Agenzia per la Coesione Territoriale

Report on Financial Instruments

co-financed by the European Structural and Investment Funds

SUMMARY

No. 2 – December 2018

Agency for Territorial Cohesion
Projects and Instruments Area – Unit 5
Statistics, Innovative Instruments, Financial Engineering

General Director	**Antonio Caponetto**
Director, Projects and Instruments Area	**Michele Maria D'Ercole**[1]
Head of Unit 5	**Anna Maria Fontana**

Supervisor
Anna Maria Fontana

Report Coordinator
Salvatore Vescina (thematic expert)

Data and text
Rosanna Romano
Federico Tomassi

We would like to extend our thanks for their contribution to specific sections of the full version of this Report to: **Daniela A.R. Carosi, Silvia Ciampi, Teresa Costa and Tania Ulzega** (thematic expert) of the Agency for Territorial Cohesion**, Giuseppe Bronzino** (Ministry for Economic Development), **Nicola Buonfiglio** (Invitalia) and **Mediocredito Centrale** (Invitalia Group). We are thankful to **Pasquale D'Alessandro** of the European Commission – DG Regio, for the highly constructive discussions.

The Report and its statistical annex can be found here: www.agenziacoesione.gov.it/lacoesione/le-politiche-di-coesione-in-italia-2014-2020/strumenti-e-programmi/strumenti-finanziari.
Our email for information and comments is area.progetti.uf5@agenziacoesione.gov.it.

[1] When the full version of this Report was published, in December 2018, the Director in charge was Alberto Versace, now retired.

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Foreword

This document presents a summary of the second edition of the *Report on financial instruments co-financed by the European Structural and Investment Funds*, dealing with the policy measures, in the form of loans, guarantees and equity capital investments, envisaged by the Operational Programmes for implementing the cohesion policy. Currently, this amounts to 4.6 billion euros, compared to 54.2 allocated for the 2014-2020 programming cycle, accounting for 8.4 percent of the overall budget.

The Report has not been produced as a result of any specific obligations under the European or national regulations, but reflects the conviction that the accountability of public actions is an effective working instrument and a tool for progress, for various reasons. First and foremost, to offer both Administrations and stakeholders timely information in support of their assessment and decision-making processes, with a view to enhancing good practices or improving effectively sub-standard decisions.

The matter is complex and involves many players – Administrations, professional managers, financial intermediaries, final recipients – who are all part of a chain that is both cooperative and competitive. It is therefore crucial to provide a perspective of the system and develop a set of coordinated actions to ensure that the individual instruments meet shared operating standards and fulfil a single strategic design.

At 31 December 2017, the overall contribution by financial instruments to the achievement of spending targets was not high, but on the rise. This applies to Italy and to the other member States of the European Union. Experience has taught us that most financial instruments need a long start-up time, after which the spending levels tend to consistently speed up. In fact, we have come to realise that some financial instruments could use up their budgets in 2018 or 2019, despite significant differences within the single Administrations or instruments.

This Report does feature some important changes, compared to the previous one. First of all, the quality and timeliness of the implementation data have improved considerably. Besides providing the consolidated data at 31 December 2017, we also show the results of an "interim survey" at September 2018, and even a forecast – based on *ad hoc* models – of the achievement of the spending targets at 2023, albeit with a degree of caution. The document also envisages a set of indicators that can be further bolstered and possibly even serve as implementation-supporting "sensors" (of interest especially to the Managing Authority). These include proposed methods for expenditure forecasting and controlling the financial risks undertaken by the public-sector party, in connection with the allocation decisions assigned to the financial managers, or the intermediaries they liaise with.

The Report is growing and aims to improve the network of Managing Authorities that are part of the *Standing technical committee on financial instruments* set up by the Agency for Territorial Cohesion. This is a network of institutions and, consequently, of people who are cooperating more and more proactively to tackle certain limitations – namely, the failures of the lending market – that weigh heavily on the development of many geographical areas and social groups.

Antonio Caponetto

Summary

Introduction

This Report pursues a range of objectives:

- providing a summary overview of the underlying dynamics of the financial processes, which represent a key focus of the public policies implemented through the financial instruments co-financed by the European Structural and Investment Funds (ESIFs);
- providing comprehensive and detailed information on the implementation of and the results achieved by each financial instrument, on a comparative basis, as a means for improving the related management strategies and solutions and delivering objective-consistent results;
- disseminating knowledge of the system activities promoted by the Agency for Territorial Cohesion, and implemented in partnership with the central and regional Administrations;
- effectively meeting the accountability requirements, in relation to each specific segment of the financial instruments, based on the conviction that greater transparency is beneficial for the public debate, as well as for the efficiency, efficacy and cost-effectiveness of administrative actions.

The Report comprises four chapters on:

- market dynamics: loans, guarantees provided by credit consortia (Confidi), equity capital;
- programming financial instruments, tracking the map of resources allocated for these actions;
- implementing financial instruments, with a detailed account of the procedures and financial information for each measure;
- the system activities carried out by the Agency for Territorial Cohesion to promote the strategic and functional convergence of financial instruments.

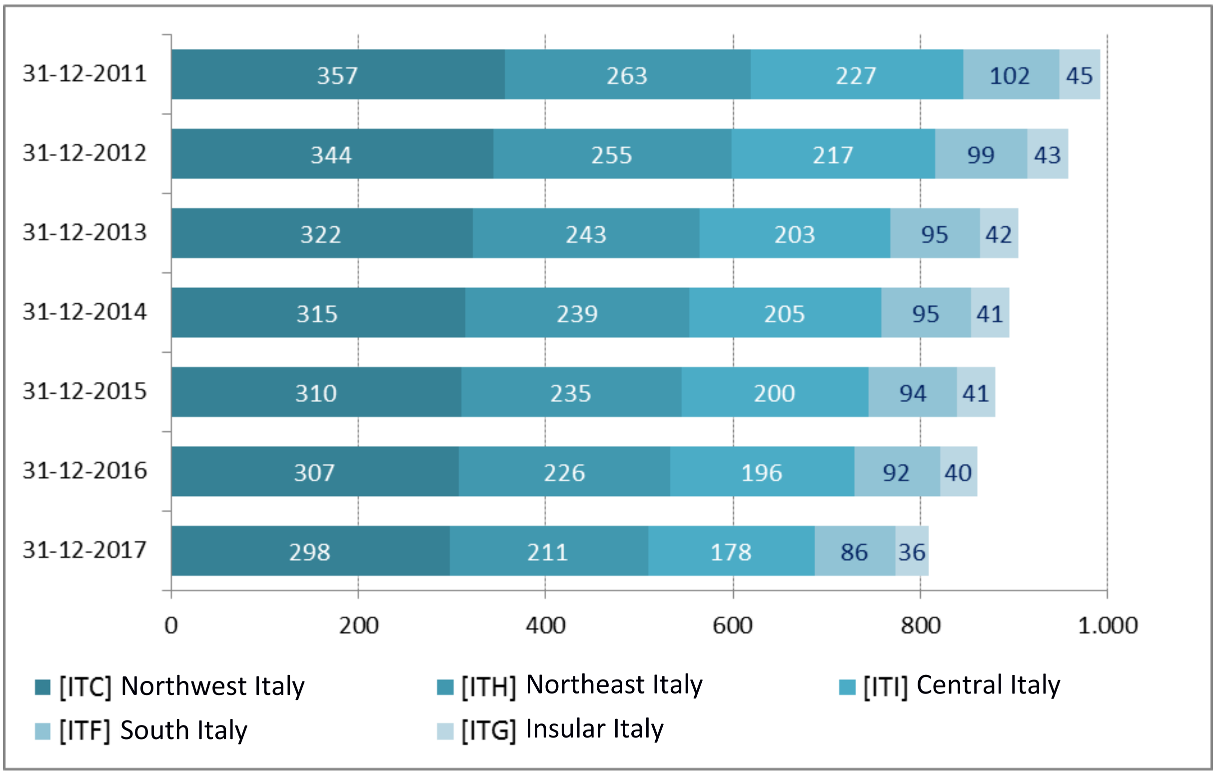
This layout of this second report follows the blueprint of the previous edition, although some important changes have been made:

- it was released earlier that the previous document, thanks to the European Commission forwarding the implementation data at 31 December 2017 well in advance. The data have recently been published by the Commission in its *Summaries of the data on the progress made in financing and implementing the financial instruments for the programming period 2014-2020*, which integrate the knowledge built up through our work on a more aggregated level, using information that will allow Europe-wide comparative analyses;
- it makes good use of the high-quality instrument implementation data, building on the work, over the years, of a team of monitoring specialists.

1. Market dynamics

Italy is widely viewed as a *bank-centric* country, given the importance of bank loans in corporate financing. During the crisis, banks significantly cut back on lending to enterprises. This dynamic is still largely present, reflected in the fact that lending to non-financial companies dropped from 860 billion euros in 2016 to 809 at 31 December 2017, although with a degree of variability, in terms of the quantity and quality of credit demand and also of the geographical differences, arising from production specialisation and economic development. Broadly speaking, tangible and intangible infrastructure quality also has an important role, exemplified by the excessive length of civil justice proceedings, which affects the time and costs required for recovering deteriorated loans.

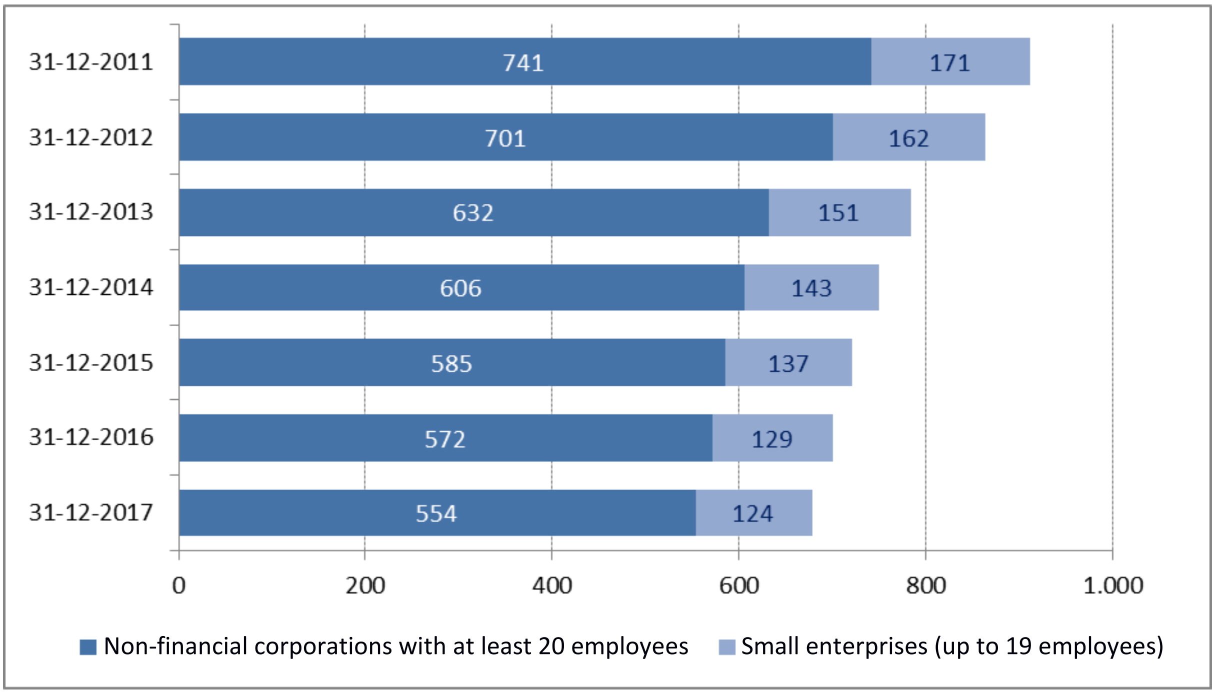
Figure 1.2 – Lending to non-financial corporations and SMEs by geographical macro-areas (billion euros)



Source: our analysis of Banca d'Italia data, Statistical Database [TDB10295] Loans (excluding repurchase agreements) – by province and client sector and sub-sector.

