



Combining ESI Funds and EFSI in support of SMEs– Implications for the Danube Strategy

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Outline

- *The Socio-Economic Assessment of the Danube Region: State of the Region– challenges and developments*
- *Financing opportunities*
- *Complementarities between ESIF and EFSI*
- *Implications for the Danube Strategy*

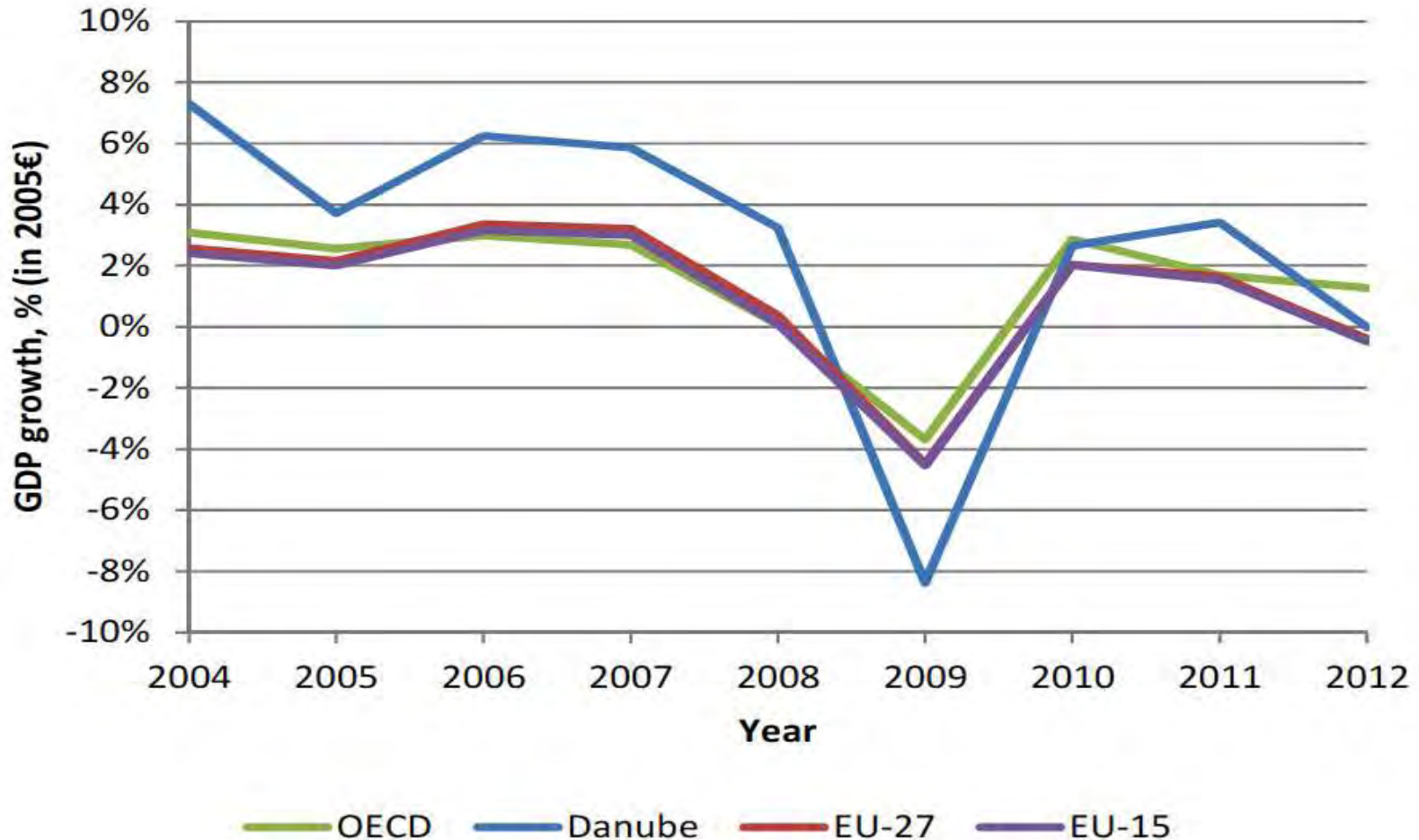


State of Danube Region: challenges

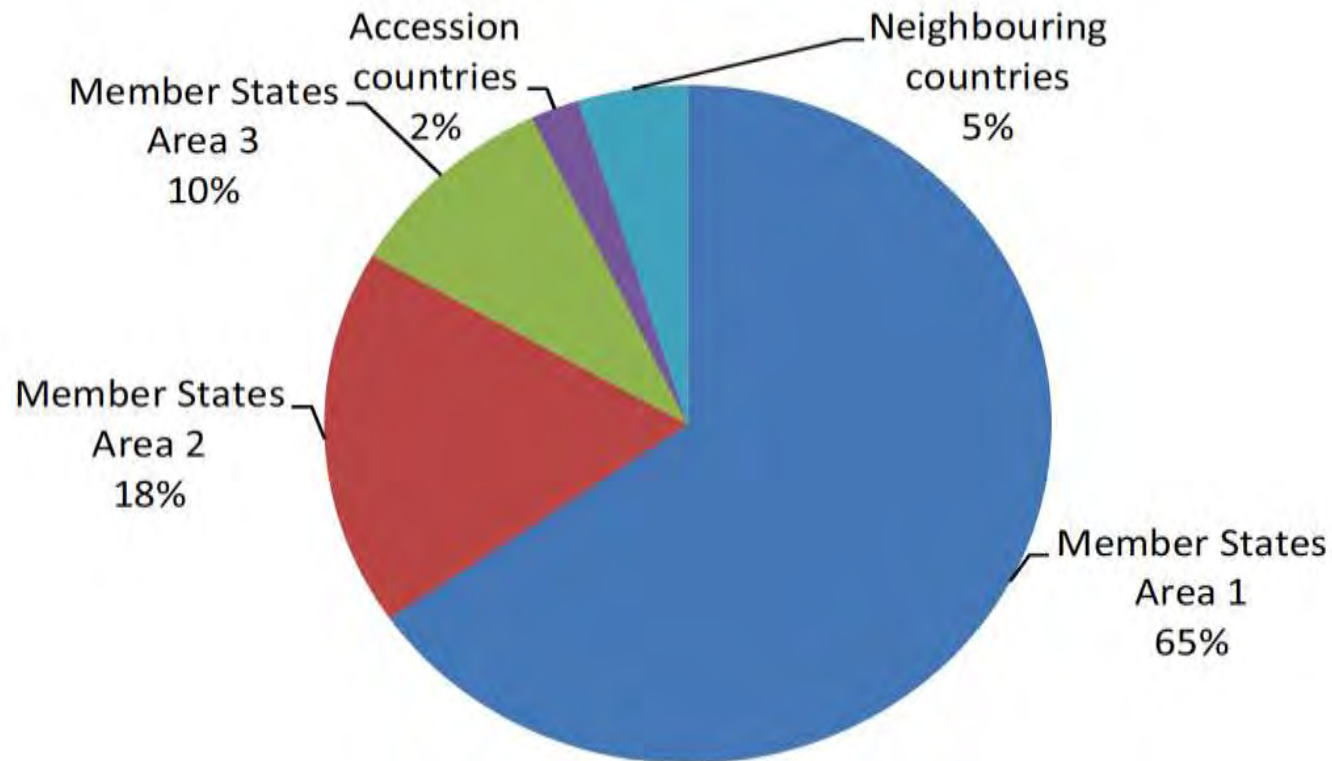
The main challenge for the Danube Region is to raise GDP per capita, an indicator which is commonly used to measure welfare.

In 2011, the Danube Region's GDP per capita amounted to only 65.3% of the EU-27 and 58.7% of the OECD level.

Yearly real GDP growth 2004-2012 (in %)



Share of GDP of the subregions of the Danube Region in total GDP of the Danube Region in 2011 (in%)



Member States Area 1: BW, BY, AT; Member States Area 2: HU, CZ, SK, SI; Member States Area 3: BG, RO, HR; Accession Countries: RS, BA, ME; Neighbouring Countries: MD, UA.
Calculation and illustration: IAW. (State of the Region Report)



To achieve a higher GDP per capita, the Danube Region needs a higher labour productivity, which can be reached by the following:

- improving labour force qualifications,*
- enhancing technological performance,*
- enlarging physical capital endowment.*



Enlarging physical capital endowment requires necessary investments.

In the past few years the Danube Region's gross investments relative to GDP has been higher than in the benchmark regions.

This investment path has to continue in the future, in order to reach a higher physical capital stock, which will lead to higher labour productivity and in turn to higher GDP per capita.



High investment activity requires a good investment climate.

A better investment climate increase domestic investments and also attract more inward Foreign Direct Investments of private investors from abroad. In addition, better economic frame conditions in the Danube Region set the ground for support from international institutions such as the EU or the World Bank, which again facilitates physical capital formation



The problem of SME financing

- 17.6% of SMEs' managers in the Danube Region and 16.8% of SMEs' managers in the EU-27 cited that access to finance is their most pressing problem (besides of competitiveness and market opportunities)
- Access to finance **worsened in the Danube Region and improved in the EU-27 since 2011.**
- SMEs most often use external financing. Only 24% of the SMEs in the Danube Region and 26% of the SMEs located in the EU used internal funds in 2013.



How can projects and actions be financed?

- Existing Structural and Cohesion Funds (ESIF), IPA II for Western Balkans, ENI for neighbours

In the relevant ESIF OPs there are explicit reference to the actions in the framework of the EUSDR, in many cases specific focus on enable financing for EUSDR relevant projects

