ESIF Financial Instruments and their Territorial Impacts

Alessandro Valenza – t33, Italy – a.valenza@t33.it

Kai Böhme – Spatial Foresight, Luxembourg – kai.boehme@spatialforesight.eu

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For the Commission many benefit for ESIF

- **Leverage resources** and increased impact of ESIF programmes;
- **Efficiency and effectiveness gains** due to revolving nature of funds, which stay in the programme area for future use for similar objectives;
- **Better quality of projects** as investment must be repaid;
- **Access to a wider spectrum of financial tools** for policy delivery & private sector involvement and espertise;
- **Move away from «grant dependency» culture**;
- **Attract private sector support** (and financing) to public policy objectives.

…But for others….

- *"It should be ensured that financial instruments are distributed in accordance with social and economic needs, taking particular account of accessibility for small-scale projects and small regions. It is important to draw attention to potential adverse effects that may interfere with the optimal distribution of financial instruments"* (COR, Working document of the Commission for Territorial Cohesion Policy and EU Budget – Financial Instruments in support of territorial development)

- *"..keeping grants as the basis of its financing, whilst the use of loans, equity or guarantees should be carried out with caution"* (European Parliament Non-legislative resolution on *"Building blocks for a post-2020 EU cohesion policy").*

- *"We found that while they may have distinct advantages compared to other forms of EU funding such as grants, their implementation faces significant challenges which could limit their efficiency"* (European Court of auditor, web page introduction to the report 2016)

Missing critical discussions

- ESIF is meant to support European cohesion objectives. So, what about the contribution of financial instruments to the European coheson objectives and in particular the territorial cohesion dimension?

- Financial instruments work fine in areas where the market is developed on the demand side but not matched on the supply side. What are about sparsely populated areas and inner-peripheries where the demand side has not critical mass?

Are FIS good for Managing Authorities (MAs)?

Cons

- **Informational asymmetries between the MA and the Financial intermediary may reduce ownership and alignement of interests needs to be insured;**
- Small MAs may create small scale FIs. This may generate significant management costs compared to FI size;
- Some aspects of FIs require a high technical capabilities which are not always available (i.e. managing exit strategy or Fund of Fund).

Pros

- **FIs strengthen capacity and knowledge due to the involvemnten of the private sector;**
- FI's leverage effect and revolving nature **increase the resources** to pursue the Programme Objectives.
- FIs **can combine different** Priority Axis which provide a greater flexibility (also in relation to financial flow);
- Part of the **adminsitrative burden is delegated** to Financial intermediaries. Thus the MA can focus on more strategic issues.

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….and for disadvantaged people?

Cons

- **Marginalised natural/legal persons are «unknown» to the fund providers;**
- **Small size loans** (to marginalised groups) bring small revenues and thus are **not attractive for the financial intermediaries;**
- There might be an **adverse selection** and support may go to enterprises which can already afford loans in the private market.

Pros

- **Financial citizenship can be acquired**
- FIs have often a **lower cost** (than the market), more favourable conditions (grace period) and at **lower/ no collaterals;**
- There are specific **FIs** (e.g. microfinance) **supporting self-employment and business start-ups which provide additional services** offered by FIs such as **consultation and training;**

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… and for local authorities?

Cons

- **FIs require a change of mentality and specific technical capacity;**
- **Aligning** the private **interest** with local planning (e.g. urban planning) **can be challenging;**
- **Complicated** legal framework relative to design/establishment of **ad-hoc financial instrument.**

Pros

- **Increase staff planning and administrative capacity.**
- **Can combine** in a single project **funds** from ESIF Programmes with Private resources (leverage);
- Empower the LA to make projects that are «appealing» to the private sector;

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And for peripheral areas?