Performing loans have the largest impact on the real economy. The following graph shows the overall amount of loans granted to non-financial corporations by enterprise size, based on employee headcount. A comparison with the 2012-2017 period highlights how enterprises with less than 19 employees (which, based on the Istat data for 2016, account for 98.2 percent of all enterprises in the manufacturing and services sectors) have recorded the biggest drop (–23.3 percent), compared to those with at least 20 employees (–21 percent). Annually, the difference between 2016-17 and 2015-16 amounts to –3.7 and –5.6 percent, respectively, for enterprises with less than 19 employees, –3.3 and –2.9 percent for enterprises with at least 20 employees. It is a fact that company size weighs heavily on the lending decision process, as confirmed by the Banca d'Italia data.

Figure 1.4 – Outstanding loans by enterprise size (billion euros)



Note: the data only include transactions with resident clients, excluding monetary financial institutions; the structure of the table is similar to that of TDB10226, differing only for the inclusion, in the aggregated "loans" item, of repurchase agreements with customers, non-performing loans and other residual items; the "small enterprises" class includes both non-financial corporations and "SMEs" with less than 20 employees.

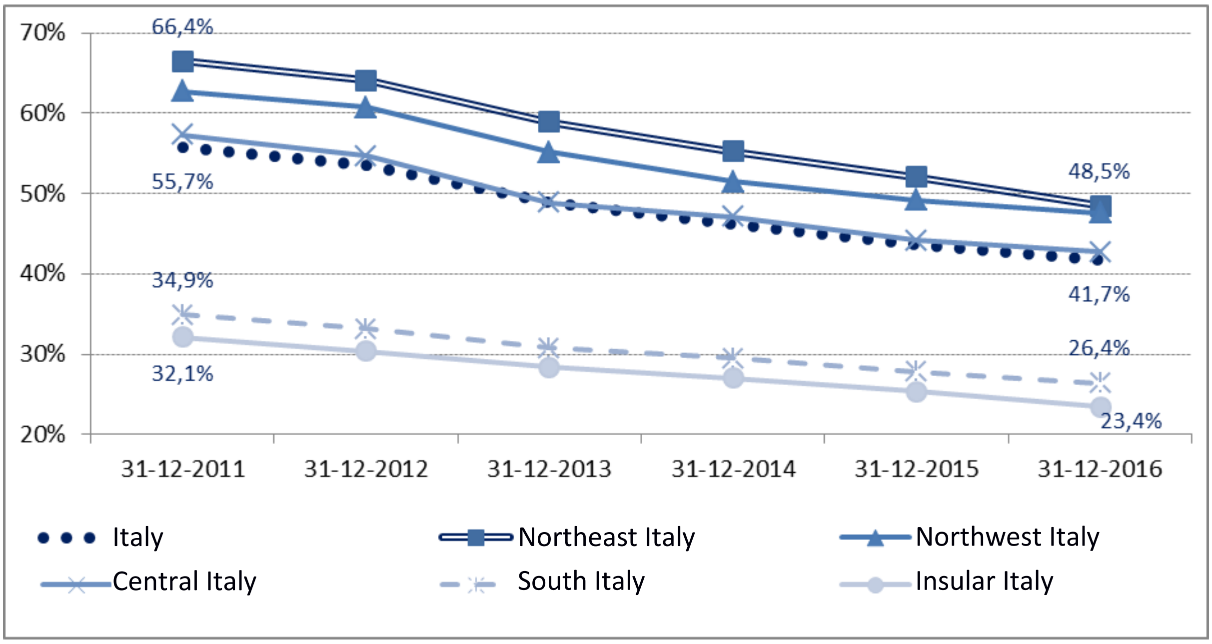
Source: our analysis of Banca d'Italia data, Statistical Database [TDB20226] Loans (excluding non-performing loans) – by province and client sector.

What we measure here is the percentage ratio of performing loans (i.e. total loans minus non-performing loans) to the gross domestic product (GDP) of the geographical area concerned. Of course, a relationship exists between the amount of lending to enterprises (this is why the numerator is minus the non-performing loans) and the aggregate market value of all the finished goods and services delivered. However, this ratio can also be inverted, meaning that less developed economic systems generally require lower amounts of lending than more advanced systems (in proportion). It ensures that this could be considered an indicator of "credit intensity", rather than (indirectly) *credit rationing*.

In short, it clearly emerges that *credit intensity*:

- steadily (yet unevenly) declined between 2011 and 2016 (the latest year for which regional GDP data are available), which means that the negative change in performing loans was bigger than that recorded by the GDP;
- in the southern regions and islands is more or less half that of the northern regions.

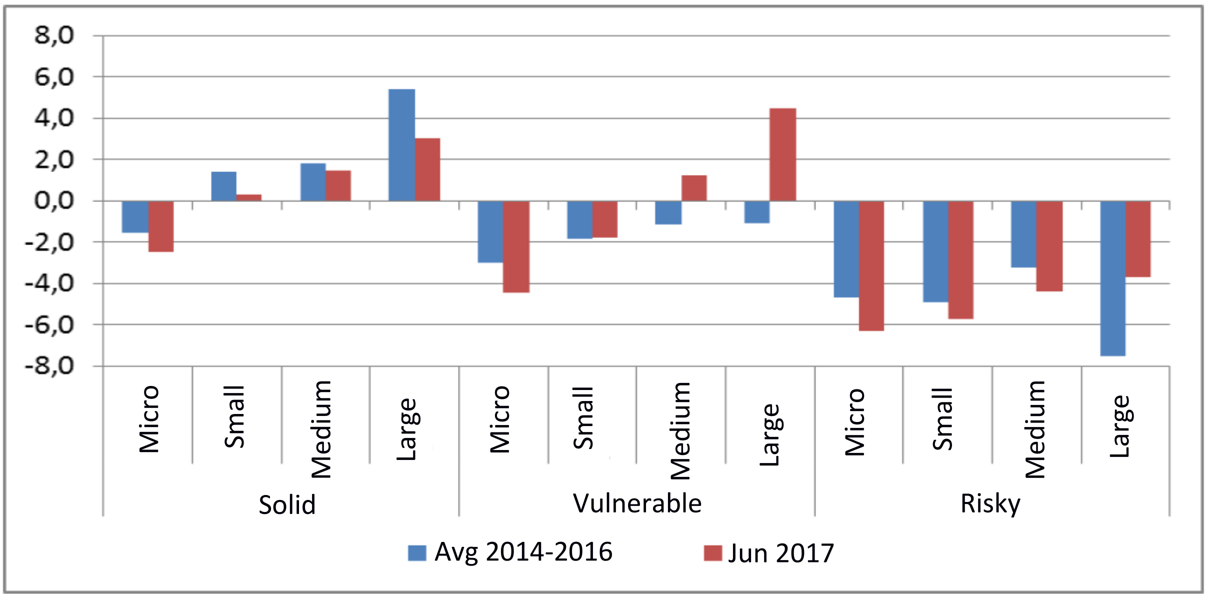
Figure 1.6 – Ratio of credit used net of non-performing loans to GDP



Source: our analysis of Banca d'Italia data, Statistical Database [TRI 30146 - Loans (excluding non-performing loans) – by region of clients and size class of the global credit granted (Total residents net of the monetary financial institutions)] and ISTAT (for current GDP values).

Banks are cutting back on lending not just to the riskiest enterprises of any size (which is easily understood), but to micro- and small enterprises as well, regardless of their creditworthiness (which is less intuitive). This is confirmed by matching the lending data with the entry into insolvency figures and interest rates: paradoxically, smaller enterprises feature lower entry into insolvency rates, despite which they are being granted less loans, while paying higher interest rates (which, however, is justified by the fact that the costs incurred by banks are not directly proportional to the size of the loan).

Figure 1.7 – Changes in lending by enterprise risk and size (%)



Source: Banca d'Italia and Cerved (www.bancaditalia.it/pubblicazioni/interventi-vari/int-var-2017/zeloni-061217.pdf).

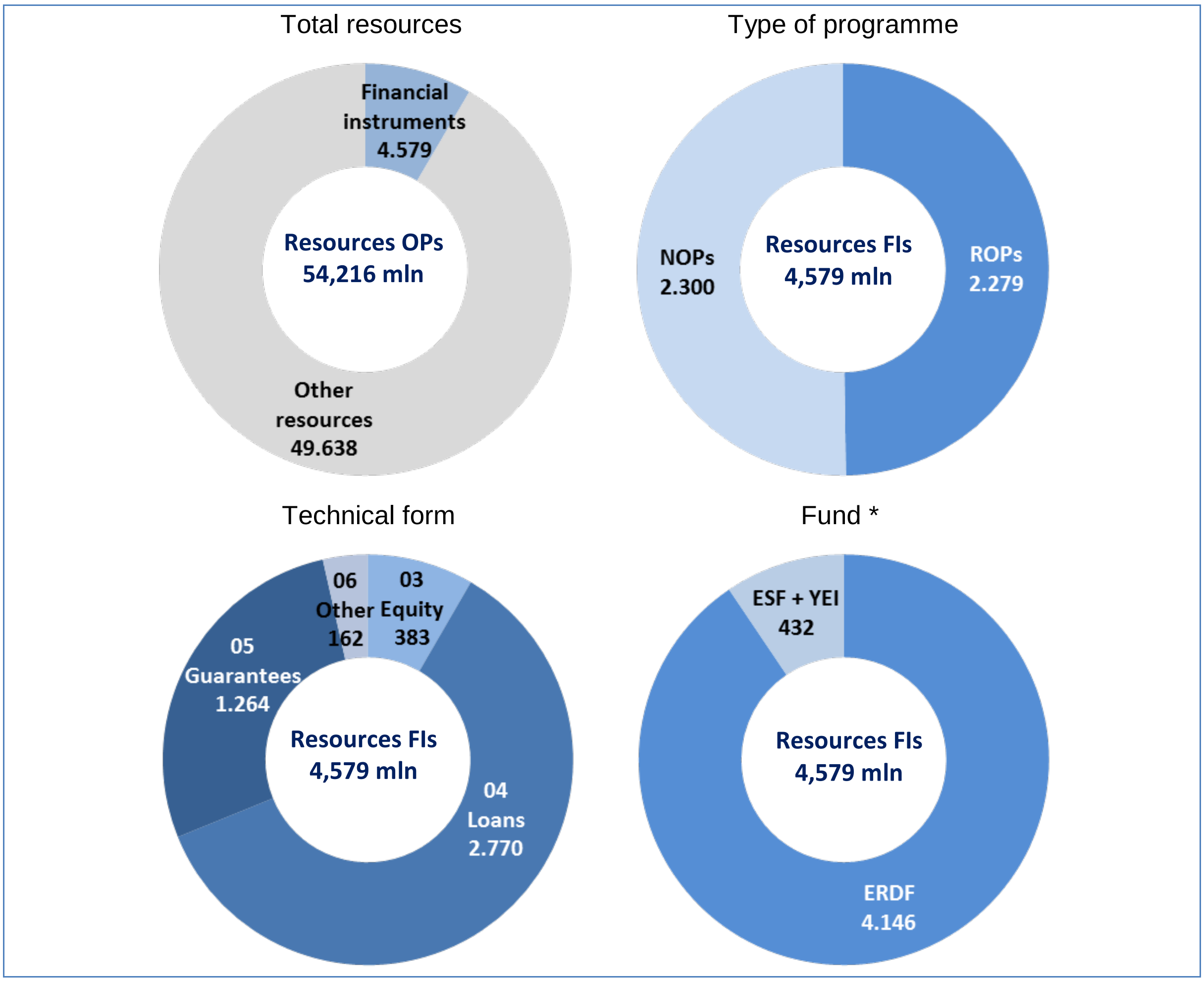
2. Programming financial instruments

Currently, financial instruments are envisaged by 21 Regional Operational Programmes (ROPs), in 17 Regions (all the Italian Regions, except Molise, Valle d'Aosta and the Autonomous Provinces of Trento and Bolzano), and 6 National Operational Programmes (NOPs), including those that commit resources in financing arrangements without having quantified them in the programming documents, as specified in the SFC database. The total value of the ESI Funds and national co-financing is 4.58 billion euros, amounting to 8.4 percent of the total appropriations for the structural Funds, of which:

- 2.30 billion for the NOPs and 2.28 for the ROPs;
- 2.77 billion for loans, 1.26 for guarantees, 383 million for the equity capital and 162 per subsidies;
- 4.15 billion to the ERDF and 432 million to the ESF or the YEI.

