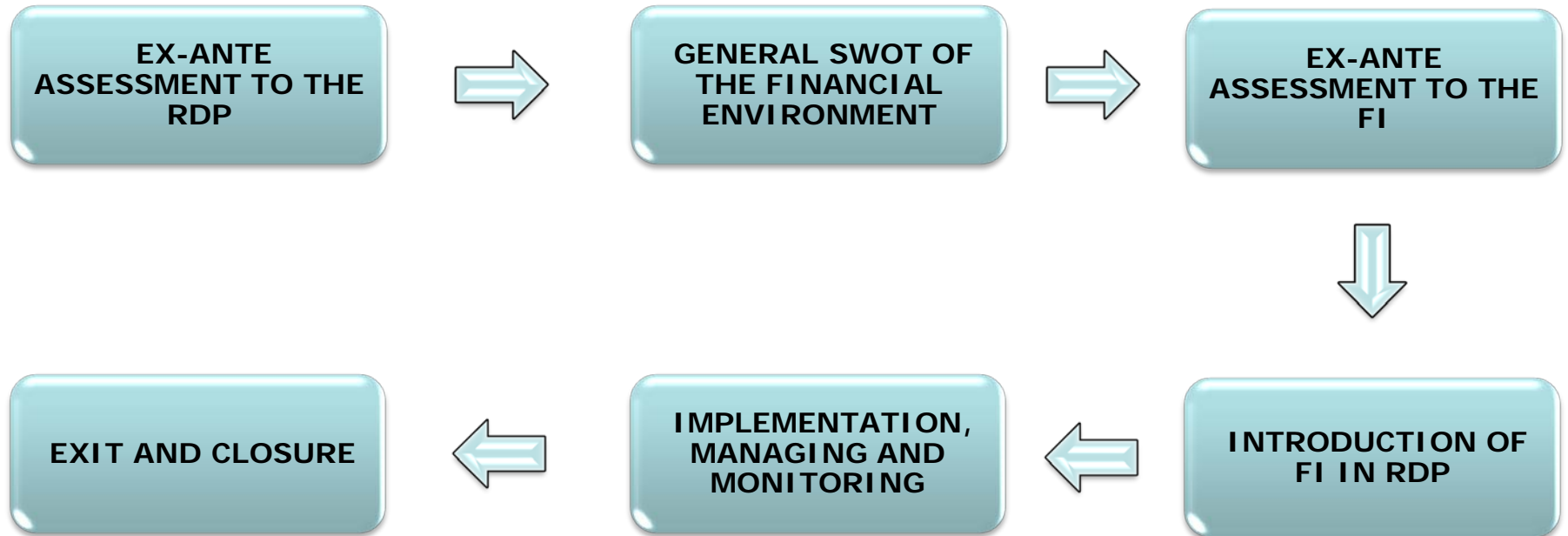
3) Selection of final recipients for actual investments/disbursements:

Similar principles apply (transparent procedure but no public procurement, incl. due diligence check)

Implementation mode (II) – Art. 33



Programming Steps



Priorities for Rural Development and Measures

Knowledge transfer and innovation

Competitiveness of agriculture and farm viability

Food chain organisation and risk management

Restoring preserving and enhancing ecosystems

Resource efficiency and low carbon and climate resilient economy

Social inclusion, poverty reduction and economic development

| | |
|-----------|------------------------------------|
| ADVI | Advisory services |
| AGRI-ENV | Agri-environment |
| ANI-WEL | Animal Welfare |
| BUS-DEV | Business Development |
| CO-OP | Co-operation |
| FOR-ENV | Forest Environment |
| INS-MUT | Risk Management and Mutual Funds |
| INS-STAB | Income Stabilisation Tool |
| INV-FOR | Investments Forestry |
| INV-PHY | Investments Physical |
| KNOW | Knowledge transfer |
| LEAD | Leader |
| NAT-NHA | Natura 2000 and Water Framework |
| NCA | Natural Constraints Areas |
| ORG | Organic Farming |
| PROD-GRO | Producer Groups |
| QUAL | Quality |
| REST-PROD | Restoring agricultural production |
| SERV-VILL | Basic services and village renewal |