Cons	Pros
• **Areas characterised, by low population density, small economies and/or low levels of entrepreneurship risk to be forgotten as they are not of interest for banks handeling financial instruments.** • The lack of knowledge and ecosystem can lead to a “centralisation” in the use of FIs; • Peripherical areas are often considered by national/international fund providers as difficult to reach, not profitable and too risky;	• **FIs can enhance the credit ecosystem in the area and bring new actors and new players** • In several EU Member States there is a long traditon of local development/ promotional banks which were the engine of the growth in the past years (e.g. Germany and Italy); • FIs can alleviate the effects of credit crunch improve competitiveness of regional-peripheral manufactural areas;

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fi compass

In conclusion when FI have a role in territorial development

There is not good to trade (absence of basic economic conditions)

Market failures

Market works

- Know how to identify the market failure
- Technical (legal) ability to stipulate an effective funding agreement with the Financial Intermediaries
- Capacity to steer the FI and dialogue with private actors
- Long term vision to enhance the overall financial ecosystem

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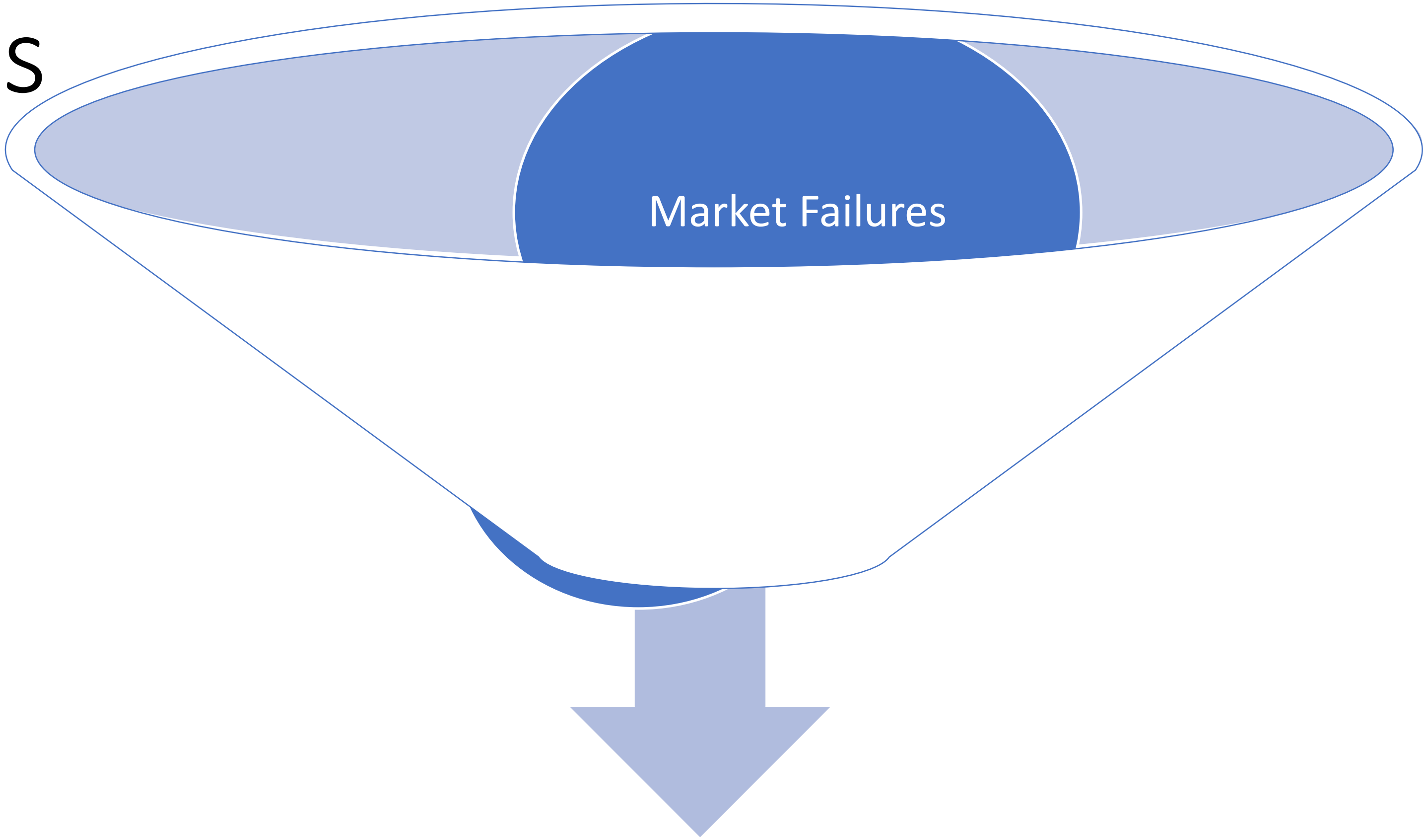
Conclusions



F.Int as an opportunity to enhance the capacity of the territories in exploiting “new technologies” for planning and use ESIF resources