The appropriations also include 2.26 billion for reimbursable grants, which feature certain similarities with the concept of financial instrument, of which 1.79 billion in the ROPs and 477 million in the NOPs.

Figure 2.1 – Financial instruments used in the Operational Programmes (million euros, July 2018)

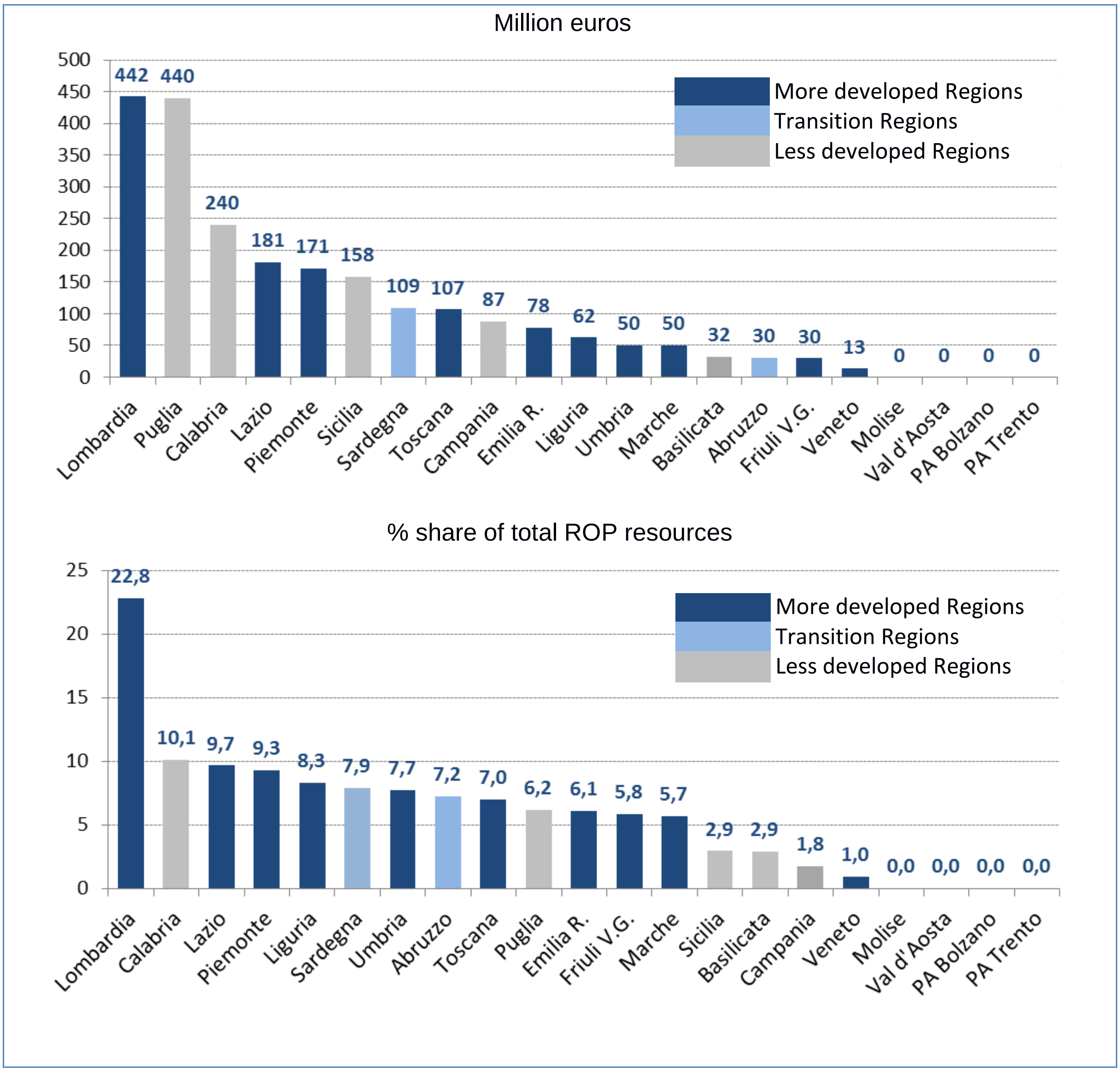


(*) Including national co-financing.

Source: our analysis of data by SFC2014 and direct surveys at the MA.

With regard to the ROPs, more than half the resources are allocated to the more developed Regions (1.18 billion euros), slightly less to the five less developed Regions (957 million), while the rest is allocated to the three transition Regions (139 million). The Regions that stand out for the amount of committed resources are Lombardy (442 million), Puglia (440) and Calabria (240), followed by Lazio (181), Piedmont (171), Sicily (158), Sardinia (109) and Tuscany (107). Lombardy is also the Region featuring the highest proportion of financial instruments to the total resources (23 percent), followed at a great distance by Calabria (10 percent).

Figure 2.2 – Financial instruments used in the ROPs, by Region (July 2018)

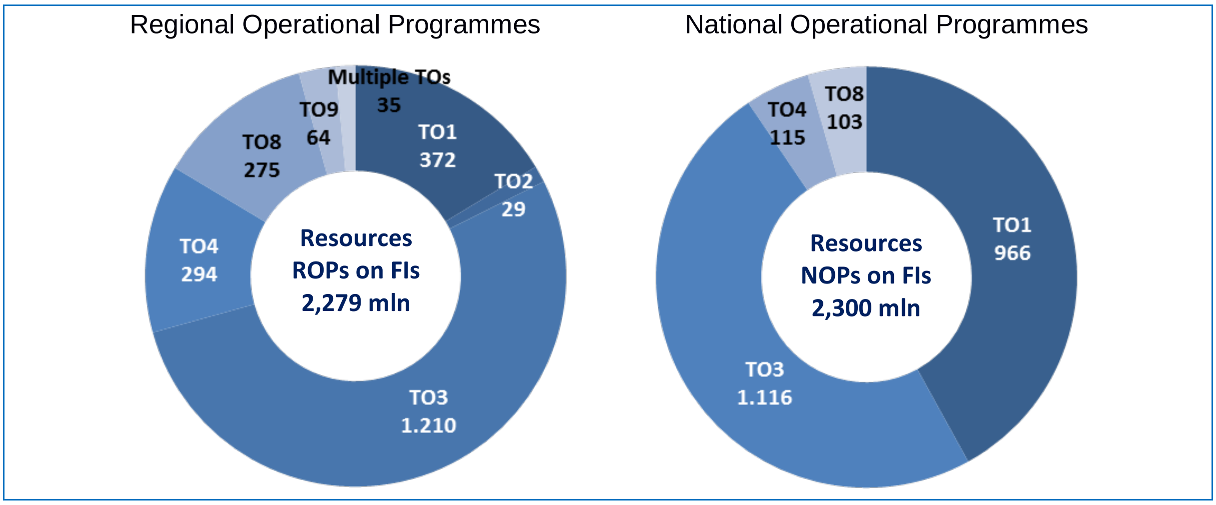


Source: our analysis of data by SFC2014.

The NOPs on Enterprises and Competitiveness and on SME Initiative, managed by the Ministry for Economic Development, have programmed financial instruments for 1.78 billion (loans, guarantees, subsidies and equity capital) and 102.5 million (guarantees only). Further instruments are envisaged by the NOPs on Culture and Development, Research and Innovation, Youth Employment Initiative (YEI) and Systems for Active Employment Policies, totalling 422.5 million euros, almost exclusively for loans.

Regarding policy decisions, according to the breakdown of resources by thematic objectives (TOs), the programmed financial resources refer primarily to the TO3 on Competitiveness, which includes almost half the programmed resources (1.21 billion euros in the ROPs and 1.12 in the NOPs), followed by the TO1 on Research and Innovation (372 million euros in the ROPs and 966 in the NOPs), TO4 on Sustainable Economy (294 and 115) and TO8 on Employment (275 and 103), while the other TOs have been allocated minimum amounts or nothing at all.

Figure 2.6 – Financial instruments envisaged in the ROPs and NOPs, by thematic objective (million euros, July 2018)

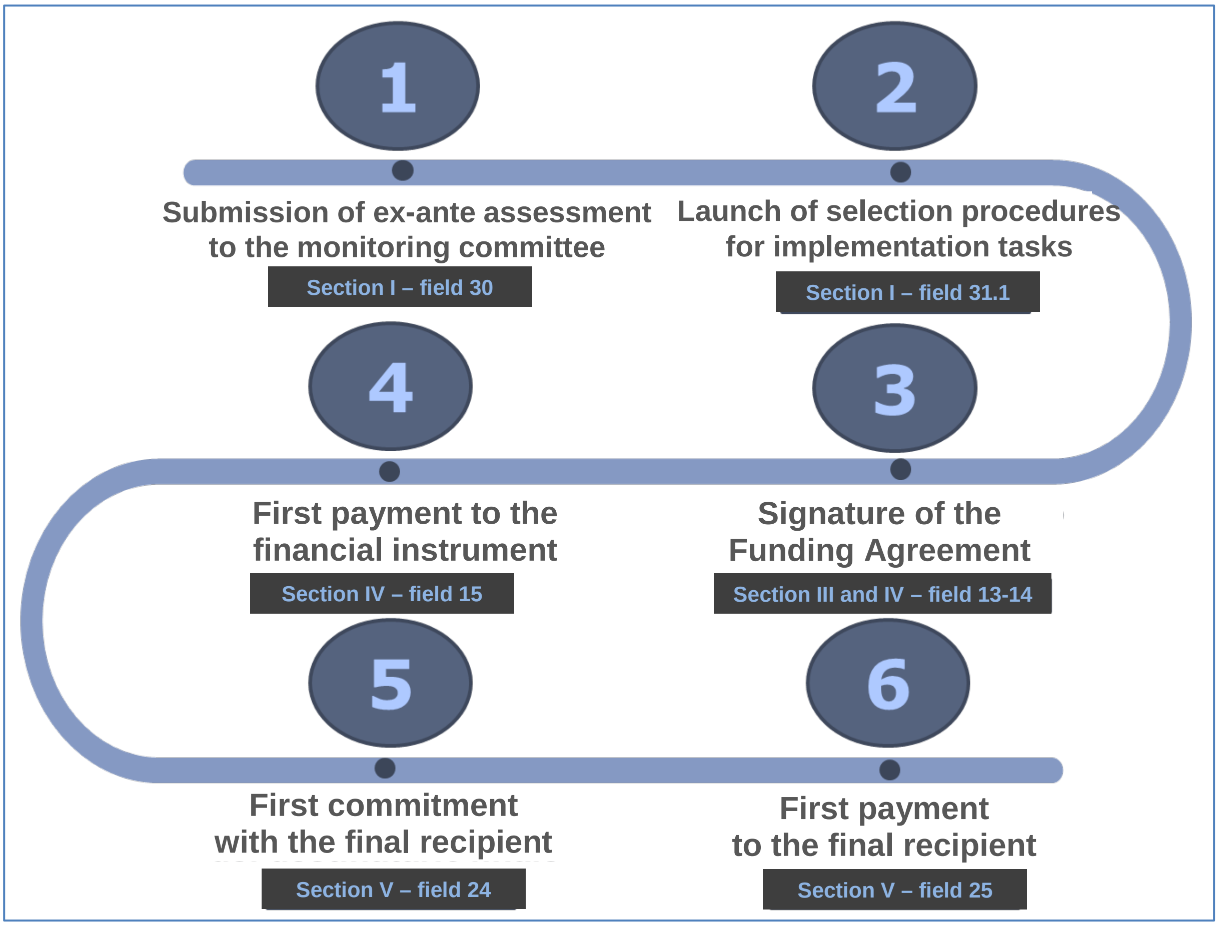


Source: our analysis of data by SFC2014 and direct survey at the MA.