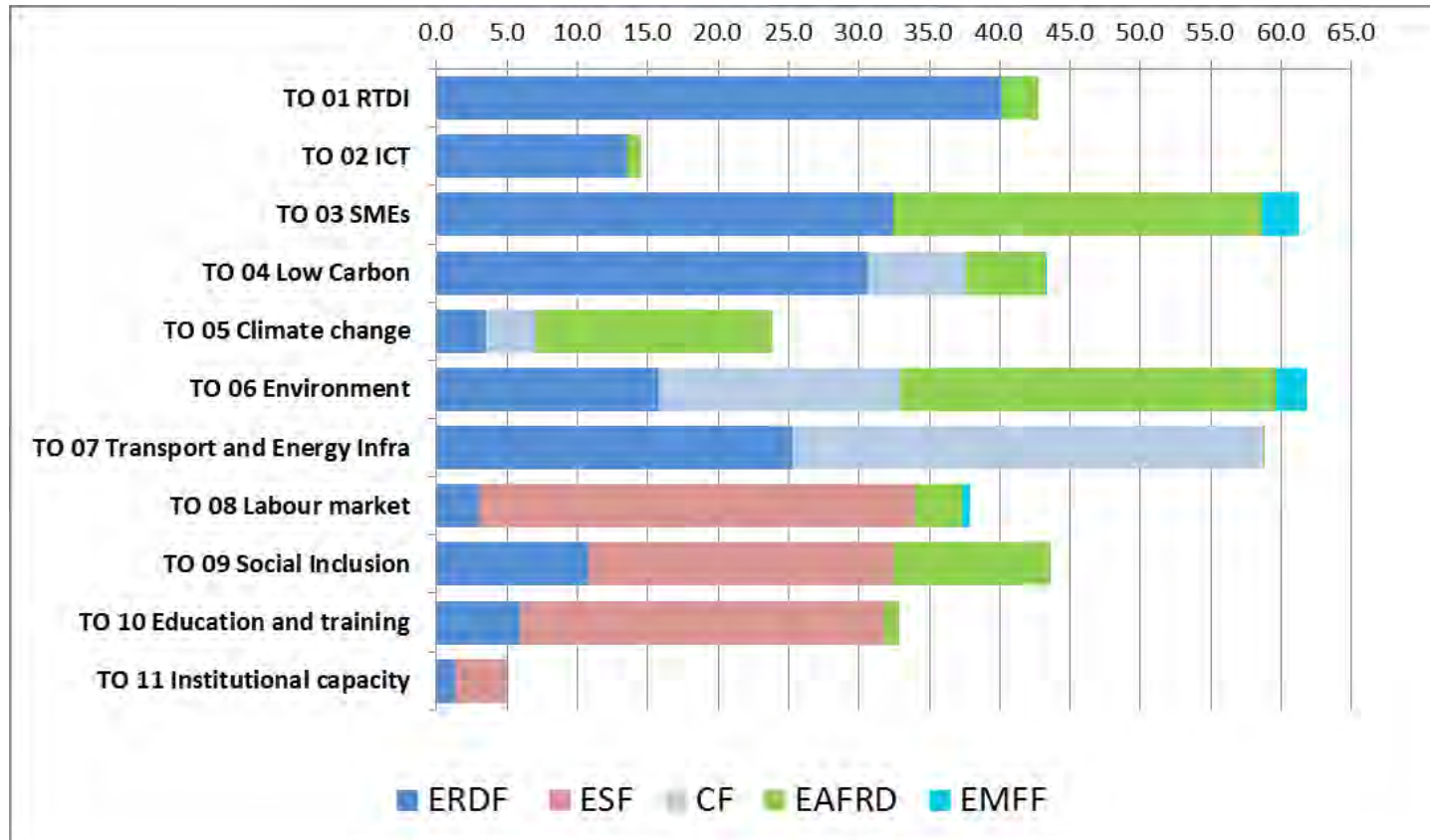
- EU Sectorial Programmes (HORIZON2020, ERASMUS+, LIFE, CEF, COSME, etc.)
- International Financing Institutions:
EIB, EBRD, World Bank, etc.
- National, regional and local sources
- Private investments

ESI Funds

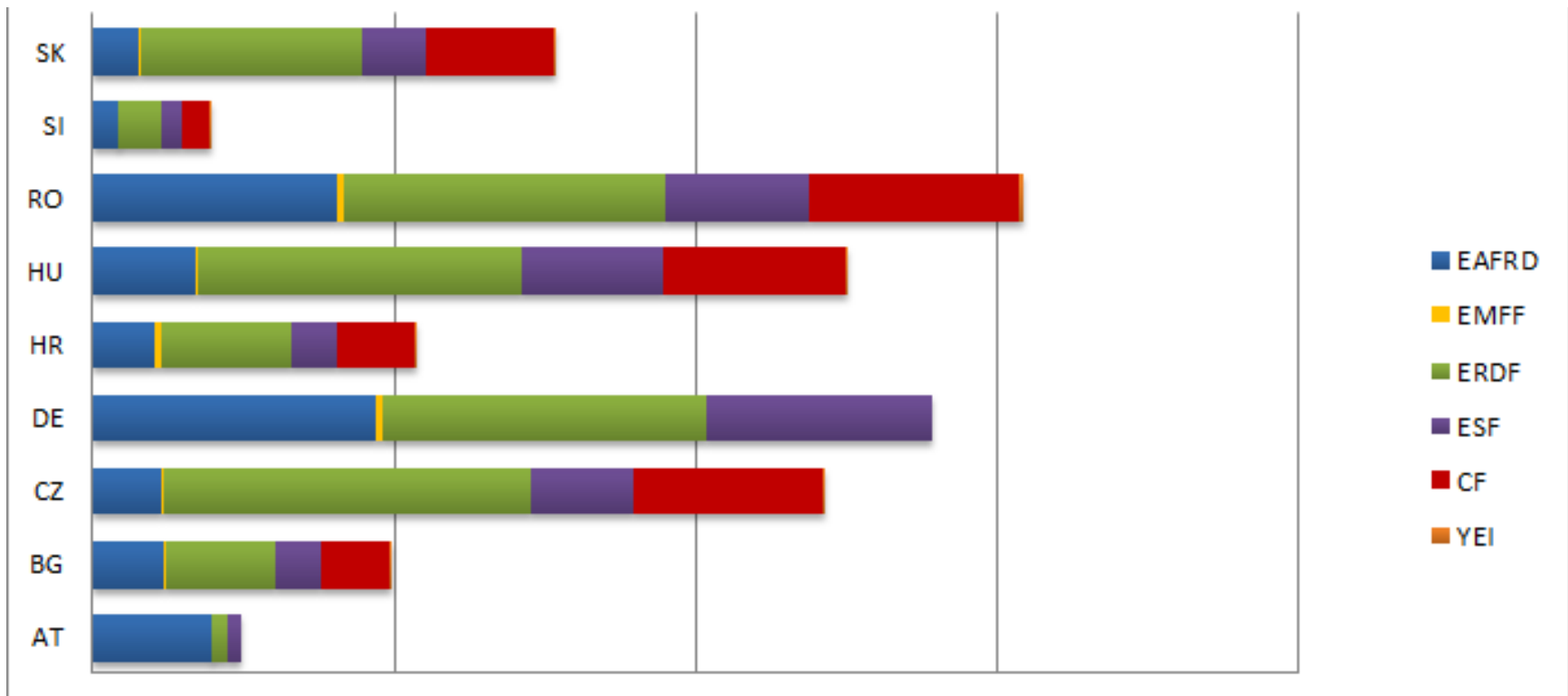


- ESI Funds = five funds operated under a common framework (CPR)
- Delivery through nationally co-financed multi-annual programmes
- In 2014-2020: €454bn in 500 programmes
- Implemented by Member States and their regions under shared management
- ESI Funds have geographical and sectorial eligibility criteria as stipulated by the programmes

