Right funding mix for Europe’s regions: balancing financial instruments and grants in EU cohesion policy

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The European Parliament adopted by 497 votes to 69, with 62 abstentions, a resolution on the right funding mix for Europe’s regions: balancing financial instruments and grants in EU cohesion policy.

As a reminder, delivery methods of EU Cohesion Policy consist mainly of a mix of grants and financial instruments (microfinance, loans, guarantees, equity and venture capital), invested through the ESI Funds under shared management (involving national authorities and intermediaries) or centrally managed by the Commission and the EIB Group.

Impact of grants and financial instruments: Members noted that:

- **between 2007 and 2013**, the European Structural and Investment (ESI) Funds investment through grants and financial instruments resulted in solid impact and visible results by investments in EU regions, which amounted to EUR 347.6 billion, excluding national co-financing and additionally leveraged resources;
- **between 2014 and 2020**, the EU is expected to invest EUR 454 billion through ESI Funds, and with national co-financing for the investment in the form of grants and financial instruments the sum is expected to rise to EUR 637 billion.

According to estimations, allocations in financial instruments from the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF) would twice as high as the 2014-2020 period, compared to 6 % of the overall cohesion policy allocation in 2014-2020 of EUR 351.8 billion.

Although they are supporting the same cohesion policy objectives, ESI Funds’ grants and financial instruments, under shared management, have **different intervention logic and application**:

- depending on the type of the project, **grants** have various strengths as compared to financial instruments. They support projects that do not necessarily generate revenue, providing funding to projects that for various reasons cannot attract private or public funding;
- **financial instruments** offer advantages, such as leverage and revolving effects, the attraction of private capital and coverage of specific investment gaps through high-quality bankable projects.

Financial instruments’ performance – challenges and solutions: while recognising the importance of using financial instruments in cohesion policy operations, Members noted that there are **significant differences across the EU regarding the penetration of financial instruments**.

Despite the Commission’s actions in optimising regulation and reducing red tape, Parliament stressed that **complexity still exists** and issues such as the long set-up time and administrative burden for recipients are disincentives to use financial instruments.

Members insisted on the need to:

- **combine much more easily** ESI Funds microcredit, loans, guarantees, equity and venture capital, while ensuring the same level of transparency, democratic scrutiny, reporting and control;
- ensure a **level playing field in state aid rules** concerning all financial instruments in order to avoid preferential treatment of certain sources of funding over others, especially in the field of SME support;
- identify **opportunities for simplification and synergies** through the auditing process;
- **explore the potential of combining grants and financial instruments**, notably through: (i) guidance to authorities; (ii) further simplification and harmonisation for the rules that concern combining different ESI Funds, as well as for the rules that concern combining the ESI Funds with instruments such as Horizon 2020 and EFSI; (iii) easing the regulatory burden by facilitating the abovementioned combining of allocations from more than one programme to the same financial instrument;
- **improve technical assistance practices** targeting local or regional stakeholders, as well as at all partners involved, adopt a joint technical assistance plan by the Commission and the EIB comprising financial and non-financial advisory activities, especially for major projects, as well as capacity-building, training, support and the exchange of knowledge and experience;
- **raise the profile** of ESI Funds' investments and to make it clearer that EU funding is involved.

Towards the right funding mix for the post-2020 period: Parliament recognised that both grants and financial instruments have their specific roles in cohesion policy but that they share the same focus on the way to achieving the five headline targets of the Europe 2020 strategy. Financial instruments perform better in well-developed regions and metropolitan areas, while grants address regional structural issues in outermost regions and regions with high harmonised unemployment rate.

Lastly, Parliament emphasised the need to **ensure that financial instruments do not replace grants as the principal tool of cohesion policy**. It indicated that the funding mix of grants and financial instruments addresses country-specific realities and that the funding mix cannot result in a one-size-fits-all solution.