GRANTS

FINANCIAL INSTRUMENTS

Description of the FI in the RDP

- ⇒ In section "Descriptions of conditions applying to more than one measure" to be covered, for example:
 - ⇒ Type of instrument, type of product and the potential procedure for Fund's manager selection and for selection of intermediates
 - ⇒ Co-financing rates, budgets
 - ⇒ Selection of measures and scope of intervention (supported operations)
 - ⇒ Types of beneficiaries
 - ⇒ State aid rules, public procurement, aid intensities
 - ⇒ Setting of targets and indicators (contribution to priority/focus area and measure; indicators)
 - ⇒ Monitoring and reporting obligations
- ⇒ In case a measure is not programmed, but a FI is proposed under it, the measure has to be programmed
- ⇒ Modifications of RDPs according to Art 12 of the new EAFRD regulation, including when new measures are to be covered

Support provided by FI

- ⇒ **Investments in both, tangible and intangible assets**
 - ⇒ **In accordance with Article 46 of the new EAFRD regulation**
- ⇒ **Investments in working capital**
 - ⇒ **Maximum 30% of the total amount of the eligible expenditure for the investment and only if it is ancillary and linked to a new investment in agriculture or forestry [Article 46(5a) of the new EAFRD regulation]**
- ⇒ **Costs of transfer of proprietary rights in enterprises**
 - ⇒ **If transfer is between independent investors**

- ⇒ **To be noted:**
 - ⇒ **When FIs provide support to final recipients in respect of infrastructure investments with the objective of diversifying non-agricultural activities in rural areas, such support may include the amount necessary for the reorganisation of a debt portfolio regarding infrastructure forming part of the new investment, up to a maximum of 20% of the total amount of programme support from the FI to the investment**

Support provided by FI – what is not allowed?

- ⇒ **No support for investments that are physically completed**
 - ⇒ **At the date of the investment decision**
- ⇒ **No support for investments that are fully implemented**
 - ⇒ **At the date of the investment decision**
- ⇒ **Grants shall not be used to reimburse support received from FI**
 - ⇒ **FI shall not be used to pre-finance grants**

- ⇒ **To be noted:**
 - ⇒ **In case of combination of support provided through grants and FIs, the sum of all forms of support combined should not exceed the total amount of the expenditure item concerned**

Phased-in contributions to FI – Art. 35

- ⇒ **For all FI (except for loans and guarantees provided directly by the MA):**
 - ⇒ **MA to pay programme contributions in at least 4 tranches:**
 - ⇒ **Application for interim payment cannot contain more than 25% of the total programme contributions committed to the FI under the funding agreement**
 - ⇒ **Subsequent payments from MA to FI to be made on the basis of FI investment rate in relation to programme contributions received**
 - ⇒ **2nd application: when at least 60% of the amount included in the 1st application has been spent as eligible expenditure**
 - ⇒ **3rd and subsequent applications: when at least 85% of the amounts included in previous applications have been spent as eligible expenditure**
- ⇒ **For loans and guarantees by MA**
 - ⇒ **Claims of expenditure should include only the amount of payments effected by the MA**

Phased-in contributions to FI – Art. 35

Example on phasing-in contribution when Fund's total size is 450 MEUR (EAFRD + public)

| Applications for interim payments | 1 st (25% of 450) | 2 nd (25% of 450) | 3 rd (25% of 450) | 4 th (25% of 450) | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Eligible expenditure required before making application concerned (%) | 0% | 60% | 85% | 85% | |
| Amount included in the application for interim payment | 112.5 | 112.5 | 112.5 | 112.5 | EAFRD + public |
| (+) Maximum amount of non-invested programme contributions previously paid to FI | 0 | 45 | 33.75 | 50.625 | Level triggering a contribution |
| Maximum amount of cumulative programme contributions "parked" in FI (assuming national contribution was paid to FI) | 112.5 | 157.5 | 146.25 | 163.125 | At the time of the contribution |
| <i>% of programme contributions "parked" in FI</i> | <i>22.50%</i> | <i>31.50%</i> | <i>29.25%</i> | <i>32.63%</i> | At the time of the contribution |