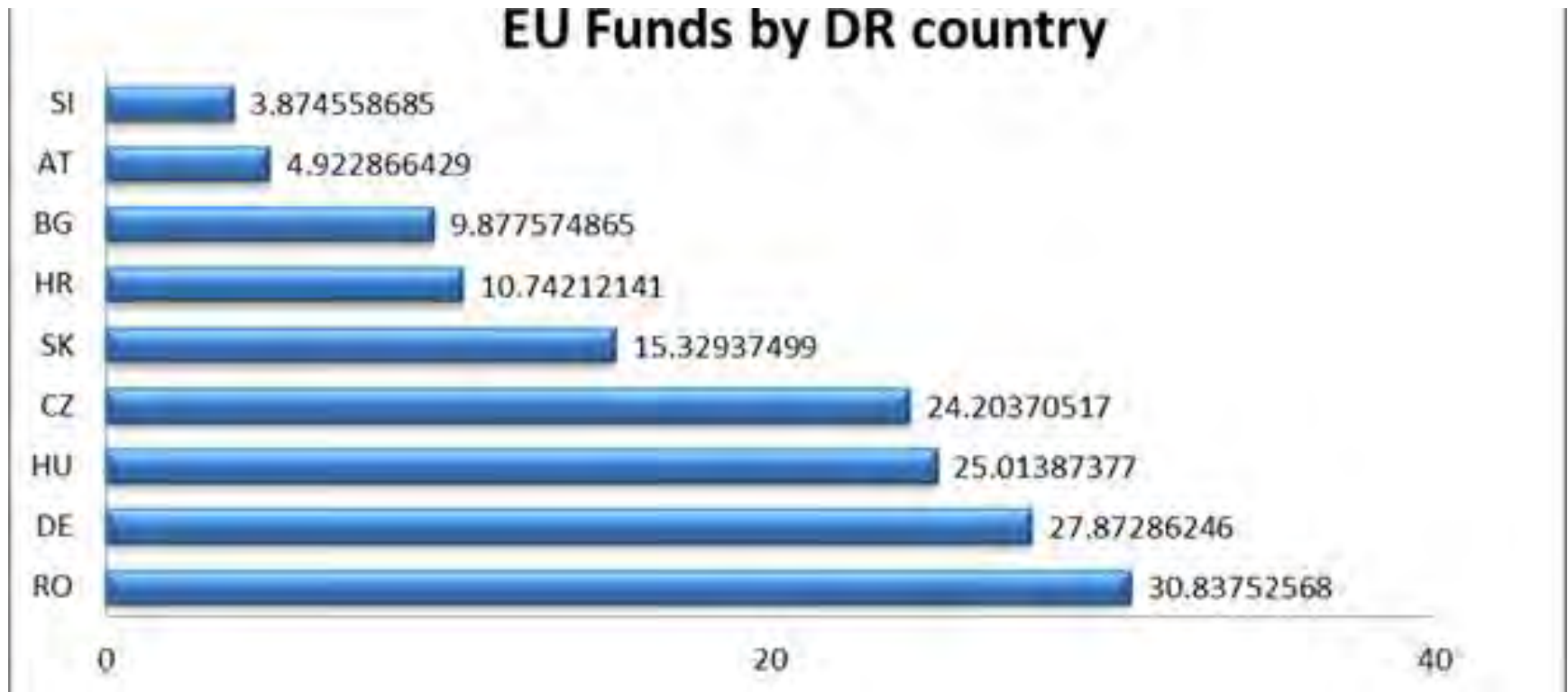
Breakdown of ESI Funds per thematic objective