3. Implementing financial instruments

The complexity of the process for implementing financial instruments is also reflected in the collection of data for the implementation process, in that not all the steps between the programming stage to the disbursement of the funds to the final recipients can be monitored, except for the six key steps thanks to the data entered into the SFC database by the Managing Authority.

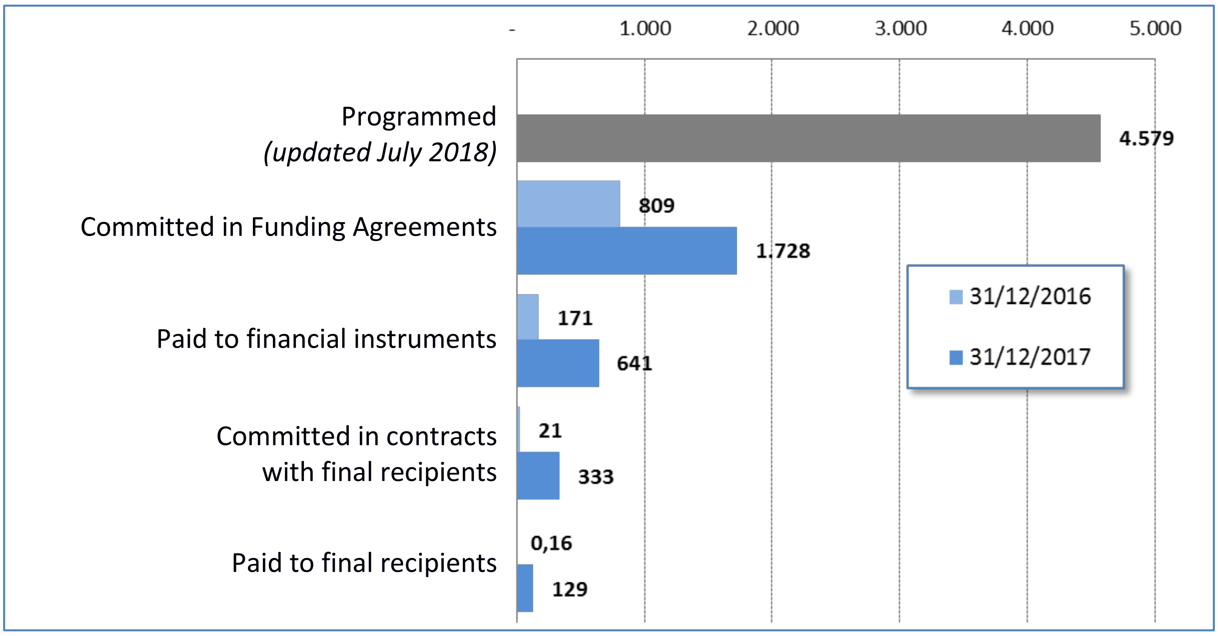
Figure 3.2 – The six steps in the start-up stage of the financial instruments, monitored accordinfg to Annex 1 of Regulation (EU) No. 821/2014



The process from the first to the last of the six stages is decidedly time consuming, lasting months in the best of cases, but which more often than not is measurable in years. Furthermore, since many of the Managing Authorities launched the start-up stage of the financial instruments only in 2017 – which delay was due to the closure of the previous programming period – only a small proportion of the programmed funds has effectively been reported.

At 31 December 2017, there were 64 financial instruments in place, of which 57 specific instruments and 7 Funds of funds, whose resources flow into a number of specific instruments chiefly financed with ERDF resources. Out of 4.58 billion programmed resources, those used for funding agreements with the managing entities total approx. 1.7 billion, while the funds used for financial instruments total 641 million and those committed to contracts with final recipients 333 million. Finally, the resources actually disbursed at the end of 2017 amounted to only 129 million.

Figure 3.8 – Financial progress: overview of resources at July 2018 (million euros)



Source: our analysis of data by SFC2014 (2016-2017 period) and direct survey at the MA (2018).

There are encouraging signs from the preview on the implementation at September 2018[2], which shows that the resources committed to the funding agreements have risen from 1.7 to 2.2 billion, those paid to the financial instruments total 918 million, those committed to contracts with final recipients total 573 million and disbursements amount to 263 million.

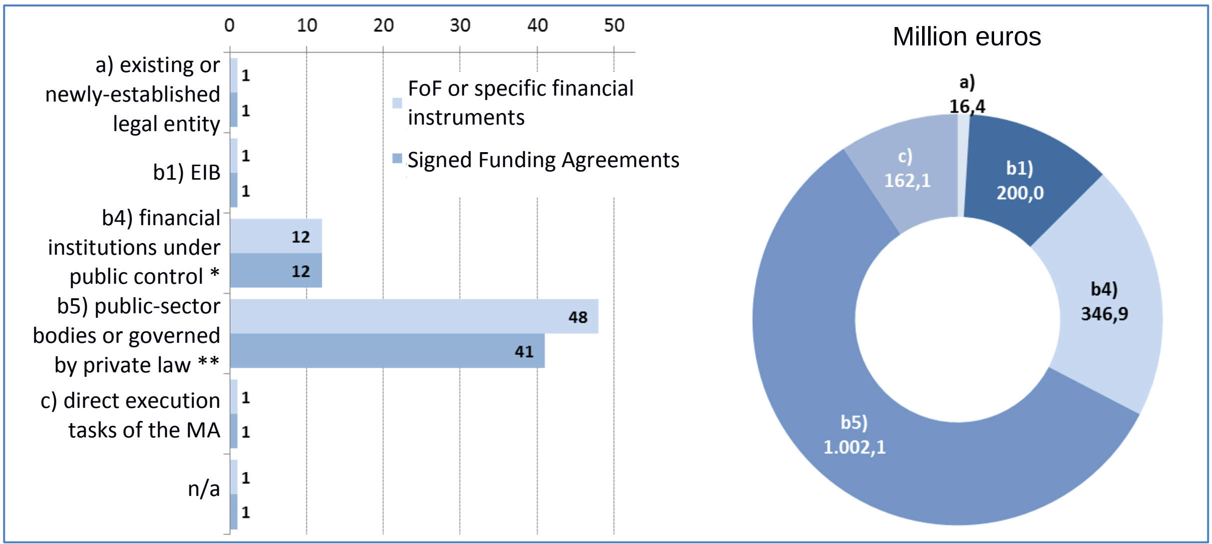
The predominant technical form is loans, with committed resources totalling slightly over 1 billion euros, and accounting for 37 percent of the total envisaged by the Operational Programmes, up by about 542 million compared to 2016. Guarantees total 391 million (31 percent of programmed resources), up by 285 million euros. Venture capital investments, which at the moment total approx. 9 percent of the programmes resources (34 million), feature 12 million extra committed resources compared to 2016.

A very delicate issue is the selection of the managers, among the eligible parties, and the signing of the funding agreements, i.e. the arrangements between the Managing Authorities and the various types of entities contemplated in the provision mentioned above, to which Regulation (EU) No. 480/2014 may also apply.

[2] In view of the annual review Meeting between the European Commission and the Managing Authorities, held in Matera on 27 and 28 September 2018, the Agency requested the Authorities to provide an informal and summary update (according to a standard format) on the progress of the financial instruments, compared to the data entered in the SFC system relating to the end of 2017, in order to supplement the available information framework. A total of 18 Managing Authorities replied, out of the 23 invited to provide the data. This means that the progress we refer to here is partial, with regard to both the interim frequency and the number of financial instruments involved (see Second Report on financial instruments – Section 3.1).

At 31 December 2017, a total of 57 funding agreements had been entered into, compared to 64 Funds of funds and specific financial instruments, with resources totalling 1.73 billion (net of the Fund of funds of Lazio, to avoid duplications). Most financial instruments – 47, with 41 funding agreements actually entered into, for a total amount of 1 billion euros – were allocated to "public-sector bodies or bodies governed by private law", a rather broad category that includes, *inter alia*, banks, fund managers, credit consortia, other non-financial institutions, such as non-profit associations or organisations. Followed by financial institutions under public control, to which 12 specific instruments have been allocated under the same number of agreements, for a total value of 347 million. Instead, only one Fund of funds has been allocated to the EIB, namely, the one activated with the resources of the NOP on Research and Innovation (for 200 million euros) and, in another case, the Managing Authority of the NOP on Enterprises and Competitiveness has directly undertaken the implementation of the Rotating fund for sustainable growth (for 162 million).

Figure 3.11 – Funding agreements signed at 31 December 2017, by type of body – legal status



(*) b4 = financial institutions established to achieve the public interest under the control of national or regional public authorities.

(**) b5 = financial institutions such as banks, savings syndicates, fund managers or non-financial institutions implementing financial instruments (non-profit associations or organisations).

Source: our analysis of data by SFC2014.

Compared to approx. 1.73 billion euros committed to funding agreements, as either specific instruments or Funds of funds, there are ESI Funds totalling 1.04 billion. Regarding the type of Fund, most of these resources come from the ERDF (968 million euros), while a very small proportion comes from the ESF (70 million) and YEI (about 20). Regarding the type of Operational Programme, 891 million are relating to ROPs (including Campania, Calabria and Puglia for the less developed Regions) and 836 million to NOPs, as a result of which the committed resources are now almost equally split between regional and national Programmes, in line with the programmed resources. The contribution of the Structural funds paid to the financial instruments (357 million) amounts to 34 percent, compared to those committed to the funding agreements (1.04 billion).

Table 3.4 – Financial resources in the implementation at 31 December 2017, by ESI fund (million euros)

	Total	ERDF	ESF	*of which YEI **
Total amount of programme contributions committed in the funding agreement	*1,727.5*	--	--	--
of which ESI Funds contributions (A)	*1,037.7*	*967.7*	*70.0*	*20.0*
Total amount of programme contributions paid to the financial instrument	641.2	--	--	--
of which ESI Funds contributions (B)	*357.4*	*340.3*	*17*	*14.7*
Percentage amount paid to the financial instrument out of the commitments in the funding agreements (=B/A)	34.4	35.2	24	*N/D*
Total amount of programme contributions committed in the contracts with final recipients for the disbursement of loans, guarantees, equity and quasi-equity products or other financial products	332.9	--	--	--
of which ESI Funds contributions (C)	*203.6*	*196.2*	*7.4*	*6.7*
Percentage amount committed in the contracts with final recipients out of the commitments in the funding agreements (=C/A)	19.6	20.3	10.6	*N/D*
Total amount of contributions paid to final recipients through loans, micro-lending, capital or other products, or, in the case of guarantees, committed for loans granted to final recipients	128.9	--	--	--
of which ESI Funds contributions (D)	*66.7*	*63.6*	*3.1*	*2.8*
Percentage amount paid to final recipients out of the commitments in the funding agreements (=D/A)	6.4	6.6	4.5	*N/D*

(*) The incidence of the proportion paid from the YEI cannot be determined because it has not been directly monitored, except for the amount paid to the financial instrument; the other figures are a reconstruction by us.

Source: our analysis of SFC2014 data.

Decisions by policymakers regarding the allocation of resources to the thematic objectives, in the ERDF, chiefly target the TO3 on Competitiveness (562 million euros, equal to 54 percent), followed by the TO1 on Research and Innovation (346 million, 33 percent) and the TO4 on Sustainable economy (60 million, 5.8 percent). In the ESFs, the resources are mainly used for the TO8 on Employment (67 million, equal to 6.5 percent), partly financed also by the YEI.

Regarding the regional and national Operational Programmes, the following table shows how spending has progressed, comparing the three monitored steps (paid to the financial instrument, contracted with final recipients, paid to final recipients) with the spending targets corresponding to the amounts committed in the funding agreements. The information is shown in decreasing order, in relation to the spending progress towards final recipients, to highlight the programmes that, to date, have achieved the highest value of reported cost at closure (producing effects on the real economy).