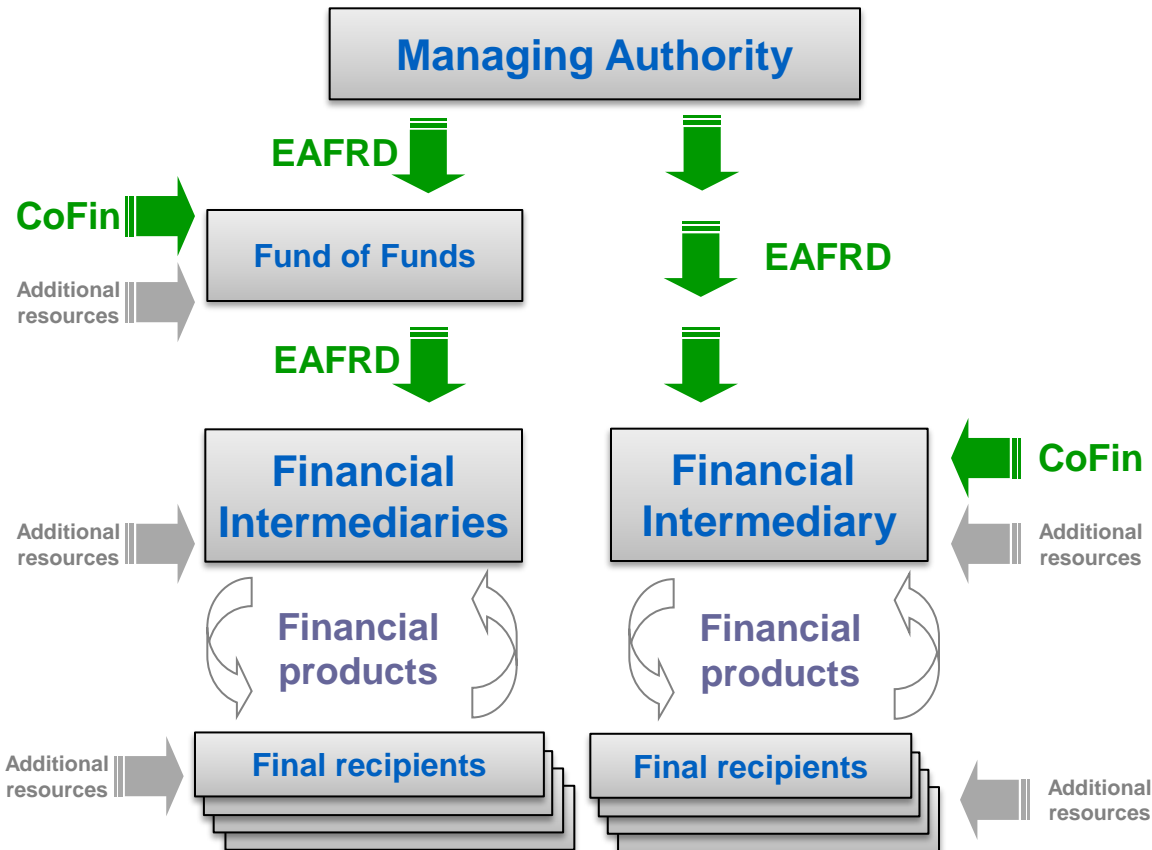
Note: The category "% of programme contributions "parked" in FI is lower due to the need for paying out eligible costs as capitalised interest rate subsidies and guarantee fee subsidies at closure