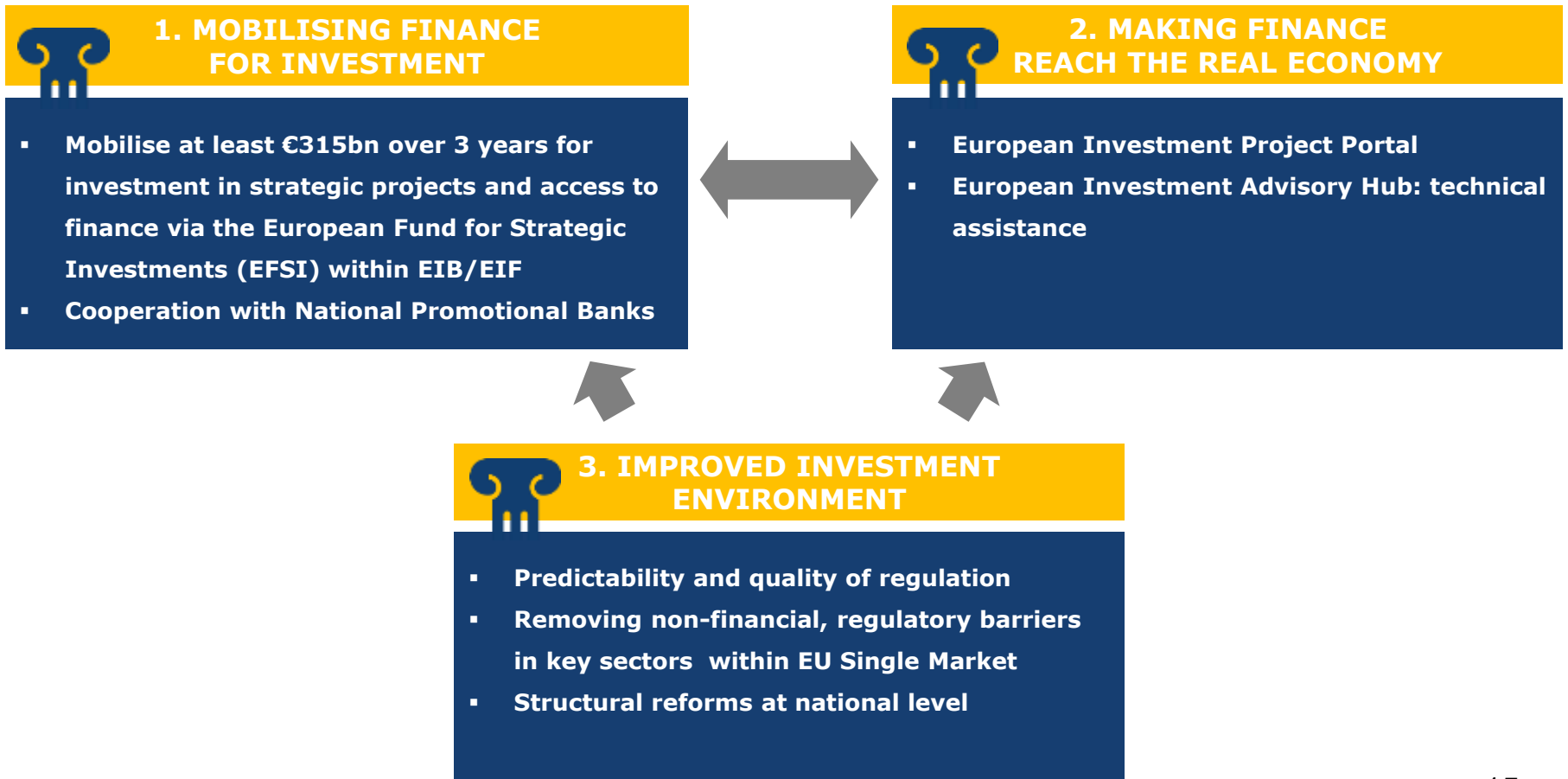
Available ESIF Funds in the Danube Region



Available ESIF Funds in the Danube Region



Investment Plan for Europe: 3 pillars



ESI Funds contribution to the Investment Plan for Europe



1. Mobilising finance for investment

Better use of ESI Funds

**COMPLEMENTARITY:
ESIF / EFSI**

≥ EUR 20 bn additional investment through FI for 2015-2017

SMEs	Research
Transport	Environment



2. Making finance reach the real economy

Technical Assistance

- ✓ JASPERS
- ✓ FI-Compass
- ✓ Programme funding for project preparation



3. Improved investment environment

**Ex-ante
Conditionalities**

ESI Funds Financial Instruments – doubling the use

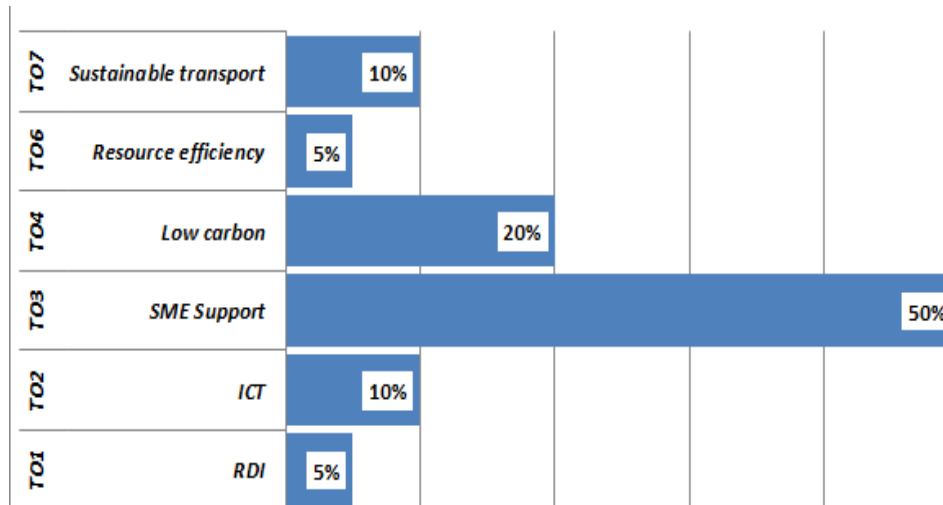
Resource-efficient way of using EU budget funds to enable investment in the economy - through loans, guarantees, equity, venture capital, etc.

2014-2020
What's New?