Table 3.11 – Programme contributions and financial progress at 31 December 2017, by OP

Operational Programme	Resources (million euros)				Indicators of financial progress (%)		
	Commitments in the funding agreement (C14)	Paid to the financial instrument (C15)	Committed in the contracts with final recipients (C24)	Paid to final recipients (C25)	Paid out of the commitments in the funding agreement (=C15/C14)	Commitments in the contracts out of commitments in the funding agreement (=C24/C14)	Paid to final recipients out of commitments in the funding agreement (=C25/C14)
ROP Piedmont	100,0	65.0	63.4	52.9	65%	63%	53%
ROP Lombardy	204.6	157.0	55.4	39.6	77%	27%	19%
NOP Enterprises and competitiveness	483.6	105.7	165.1	15.1	22%	34%	3%
NOP YEI	53.3	19.6	17.8	7.4	37%	33%	14%
ROP Tuscany	58.4	35.6	11.7	6.8	61%	20%	12%
ROP Puglia	157.0	98.3	8.1	3.8	63%	5%	2%
NOP SPAO	50,0	2.9	1.4	0,6	6%	3%	1%
ROP Liguria	1.0	1.0	0,5	0,5	100%	49%	49%
ROP Lazio	162.0	49.3	1.9	1.9	30%	1%	1%
NOP Culture	49.2	12.3	7.5	0,2	25%	15%	0%
ROP Sardinia	62.3	11.9	0,2	0,2	19%	0,3%	0%
ROP Abruzzo	14.3	0,0	0,0	0,0	0%	0%	0%
ROP Calabria	28.3	11.7	0,0	0,0	41%	0%	0%
ROP Campania	15.0	0,0	0,0	0,0	0%	0%	0%
ROP Emilia-Romagna	52.2	11.8	0,0	0,0	23%	0%	0%
ROP Friuli-Venezia G.	20,0	0,0	0,0	0,0	0%	0%	0%
ROP Marche	16.4	9.3	0,0	0,0	56%	0%	0%
NOP Research and innovation	200,0	50,0	0,0	0,0	25%	0%	0%
ROP Umbria	0,0	0,0	0,0	0,0	0%	0%	0%
Total ROPs More developed Regions	614.5	328.8	132.8	101.6	54%	22%	17%
Total ROPs Transition Regions	76.6	11.9	0,2	0,2	16%	0,2%	0%
Total ROPs Less developed Regions	200,3	109.9	8.1	3.8	55%	4%	2%
Total NOPs	836.1	190,5	191.8	23.3	23%	23%	3%
Total ROPs	891.4	450,7	141.1	105.6	51%	16%	12%
Total OPs	**1.727.5**	**641.2**	**332.9**	**128.9**	**37%**	**19%**	**7%**

Source: our analysis of data by SFC2014.

The final recipients primarily consist of SMEs, totalling 9,407, of which 1,249 are micro-enterprises, with only 76 large enterprises. Instead, single individuals total 379, especially with regard to financial instruments out of the ESF. Regarding the technical form, loans have supported a vast recipient base, while guarantees primarily target SMEs.

The information entered by the Managing Authority into the SFC system allows a number of key aspects to be controlled, for each financial instrument, as a result of which the monitoring process becomes important for management purposes, as well as for accountability. While the focus in the first Report was on the characteristics of the policy tools and the progress made, with respect to procedures and financial matters, this edition also contains information and indicators that allow a better understanding of the characteristics of the funded operations, along with the quality of the allocation decisions and, therefore, of the underlying risks. Chapter 3 of the Report features various tables containing information in absolute values and as significant indicators regarding strategy and management control (assigned to the intermediaries), broken down by both Operational Programme and single financial instrument.

Please notice that Annex II enables you to read the tables in Chapter 3 of the Italian full version of this Report.

A set of efficiency, efficacy and cost-effectiveness indicators has been prepared, which encompasses various aspects including risk management. These are important aspects, to which the Agency for Territorial Cohesion wishes to draw the attention of the Managing Authorities, and of the financial intermediaries engaged by the former to implement the policy instruments, also by inviting them to make improvements to the reporting process provided in Regulation (EU) No. 821/2014. However, a certain caution is in order regarding their use.

- They do not allow a direct comparison (and therefore the classification) of the financial instruments; they do not optimally – i.e. directly and unequivocally – address the significant developments to which they refer.
- Most of the instruments feature a lengthy preparation process. In the ramp-up stage spending can (considerably) accelerate year after year. This impacts the indicators with final recipient spending as the denominator (such as the annual deterioration rate). In these cases, the MA should request their managers to provide cohort-based (i.e. «segmented») reports by year of eligibility of the operations.

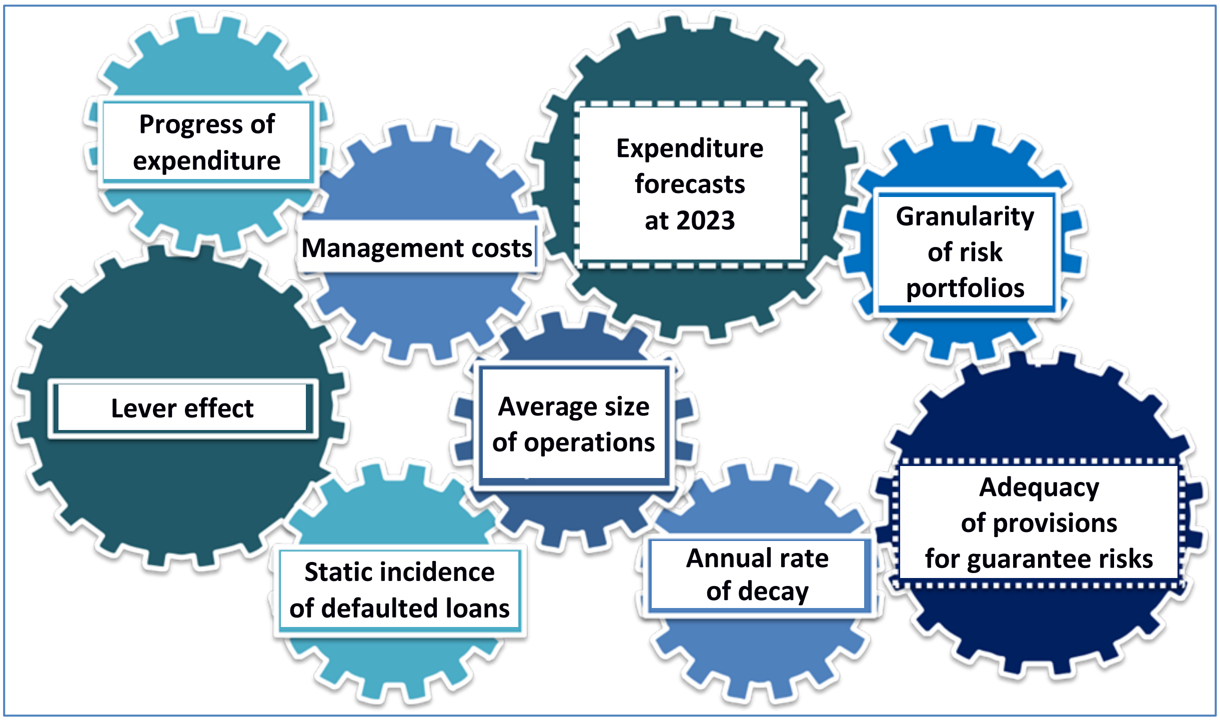
These "indicators", if supplemented with other relevant information, can expand the knowledge base for decision making.

The key indicators, illustrated in detail in chapter 3 of the Report and also featured in the statistical appendix, concern:

- the actual and forecasted progress of certified spending, measured by monitoring the actual progress of the eligible expenditure components – as defined in article 42 of Regulation (EU) No. 1303/2013, and, therefore, as certified by the European Commission at the closure of the programming period – compared to the other commitments undertaken in the funding agreements constituting the expenditure target;
- the effective transformation of the contract commitments into payments to the final recipients;
- the lever effect achieved, by comparison with the forecasted effect;
- the financial risk by the public-sector party associated with the possible insolvency of the borrowers selected by the managers/intermediaries.

Following is a description of several useful indicators related to the speed and quality of the allocation process, in terms of both eligible expenditure and risk management.

Figure 3.A – Some indicators supporting decision-making in the implementation of financial instruments



We simply cannot overlook the "quantitative" issue concerning the use of all the available resources. Considering that each financial instrument necessarily requires a timetable, and that, in the majority of cases, the timetable is prepared by the Managing Authority (and, perhaps, assessed by the economic and financial associations sitting in the Oversight Committees responsible for supervising the implementation of the Operational Programmes), **we can propose two – complementary – methods for verifying the reliability of the expenditure targets outlined below (Indicators 6 and 7)**.

This, however, comes with a ***caveat:*** a certain information asymmetry exists between the Managing Authority and the Agency for Territorial Cohesion. Our verification methods are inevitably simple, in that they are based exclusively on the information made available by the SFC system, and concern expenditure developments at the level of the final recipients, the main expenditure item for which reimbursement may be claimed from the European Union. They are grounded on two absolutely theoretical assumptions, two opposite extremes for comparing both the timetables by the Managing Authorities (*ex ante*), and the effective management performance (*in itinere* and *ex post*).

Where the value calculated by applying the first method is higher than the value calculated with the second method, the achievement of the forecasted expenditure target will be well grounded.

Financial instruments, the value of which is much higher today than in the past, always entail a *repayment obligation* (indirectly only in the case of guarantees, in that the repayment concerns the loan secured by the guarantee). Assuming equal policy targets, the higher the returns, the more numerous the likely "rounds" of use of the resources will be and, therefore, the greater the impact on the economy.

Indicator 6 – Forecast of spending targets at the level of final recipients (method #1)

$$\boldsymbol{I6} = \textbf{Annual expenditure forecast} = \textbf{Resources paid to final recipients in the year } \boldsymbol{t} - \textbf{Resources paid to final recipients in the year } \boldsymbol{t-1} \text{ (}\textbf{field 25}\text{)}$$

Description of fields based on Regulation (EU) No. 821/2014
25 = Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantees, committed for loans paid to final recipients, by product (in EUR)

Notes
The basic assumption is that the flow of expenditure at the level of the final recipients, as recorded in the end of the last year is considered constant for the following years, until 2023, i.e. the change in the amount of the financial instrument in field 25 between year t and year t–1 is repeated in the following year t+1 and the subsequent years as well. The values specified for each year are stock values that cumulate the flows of the previous years. This method significantly underestimates the expenditure forecast for the recently initiated instruments, but is significantly more reliable for the more “mature” instruments (generally speaking, from the second or third year in which the expenditure at the level of the final recipients is recorded), when the minimum threshold achievable in the following years may be reliably estimated.

Indicator 7 – Forecast of spending targets at the level of final recipients (method #2)

$$\boldsymbol{I7} = \textbf{Annual expenditure forecast} = \frac{\textbf{Resources committed in FAs } \boldsymbol{t} \text{ (}\textbf{field 14}\text{)} - \textbf{Resources paid to final recipients } \boldsymbol{t} \text{ (}\textbf{field 25}\text{)}}{\textbf{Years between } \boldsymbol{t} \textbf{ and the end of programming period}}$$

Description of fields based on Regulation (EU) No. 821/2014
14 = Total amount of programme contributions committed in the funding agreement (in EUR)
25 = Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantees, committed for loans paid to final recipients, by product (in EUR)

Notes
The basic assumption is that the flow of expenditure at the level of the final recipient in the years after the final year is calculated as a constant, equal to the residual spending yet to be made (i.e. the expenditure target specified in the funding agreement (FAs) minus the expenditure already made at the level of the final recipients) divided by the number of years up to the final report within which the expenditure must be made. The values specified for each year are stock values that cumulate the flows of the previous years. This method too is affected by the “degree of maturity” of the financial instruments: the more highly consolidated their role within the reference market, the more reliable is the model, for the purpose of indicating the minimum threshold of expenditure to be achieved year after year.