Funding Agreement – Annex X

- ⇒ **Investment strategy or policy: arrangements, financial products, final recipients targeted and envisaged combination with grant support**
- ⇒ **Business Plan for the financial instrument**
- ⇒ **Target results**
- ⇒ **Audit requirements**
- ⇒ **Interests and gains management, treasury operations/investments**
- ⇒ **Management costs and fees**
- ⇒ **Re-utilization of resources**
- ⇒ **Exit, closure and winding-up provisions**
- ⇒ **Others**

Contributions

- to national or regional level FIs under shared management
 - Tailor-made instruments
 - Standardised "off-the-shelf" instruments for quick roll-out
- to EU level FIs under central management (ring-fencing)



Contributions to FIs

- Can be phased
- Can come in at different levels
- Can come in different forms (cash / in-kind)
- Can come from one or several measures/priorities
- Can have different *qualifications*
 - EAFRD
 - National (public or private) co-financing)
 - Additional leverage resources provided to the FI architecture

Eligible Expenditure - Art. 32

Contributions in kind are not eligible expenditure

- ➔ **except for contributions of land or real estate in respect of investments with objective of supporting rural development**

Additional rules on purchase of land and combination of general costs with FI to be defined in the DA

- ➔ **EAFRD rules consistent on both subjects**

VAT, which is non-recoverable under national VAT legislation, is eligible expenditure of an operation supported by FIs

- ➔ **Purpose: To be covered the entirety of the investments made by final recipients, without distinction of VAT related costs**
- ➔ **This does not apply to the grant when it is combined with FIs**

Eligible expenditure at closure I – Art. 36

4 major categories:

- **Payments to final recipients + payments to the benefit of final recipients**
- **Resources committed for guarantee contracts, whether outstanding or already come to maturity, in order to honour possible guarantee calls for losses, calculated according to a prudent ex-ante assessment**
- **Capitalised interest rate subsidies or guarantee fee subsidies, due to be paid for a period not exceeding 10 years after the eligibility period laid down in Art 55(2), used in combination with FIs, for effective disbursement after the eligibility period, but in respect of loans or other risk-bearing instruments disbursed for investments in final recipients within the eligibility period of Art 55(2)**
- **Reimbursement of management costs incurred or payment of management fees of the FI**
 - **In case of equity-based instruments and micro-credit, capitalized management costs or fees due to be paid for a period not exceeding 6 years after the eligibility period of Art 55(2)**
 - **Those incurred for preparatory work in relation to the FI before signature of relevant funding agreement, are eligible as from the date of signature**

Eligible expenditure disclosed = total amount of EAFRD support + corresponding national co-financing

Eligible expenditure at closure II – Art.36

For equity-based instruments:

- Targeting enterprises
- For which funding agreements were signed by 31/12/2017
- Which by the end of the eligibility period invested at least 55% of the programme resources committed in the funding agreement

A limited amount of payments to be made for a period not exceeding 4 years after the end of the eligibility period may be considered eligible expenditure, if:

- It is paid into a specific escrow account
- State aid rules are complied
- Is used only for follow-on investments in final recipients having received equity investments from the FI within the eligibility period
- Is used in accordance with market standards
- It does not exceed 20% of the eligible expenditure of the equity based FI (excl. gains)

Amounts separated, but not used, to follow the re-use rules defined in Art 39

Management and control of EU-level FI – Art. 34

No on-the-spot verifications of operations comprising FIs implemented at EU-level under Art 33(1)(a)

- Instead, regular control reports from the bodies entrusted with the implementation of these FI should be received

No audit of management and control systems relating to the instruments implemented under Art 33(1)(a)

- Instead, regular control reports should be received from the auditors designated in the agreements setting up these instruments

Management and control of FI - Art. 34

The bodies responsible for audit of RDPs may carry out audits at the level of the final recipients only when one or both of the following conditions are met:

- **No available information in the MA or at the level of the bodies implementing FIs on supporting documents providing evidence of the support from the FI to the final recipient**
- **When there is evidence that the information available in the MA or at the level of the bodies implementing FIs do not represent true and accurate record of the support provided**

No record keeping requirements to be imposed on final recipients that go beyond the necessary evidence needed by the bodies implementing FIs

Re-use of resources within the eligibility period – Art. 38

Resources paid back to FI, which are attributable to support from the EAFRD, shall be re-used

- ⇒ **Up to the amounts necessary**
- ⇒ **And in order agreed in the relevant funding agreement**

For the following purposes:

- ⇒ **Further investments through the same or other FI (in accordance with specific objectives set out under a priority)**
- ⇒ **Preferential remuneration of private investors, or public investors under the market economy principle, who provide counterpart resources to the support from the EAFRD or who co-invests at the level of the final recipient (where applicable and only if established in the ex-ante assessment)**
- ⇒ **Reimbursement of management costs incurred and payment of management fees of the FI (where applicable)**

Adequate records must be maintained

- ⇒ **To be ensured by the MA**

Use of resources after the end of the eligibility period – Art. 39

Either within the same financial instrument or, following the exit of these resources from the financial instrument, in other financial instruments

- **Cover all kind of resources, including yields, capital gains, etc.**
- **Generated during a period of at least 8 years after the end of the eligibility period**
- **And which are attributable to the support from the EAFRD to FI**

In accordance with the aims of the programme or programmes

- **provided that an assessment of market conditions demonstrates a continuing need for such investment or in other forms of support**

Reporting Financial Instruments – Art. 40

- **Part I will report on programmes and measures and to identify thematic objective(s) supported by the financial instrument.**
- **Part II refers to the description of the financial instrument and implementation arrangements**
- **Part III identifies the body/bodies implementing the financial instrument**
- **Part IV refers to the total amount of the ESI Funds programme contributions by measure actually paid to the financial instrument**
- **Part V refers to the total amount of support paid to final recipients or committed in guarantee contracts**
- **Part VI refers to the performance of the financial instrument, including progress in its set-up and in selection of bodies implementing the financial instrument**
- **Part VII of the model contains information on interest and other gains generated by support from the ESI Funds to the financial instrument and programme resources paid back**
- **Part VIII aims to present progress in achieving the expected leverage effect of investments**
- **Part IX should present the contribution of the financial instrument to the achievement of indicators of the measure concerned**

Implementing Act Fiches

Article 40(3) – Implementing act laying down uniform conditions by establishing models to be used when reporting on financial instrument (Fiche 4b)

Article 33(3)(a) - Implementing act concerning financial instruments complying with the standard terms and conditions laid down by the Commission. (Fiche 9)

Article 33(9) - Implementing act laying down uniform conditions regarding the modalities of the transfer and management of programme contributions, managed by the entities referred to under Article 33(4). (Fiche 10)

Delegated Act Fiche 10 (I)

Article 32(10): Delegated act laying down additional specific rules on purchase of land and on combination of technical assistance with financial instruments.

Article 33(5): Delegated act laying down additional specific rules on the role, liabilities and responsibility of the entities to which implementation tasks are entrusted and related selection criteria.

Article 34(5): Delegated act concerning controls to be performed by managing and audit authorities, arrangements for keeping supporting documents, elements to be evidenced by supporting documents, and management and control and audit arrangements concerning financial instruments implemented by the bodies and institutions mentioned in Article 33 (4)(b) taking into account the specificities, objectives and characteristics of financial instruments relative to other forms of support.

Delegated Act Fiche 10 (II)

Article 36(4): Delegated act concerning the establishment of a system of capitalisation of annual instalments for interest rate subsidies and guarantee fee subsidies.

Article 36(5): Delegated act laying down the rules for calculating management costs and fees and on the reimbursement of capitalised management costs and fees for equity-based instruments and micro-credit

Grazie per l'attenzione!

DG AGRI– Unit G1 "Consistency of Rural Development"