- ✓ **Regulation: FI extended to ALL thematic objectives and all ESIF funds**
- ✓ **Additional support: FI Compass - advisory service "Off-the Shelf" Instruments**

INDICATIVE TARGETS

- ✓ At least an overall doubling of the use of FI (EUR 12bn to ± 30bn)



- ✓ Increased leverage effect



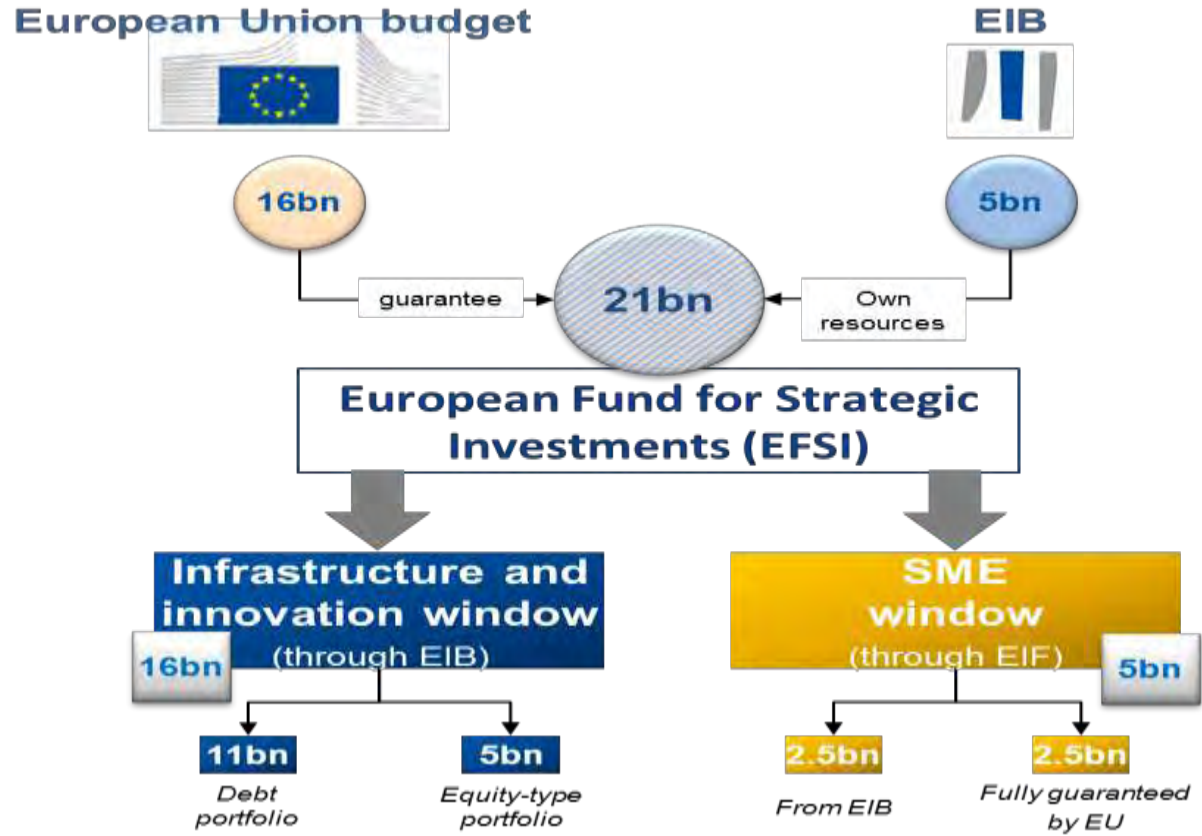
European Fund for Strategic Investments (EFSI)

EFSI shall mobilise **EUR 315 bn** in 3 years (**15x leverage**), under an **EU guarantee** of EUR 21 bn, implemented via two components:

- an **Infrastructure and Innovation Window (IIW)** through EIB to support investments of **EUR 240 bn**
- an **SME window (SMEW)** through EIF to support investments of **EUR 75 bn**



EFSI - structure and investment target



Total EIB/EIF financing

49bn

12bn

Total investment mobilised

240bn

75bn



ESIF-EFSI complementarities

- Legal bases of both ESIF and EFSI allow for contributions to support each other's objectives (**complementarity element**)
- Their **combination** is also possible: at **project** level, **financial instrument** level and through **investment platforms**
- Implementation process has to respect applicable rules (**CPR v EFSI Regulation**)
- **State aid rules** apply on a case-by-case basis



Comparison ESIF - EFSI

ESI Funds	EFSI
ca 90 % grants	guarantees for loans
national / regional allocations and allocations to OPs	no national quota
concentration on 4 thematic objectives	no concentration
project selection by Managing Authority in MS	project selection by EIB/EIF
project has to fit into one of 275 OPs	project has to fit in one of 7 investment fields
minimum for national co-financing	mobilizing private co-financing always requested, but no strict minimum rules



Comparison ESIF - EFSI

ESI Funds	EFSI
No minimum project size	€ 25 Mio minimum size (or contribution to investment platform)
state aid compatibility check case by case	compatible with EU State aid rules
all project (revenue generating or not)	economically viable project
ESIF (grant) component fills the market gap or reduces the risk for investors	higher risk than EIB standard lending



National Promotional Banks (NPBs)