In this case, allocations are not decided by the Public Administration, which may define the eligibility requirements of the final recipients, but which effectively lacks the tools for assessing the borrowers' *creditworthiness*, a task left to the financial intermediaries. The latter, irrespective of the (explicit or implicit) mandate conferred by the policy instrument, may carry out any one of following three possible transactions featuring the financial instruments.

- Excessively risky transactions, basically those which the intermediary would never have chosen if required to bear the risk on its own. There is a great deal of scientific literature on the subject of **adverse selection and moral hazard,** which could even be encouraged by the presence of public-sector funding.
- Transactions involving too little risk. It might seem counter-intuitive, but public funding and/or financial instruments may be affected by **deadweight situations,** in which the beneficiaries (or intermediaries) choose not to change their investment (or funding) decisions as a result of any public funding schemes.
- In line with the public objectives, which are generally aimed at extending the number of subjects eligible for financing (among those concerned by the rationing, but who are also deemed creditworthy) and improving the economic conditions of the funding.

The Public Administration should crucially endow itself with *ex ante* or *in itinere* allocation quality control mechanisms, in order to oversee the effective pursuit of the policy objectives, for which purpose we propose a minimum set of indicators, based on our usual SFC database, for the *ex post* and *in itinere* interpretation of the riskiness of the selected enterprises, in relation to the financial instruments. This information can also be used to develop loss forecasts for public funding.

Indicators 10, 11 and 12 are an expression of the same situation although from different viewpoints: the degree risk concentration, which in financial jargon is also known as *granularity* (see table 3.22 in the Report). The results of indicators 10 and 11 are highly consistent when the final recipient base reaches a certain size.

Indicator 10 – Risk concentration rate, by number of transactions

$$I10 = \frac{\textbf{Number of contracts signed with final recipients (field 27)}}{\textbf{Number of final recipients supported by the financial instrument (field 29)}}$$

Description of fields based on Regulation (EU) No. 821/2014
27 = Number of loan/guarantee/equity or quasi-equity/other financial product contracts signed with final recipients, by product
29 = Number of final recipients supported by the financial product

Notes
This indicator measures the level of risk concentration as the ratio of the number of funding contracts signed to the number of final recipients signing the funding contracts. Some final recipients, for example, may have signed more than one contract with respect to the same financial instrument, as a result of which the possible default of such borrowers could have more significant effects on the policy instrument, compared to the case in which the risk portfolio is more *granular* and, therefore, diversified.

Indicator 11 – Risk concentration rate, by final recipients

$$I11 = \frac{\mathbf{1}}{\textbf{No. of final recipients supported by the financial instrument (field 29)}} * \mathbf{100}$$

Description of fields based on Regulation (EU) No. 821/2014
29 = Number of final recipients supported by the financial product

Notes
This indicator measures the level of risk concentration as the percentage inverse of the number of final recipients supported by the financial product. The maximum theoretical risk (100 percent) is associated with the payment of a single product to a single recipient. The smaller the value of the indicator, the more *granular* the portfolio and, therefore, if all the other factors remain unchanged, the lower the underlying risk.

Indicator 12 – Potential risk concentration rate, by amount

$$I12 = \frac{\textbf{Average exposure by final recipient respect of payments (Indicator 2)}}{\textbf{Resources committed in Funding Agreements (field 14)}} * \mathbf{100}$$

Description of fields based on Regulation (EU) No. 821/2014
14 = Total amount of programme contributions committed in the funding agreement (in EUR)

Notes
Since the “ramp-up” process (for building up the portfolios) may require a number of years, this indicator of *potential granularity* – applicable from the first transactions deemed eligible for the benefits – expresses the level or risk concentration that may be achieved if all the resources allocated to the financial instrument were to be used. A more accurate estimate would require the subtraction, from the denominator, of the management costs, which would be charged to the financial instrument, but for simplicity’s sake we have decided not to carry out this fine-tuning operation, which would require an in-depth analysis of the Funding Agreements (FAs).

Monitoring non-performing loans, compared to those paid to the final recipients (see Indicators 13 and 14 of the Report) is very useful for the purpose of *ex post* evaluations, possibly not at the closure of the programming period but later on, when even the last repayment obligation has been fulfilled, given that the major drawback of these indicators consists in a combination of two situations:

- the time lag between the disbursement of the funding and the defaulting of the loan;
- the number and amount of the funding (generally) increases with fast accelerations during the initial period (the so-called “ramp-up” stage).

To develop a smarter system for the Agency for Territorial Cohesion, since only the data entered into the SFC system are available, the most that can be done is to devise two deterioration rates. The first (Indicator 15) is based on the amounts, while the second (Indicator 16) on the number of transactions. In the case of financial instruments in the early ramp-up stage, they can reduce – but not exceed – the two critical factors highlighted above, due to the slight difference in the ratio of non-performing loans to funding.

Indicator 15 – Annual decay rate, by amount

$$I15 = \frac{\textbf{Loans defaulted in the year } \boldsymbol{t} \textbf{ (field 34 or 34.1)}}{\textbf{Stock of performing loans} * \textbf{at 31 December year } \boldsymbol{t - 1}} * \mathbf{100}$$

* The ***stock* of performing loans** is equal to the difference between field 25 (or 26 in the case of guarantees) and field 34 (or 34.1 for guarantees) in the same year t–1.

Description of fields based on Regulation (EU) No. 821/2014
34 = Total amount of disbursed loans defaulted (in EUR)
34.1 = Total amount committed for the guarantees provided and called due to the loan default (in EUR)
25 = Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantees, committed for loans paid to final recipients, by product (in EUR)
26 *(for guarantees)* = Total value of the loans actually paid to the final recipients, in relation to the guarantee contracts signed

Notes
The indicator measures the incidence of the defaulted transactions (in value) in a certain year t on the stock of performing loans at 31 December of the previous year t–1. On an empirical basis, the transactions found eligible for funding in a certain year t–1 will hardly default in the course of the same year. Generally speaking, the defaulting process begins in the following year t, increases in the immediately subsequent years t+1. t+2... and then decreases towards the expiry date t+n of the last instalment for depreciation. This is important because, as highlighted previously, most of the financial instruments has a ramp-up stage which, in the first year of the operations, entails that the denominator value of the ratio increases at a much higher speed than the numerator. Therefore, the annual deterioration rate that we can determine <u>is sub-optimal for formulating forecasts</u> of the overall losses incurred by the financial instrument at closure. The Report contains a suggestion, for the Managing Authority, to overcome this limit.
This is one of the diagnostic instruments that, by valorising the information available in the SFC database, can help us appreciate the dynamics of the losses affecting the loan portfolios generated by the financial instruments. It is not suited to a direct comparison between the performance of the different financial instruments, except where the analysis concerns subsets featuring a high degree of regarding the intervention targets and the technical form.

Indicator 16 – Annual decay rate, by number

$$I16 = \frac{\textbf{Number of loans defaulted in the year } \boldsymbol{t} \textbf{ (field 33 } \boldsymbol{or} \textbf{ 33.1)}}{\textbf{Stock of performing loans} * \textbf{at 31 December year } \boldsymbol{t} - \textbf{1}} * \textbf{100}$$

* The **stock of performing transactions** is equal to the difference between field 27 and field 33 (or 33.1 for guarantees) in the same year *t*–1.

Description of fields based on Regulation (EU) No. 821/2014
33 = Total number of disbursed loans defaulted or total number of guarantees provided and called due to the loan default
33.1 = Total number of guarantees provided and called due to the loan default
27 = Number of contracts signed with final recipients

Notes
This indicator measures the incidence of defaulted transactions (by number) in a certain year *t* on the stock of performing loans at 31 December of the previous year *t*–1. On an empirical basis, it is found that the transactions found eligible for funding in a certain year *t*–1 will hardly default in the course of the same year. All the considerations expressed for the indicator 15 apply.

A lot more can be done by the Managing Authorities, which, as the holders of the financial resources and parties to the funding agreements with the managers, are vested with powers and responsibilities under EU and national law. Policymakers looking to *steer the process* may request the financial intermediaries authorised to implement the financial instruments, who are obliged to comply, to provide reports which, along with the record attached to Regulation (EU) No. 821/2014, may (also) allow the **measurement of the annual rate of deterioration by cohorts,** according to the single years of eligibility for or disbursement of the funding, and perhaps also depending on the other variables relating to the sector, geographical location and size of the borrowers. Furthermore, if a number of financial intermediaries are involved in making the allocation decisions, also measuring the annual deterioration rate of each of these.

In this overview, we may only provide the results recorded by the single financial instruments, with respect to the various indicators, due to insufficient space (but also because, in many cases, we are in a start-up stage and the values are not yet large enough). The results are, of course, shown in the full version of this Report.

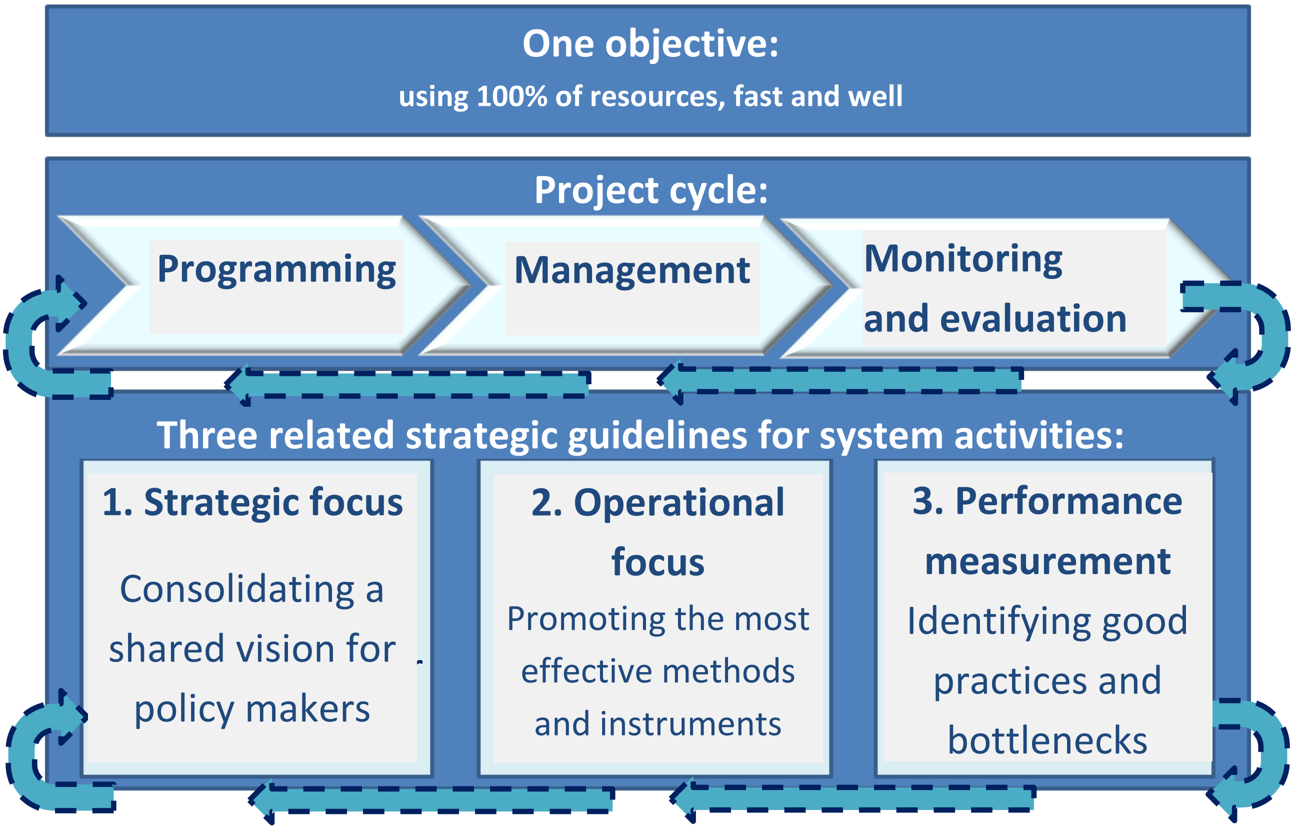
In the following Annex I is available a complete (synthetic) description of the indicators used in the Chapter 3 of the Report.

4. System activities for financial instruments

The objective of the Agency's system activities is quite obvious: making sure that each Administration involved in the financial instruments may use all the available resources as effectively and promptly as possible. This strategy features three key guidelines.

1. Consolidating the strategic convergence of the different Administrations – 19, to date – whose programmes envisage the implementation of financial instruments co-financed by ERDF and ESF resources, to foster synergies between the actions and prevent any confusion among the measures.
2. Promoting the functional convergence on efficient, efficacious and cost-effective methods and instruments. Also with a view to accelerating the relevant processes and containing the implementation, management and monitoring costs, which intermediaries tend to pass on to the final recipients. This strategic guideline, *inter alia*, features networking among the institutional entities, also by building informal relations.
3. Measuring performance to support the decision-making process. Monitoring and assessment are crucial for the prompt and reliable diagnosis of any problems, as well as for identifying good practices, i.e. the most efficient and effective solutions that can be repeated, with or without a few tweaks. In this case, accountability is not just a duty towards taxpayers, but a pre-requisite for the gradual improvement of all public-sector actions.

Figure 4.1 – Objective and strategies for system activities relating to financial instruments

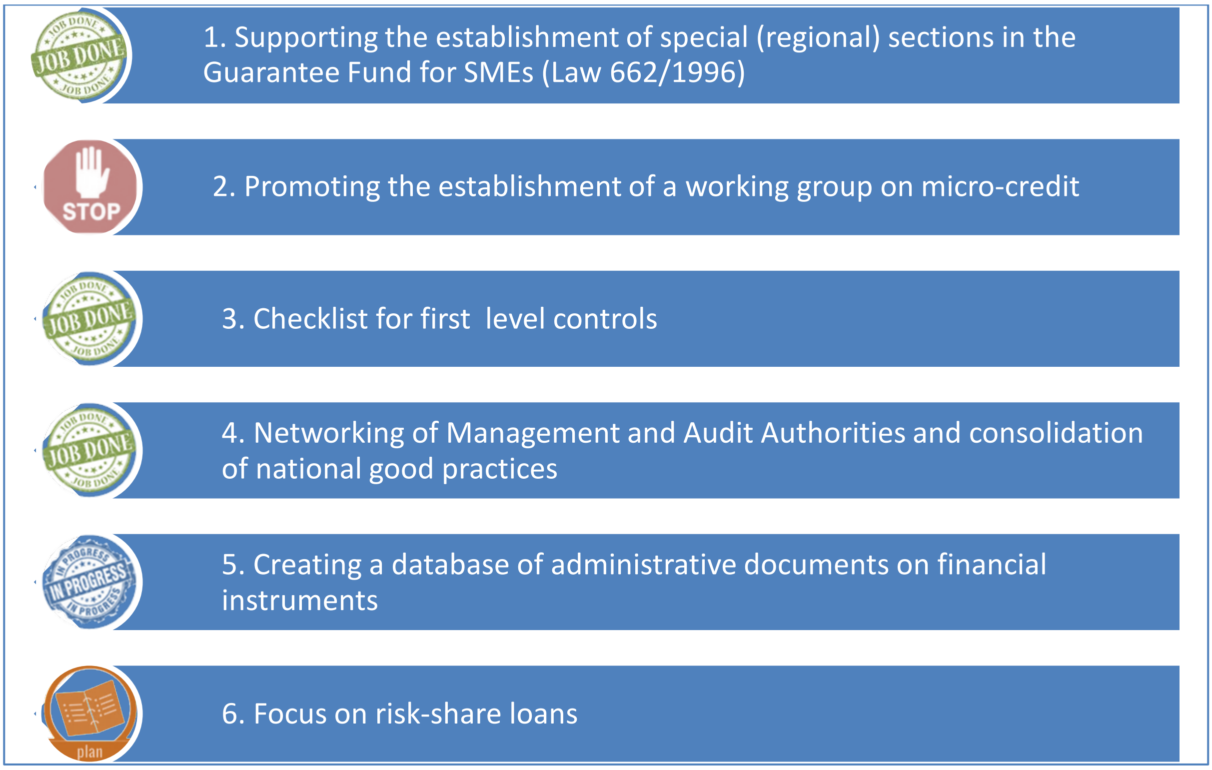


Organisational and instrumental activities have been carried out to implement these three, closely related, strategic guidelines, from the recruitment of several thematic experts to a survey of the programmed measures, building mailing lists aimed at involving the most appropriate partners (on a case by case basis), in relation to the projects, and establishing a standing working group on financial instruments. The membership of the latter may include the Managing Authorities, along with the Agency for Territorial Cohesion, and can be extended, depending on the issues addressed, to many other segments of the Administration (such as, for example, in-house financing companies), or restricted to entities with specific functions.

So far, this has occurred with the "monitoring network", within which data consistency audits have been performed – for each financial instrument – before their inclusion in the SFC digital platform. The Managing Authorities have responded to the invitation almost unanimously (20 Administrations, out of 22 holders of financial instruments), and the information received, in orderly Excel spreadsheets, according to Regulation (EU) No. 821/2014, and annotated templates, have been organised in a single database, subject to a data consistency audit, and returned to the "monitoring network" before a meeting on interpretational doubts that had produced some obvious discrepancies.

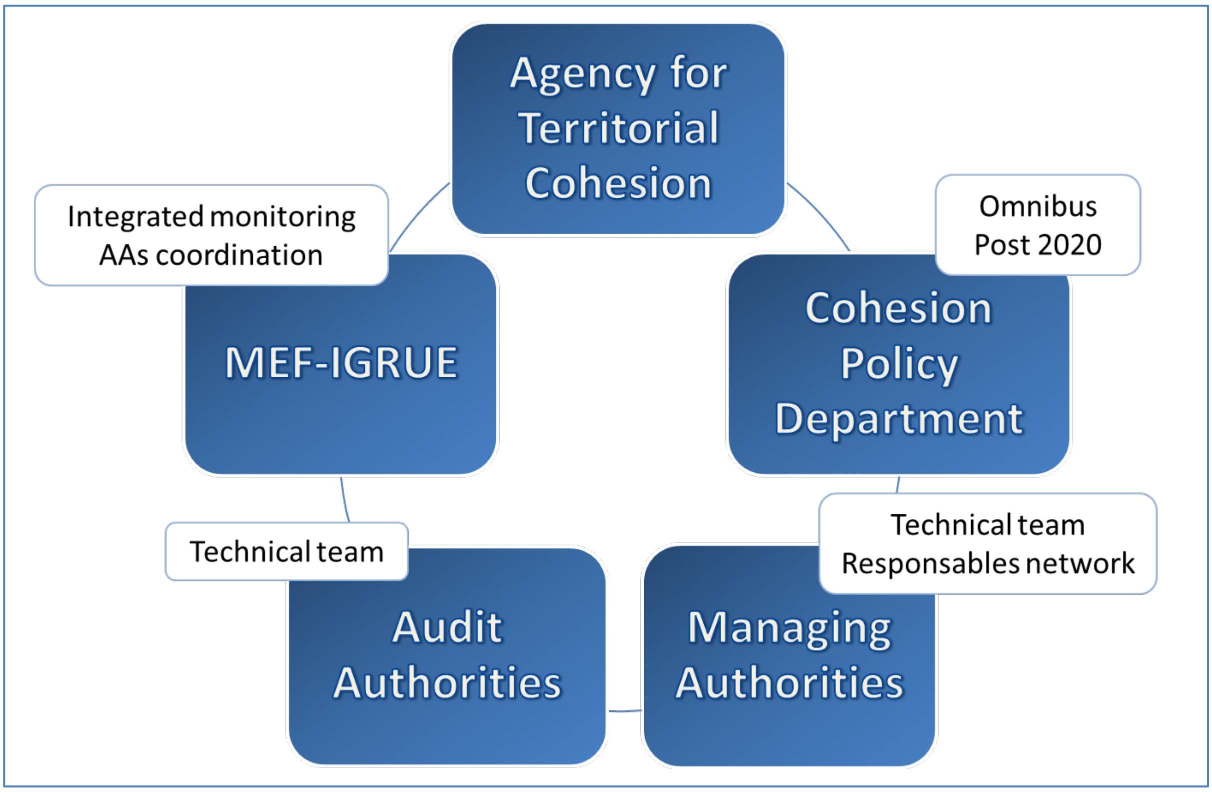
The effectiveness of financial instruments unquestionably depends on whether or not they are structured according to the market gap to be addressed. However, it also depends on the correct balancing of the interests of the stakeholders of the instrument implementation process (Administration, intermediaries and final recipients), which, therefore, cannot disregard their efficiency and cost-effectiveness, which is why the consolidation of the national practices has become the cornerstone of the functional convergence, also encompasses other points. So far, the Agency for Territorial Cohesion has carried out six actions, in respect of this strategic guideline, in the 2014-2020 programming period.

Figure 4.2 – Functional convergence actions



The Agency uses multiple instruments, along with the said working group, to feed the network set up by the Managing Authorities and other players involved in managing the financial instruments, including the Inspectorate general for financial relations with the European Union (IGRUE) of the *Ragioneria Generale dello Stato* (General Accounting Office of the Ministry of Economy and Finance), which also coordinates the Audit Authorities and the Department for Cohesion Policies of the Prime Minister's Office, forming the institutional network on the issue of financial instruments.

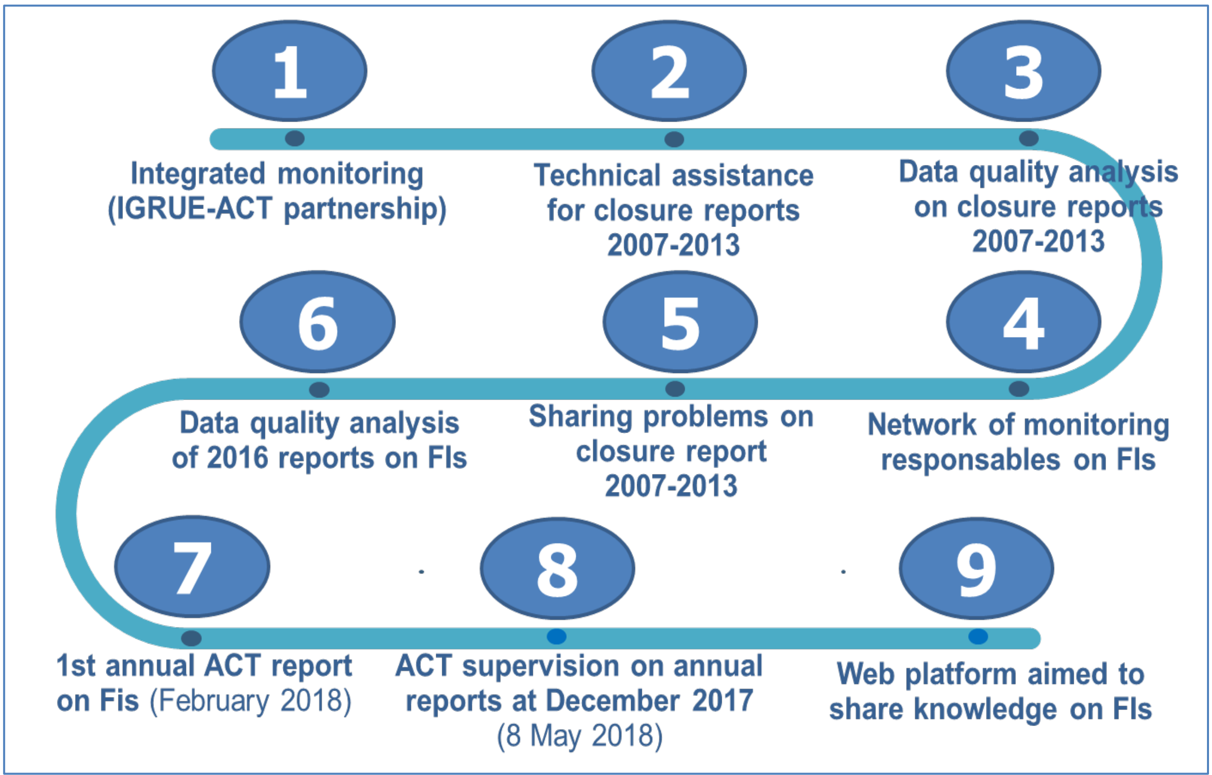
Figure 4.3 – The institutional network of financial instruments in Italy



IGRUE and the Agency for Territorial Cohesion, in order to find a solution to the interpretational problems capable of impairing the effectiveness of the Administration's actions, have developed a method for consolidating the national good practices relating to financial instruments, which tackles only the doubts "at system level" (i.e. issues concerning a large part of the MAs or important financial values). The activities will deliver position papers for Italy forwarded to the European Commission, which will then either confirm or question their contents, in the latter case proposing alternative solutions. The cooperative intention is to find a solution for the (interpretational and management) issues, jointly with the Commission, in a more orderly manner and more promptly than in the past.