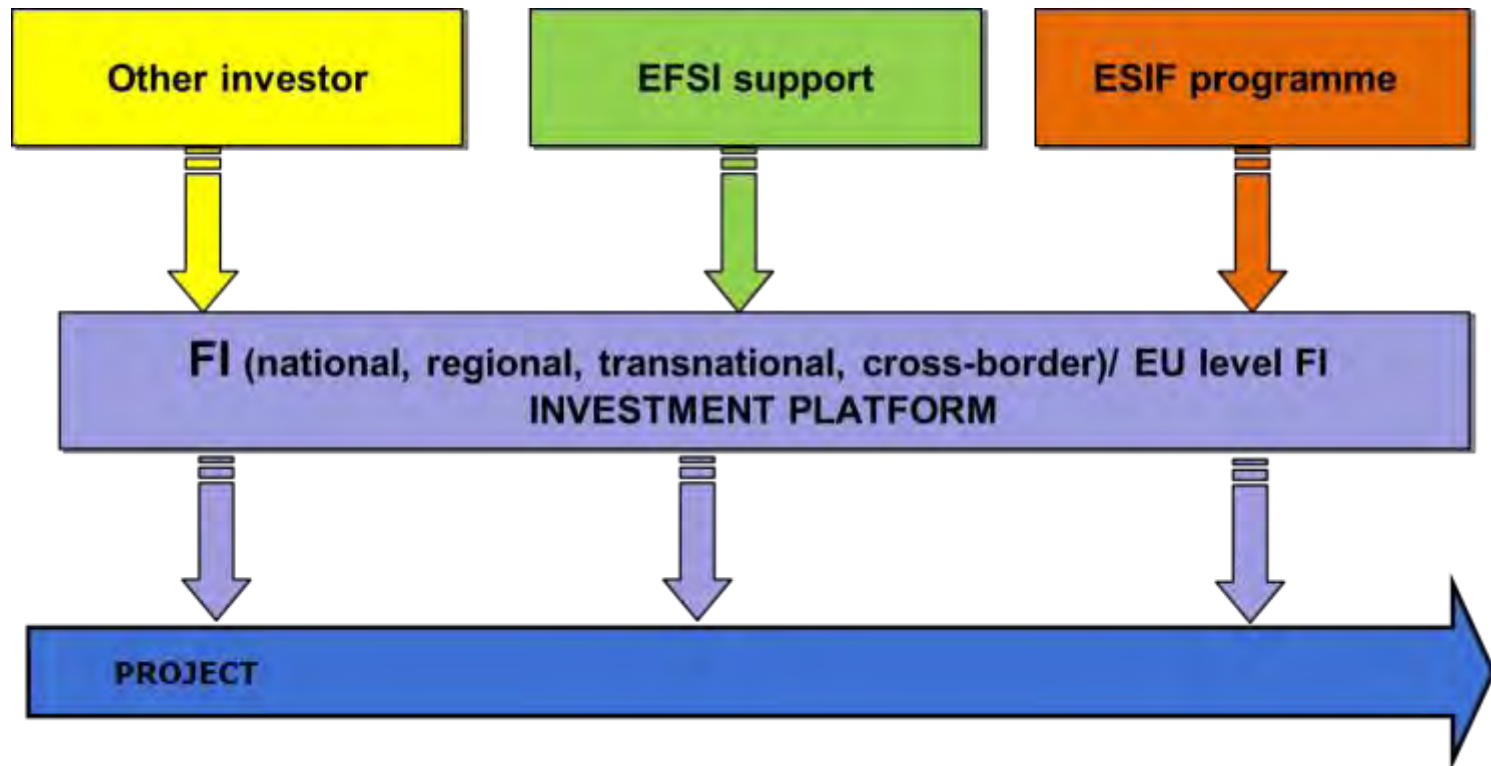
- NPBs are entities mandated by Member States to carry out development or promotional activities
- NPBs hold a significant financing and advisory role in their constituencies – they "know" the local projects
- Member State participation under EFSI can be done through NPBs (8 MS already committed)
- NPBs may also receive EIB or other support
- NPBs' participation mode to be defined by EIB



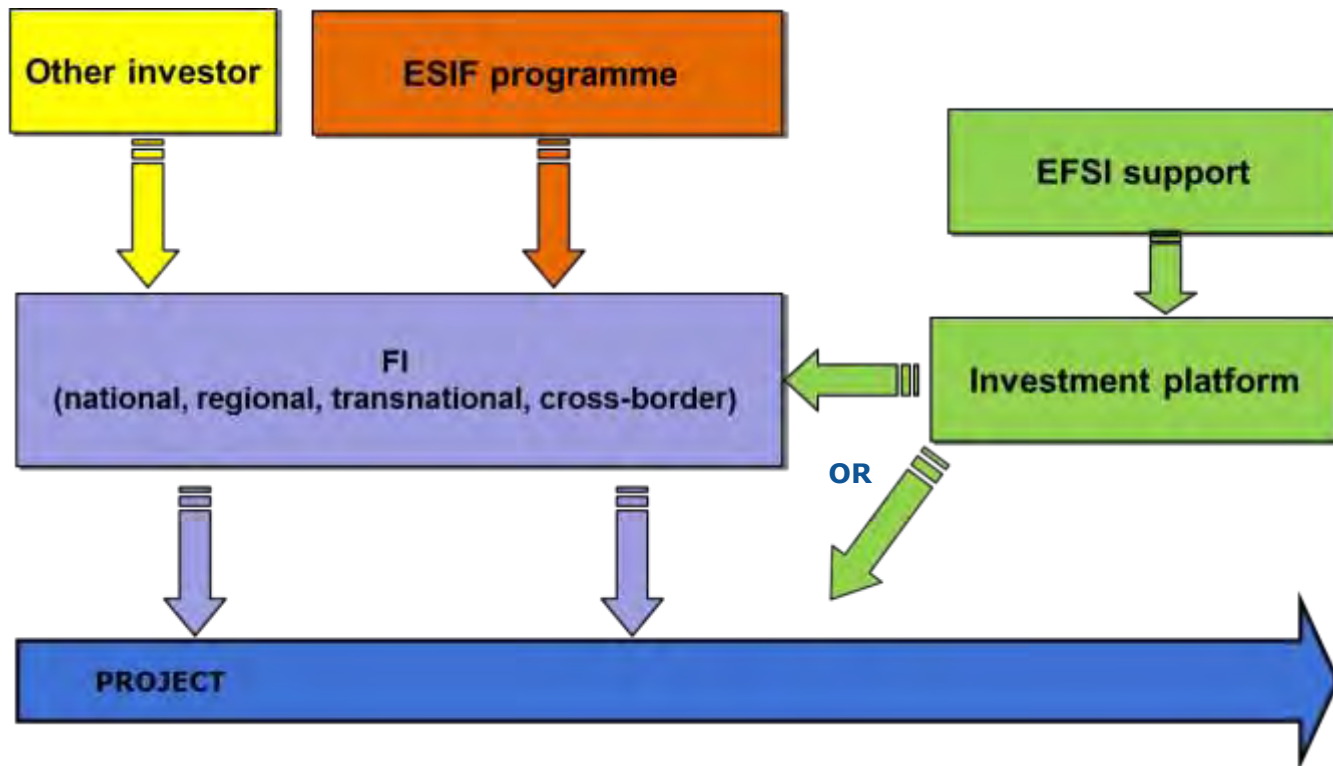
Investment Platforms (IPs)

- A tool for pooling investment projects with sectoral or geographic focus
- More efficient risk allocation between investors (lower transaction and information costs)
- Flexible geographic scope- possibility to finance projects in a region, country, a group of countries incl. macro-region (multi-region platform)
- IPs may also receive EIB or other support (Member State, private investors)

ESIF and EFSI combination – Financial instrument/investment platform level



ESIF and EFSI combination – Financial instrument/investment platform level

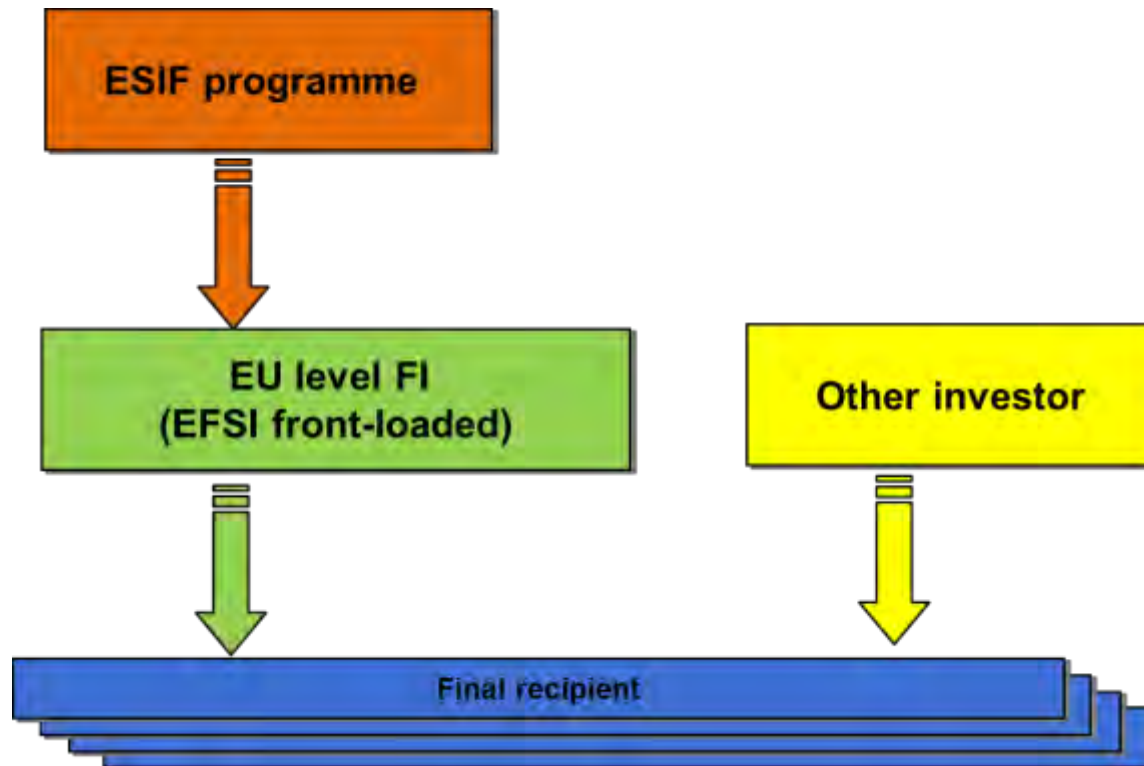




ESIF and EFSI combination

Example

ESIF and EFSI combination – SME products





Implications for the Danube Strategy



*The Danube strategy addresses the various challenges and problems through
4 pillars
11 priority areas,
and actions and projects*

THE FOUR PILLARS



11 priority areas, coordinated by a priority area coordinator

Actions

Projects



What is priority area 8 of EUSDR "Competitiveness of SMEs" doing

- *The targets of cooperation to increase economic competitiveness in the EUSDR are set in the Action Plan for the Priority Area 8.*
- *Seven thematic Working Groups (WGs) were created on specific fields (innovation and technology transfer, vocational training, cooperation of clusters and of business networks, etc.)*
- *Organization of Business Fora to boost competitiveness of SMEs (in Serbia and Austria in 2016)*



One important outcome of PA 8 joint work: State of the Region Report (2015)

The Socio-Economic Assessment of the Danube Region: State of the Region, Challenges and Strategy Development

- Objectives of the study are to identify common socio-economic challenges in the Danube Region and to support the priority area coordinators in making suggestions for developing the EUSDR further, especially in the field of competitiveness of SMEs.



Some recommendations from the Report

- *Programmes that strengthen local SMEs*
- *Introduction of a system of dual vocational training*
- *Mentoring programmes for SMEs: experiences of other companies in the same sector*
- *Training for developing project applications for EU projects*



Alignment/leveraging of funding

ESI funds and other funds (IPA, ENI) are set to support the strategy's objectives in relation to SME development in the Danube Region

Investment Platforms can attract and combine resources from different parties and catalyze investments by bringing together relevant actors and stakeholders, for instance in existing EUSDR fora