Soon after being established, the Agency for Territorial Cohesion set up a dedicated office for financial instruments, which, from September 2016, has assigned absolute priority status to monitoring. The following diagram summarises the process to improve data monitoring.

Figure 4.6 – System activities for strengthening monitoring



The quality of the decisions depends on the quality of the information. In this, as in other circumstances, the Agency for Territorial Cohesion has *acted as playmaker* to stimulate intellectual contributions by colleagues from across the Administrations. Besides improving data quality this has also served to further knowledge about and strengthen the system of relations.

This in-depth "*fine tuning*" activity, prior to the introduction of the 2017 data into the SFC system, has significantly improved the quality of the information, compared to the previous year. These positive results – expressed with pride in our Public Administration and gratitude for all those who have helped achieve them – are certified by the latest, very recent, edition of the Summaries of the data, based specifically on the SFC data at 31 December 2017. The paragraph on "Quantity and quality of the data provided" (page 23-24) features the list of the most significant errors, omissions and inconsistencies explicitly reported, each time, to the Countries entering information in a sub-standard manner. Likewise, the notes to each table of the Summaries record further inconsistencies by the single Countries. Italy, despite ranking second for number of financial instruments, is not even reported once.

5. Lesson learnt and the Italian non paper on the next programming period

The experience – on the field and on monitoring – described in the previous pages, has been the base for the Italian position on the proposal of the European Commission for a simplification of the rules on financial instruments in the next programming period (2021-2027). This document (see Annex III) has been defined in February 2019, therefore is not mentioned in the report.

6. Complete version of this Report and contacts

The full version of the document, in Italian, with the statistical annex featuring all the indicators used, can be found at the following link: www.agenziacoesione.gov.it/lacoesione/le-politiche-di-coesione-in-italia-2014-2020/strumenti-e-programmi/strumenti-finanziari.

Report (pdf)

http://old2018.agenziacoesione.gov.it/opencms/export/sites/dps/it/documentazione/Strumenti_Finanziari/SF_II_Rapporto/Secondo_Rapporto_ACT_Strumenti_Finanziari_2018.pdf

Statistical annex (xls)

http://old2018.agenziacoesione.gov.it/opencms/export/sites/dps/it/documentazione/Strumenti_Finanziari/SF_II_Rapporto/Secondo_Rapporto_ACT_Strumenti_Finanziari_2018_-_Allegato_statistico.xls

Any questions? Please contact: area.progetti.uf5@agenziacoesione.gov.it.


Agenzia per la Coesione Territoriale

Rapporto sugli strumenti finanziari

cofinanziati dai Fondi strutturali e di investimento europei

N. 2 – Dicembre 2018

Agenzia per la Coesione Territoriale
Area Progetti e Strumenti – Ufficio 5
Ufficio Statistico, Strumenti Innovativi, Ingegneria Finanziaria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APPENDICE STATISTICA

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Annex I

List of indicators in Chapter 3 of the Italian full version of the *Annual Report on the Financial Instruments co-financed by the European Union.*

Indicator 1	**Average exposure of the financial instrument by final recipient (on the contractual commitment)**
Formula	$I1 = \frac{\text{field 24}}{\text{field 29}}$
Field definitions according to Regulation (EU) 821/2014	**24** - Total amount of programme contributions committed in loans, guarantee, equity, quasi-equity or other financial product contracts with final recipients (in EUR) **29** - Number of final recipients supported by the financial product
Indicator 2	**Average exposure of the financial instrument by final recipient (on the amount paid)**
Formula	$I2 = \frac{\text{field 25 } or \text{ field 26}}{\text{field 29}}$
Field definitions according to Regulation (EU) 821/2014	**25** - Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR) **26** - Total value of loans actually paid to final recipients in relation to the guarantee contracts signed (EUR) **29** - Number of final recipients supported by the financial product
Indicator 3	**Difference between achieved and expected leverage effect**
Formula	$I3$ = field 39.2 – field 39.1
Field definitions according to Regulation (EU) 821/2014	**39.2** - Achieved leverage effect at the end of reporting year for loan/guarantee/equity or quasi-equity investment, by product **39.1** - Expected leverage effect for loan/guarantee/equity or quasi-equity investment, by reference to the funding agreement, by product

Indicator 4	**Progress rate of eligible expenditure (on the amount paid)**
Formula	$I4 = \frac{\text{field 25} + \text{field 17} + \text{field 19}}{\text{field 14}}$
Field definitions according to Regulation (EU) 821/2014	**25** - Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR) **17** - Total amount of management costs and fees paid out of programme contributions (in EUR) **19** - Capitalised interest rate subsidies or guarantee fee subsidies pursuant to Article 42(1)(c) of Regulation (EU) No 1303/2013 (relevant to final report only) (in EUR) **14** - Total amount of programme contributions committed in the funding agreement (in EUR)

Indicator 5	**Progress rate of contributions paid to final recipients compared with contributions committed in contracts**
Formula	$I5 = \frac{\text{field 25}}{\text{field 24}} * 100$
Field definitions according to Regulation (EU) 821/2014	**25 -** Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR) **24 -** Total amount of programme contributions committed in loans, guarantee, equity, quasi-equity or other financial product contracts with final recipients (in EUR)

Indicator 6	**Forecast of spending targets at the level of final recipients (method #1)**
Formula	$I6$ = Annual expenditure forecast = field 25 $_{t}$ – field 25 $_{t-1}$
Field definitions according to Regulation (EU) 821/2014	**25 -** Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR)

Indicator 7	**Forecast of spending targets at the level of final recipients (method #2)**
Formula	$I7 = \text{Annual expenditure forecast} = \frac{\text{field } 14_{\ t} - \text{field } 25_{\ t}}{2023 - t}$
Field definitions according to Regulation (EU) 821/2014	**14 -** Total amount of programme contributions committed in the funding agreement (in EUR) **25 -** Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR)
Indicator 8	**Management cost rate on contributions paid to the financial instrument**
Formula	$I8 = \frac{\text{field } 17}{\text{field } 15} * 100$
Field definitions according to Regulation (EU) 821/2014	**17 -** Total amount of management costs and fees paid out of programme contributions (in EUR) **15 -** Total amount of programme contributions paid to the financial instrument (in EUR)
Indicator 9	**Management cost rate on contributions paid to final recipients**
Formula	$I9 = \frac{\text{field } 17}{\text{field } 25} * 100$
Field definitions according to Regulation (EU) 821/2014	**17 -** Total amount of management costs and fees paid out of programme contributions (in EUR) **25 -** Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR)

Indicator 10	**Risk concentration rate, by number of transactions**
Formula	$I10 = \dfrac{\text{field 27}}{\text{field 29}}$
Field definitions according to Regulation (EU) 821/2014	**27** - Number of loan/guarantee/equity or quasi-equity/other financial product contracts signed with final recipients, by product **29** - Number of loans paid into the account of the final recipients. Number of guarantees provided to final recipients where amounts have been blocked in the guarantee fund for loans disbursed. Number of equity or quasi-equity investments paid into the account of the final recipient. Number of other support combined within the financial instrument provided, where payments have been made for the benefit of the final recipient The numbers above should not include loan/guarantee/equity or quasi-equity/or other financial products provided from resources returned.

Indicator 11	**Risk concentration rate, by final recipients**
Formula	$I11 = \dfrac{1}{\text{field 29}} * 100$
Field definitions according to Regulation (EU) 821/2014	**29** - Number of loans paid into the account of the final recipients. Number of guarantees provided to final recipients where amounts have been blocked in the guarantee fund for loans disbursed. Number of equity or quasi-equity investments paid into the account of the final recipient. Number of other support combined within the financial instrument provided, where payments have been made for the benefit of the final recipient The numbers above should not include loan/guarantee/equity or quasi-equity/or other financial products provided from resources returned.

Indicator 12	**Potential risk concentration rate, by amount**
Formula	$I12 = \frac{\text{field 25 } or \text{ field 26}/\text{field 29}}{\text{field 14}} * 100$
Field definitions according to Regulation (EU) 821/2014	**25** - Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR) **26** - Total value of loans actually paid to final recipients in relation to the guarantee contracts signed (EUR) **29** - Number of <u>loans</u> paid into the account of the final recipients. Number of <u>guarantees</u> provided to final recipients where amounts have been blocked in the guarantee fund for loans disbursed. Number of <u>equity or quasi-equity</u> investments paid into the account of the final recipient. Number of <u>other support combined within the financial instrument</u> provided, where payments have been made for the benefit of the final recipient The numbers above should not include loan/guarantee/equity or quasi-equity/or other financial products provided from resources returned. **14 -** Total amount of programme contributions committed in the funding agreement (in EUR)

Indicator 13	**Static impact of non-performing loans on loans disbursed, by amount**
Formula	$I13 = \frac{\text{field 34}}{\text{field 25 } or \text{ field 26}} * 100$
Field definitions according to Regulation (EU) 821/2014	**34** - Total amount of disbursed loans defaulted (in EUR) or total amount committed for guarantees provided and called due to loan default (in EUR) **25** - Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR) **26** - Total value of loans actually paid to final recipients in relation to the guarantee contracts signed (EUR)

Indicator 14	**Static impact of non-performing loans on loans disbursed, by operation number**
Formula	$I14 = \dfrac{\text{field 33 } or \text{ field 33.1}}{\text{field 27}} * 100$
Field definitions according to Regulation (EU) 821/2014	**33** - Total number of disbursed loans defaulted or total number of guarantees provided and called due to the loan default **33.1** - Total number of guarantees provided and called due to the loan default **27** - Number of loan/guarantee/equity or quasi-equity/other financial product contracts signed with final recipients, by product

Indicator 15	**Annual decay rate, by amount**
Formula	$I15 = \dfrac{\text{field 34 } or \text{ 34.1}_{\ t}}{\text{field 25 } or \text{ 26}_{\ t-1} - \text{field 34 } or \text{ 34.1}_{\ t-1}} * 100$
Field definitions according to Regulation (EU) 821/2014	**34** - Total amount of disbursed loans defaulted (in EUR) or total amount committed for guarantees provided and called due to loan default (in EUR) **34.1** - Total amount committed for guarantees provided and called due to loan default **25** - Total amount of programme contributions paid to final recipients through loans, micro-loans, equity or other products, or, in the case of guarantee, committed for loans paid to final recipients, by product (in EUR) **26** - Total value of loans actually paid to final recipients in relation to the guarantee contracts signed (EUR)

Indicator 16	**Annual decay rate, by operation number**
Formula	$I16 = \dfrac{\text{field 33 } or \text{ 33.1}_{\ t}}{\text{field 27}_{\ t-1} - \text{field 33 } or \text{ 33.1}_{\ t-1}} * 100$
Field definitions according to Regulation (EU) 821/2014	**33** - Total number of disbursed loans defaulted or total number of guarantees provided and called due to the loan default **33.1** - Total number of guarantees provided and called due to the loan default **27** - Number of loan/guarantee/equity or quasi-equity/other financial product contracts signed with final recipients, by product

Indicator 17	**Proxy of adequacy of the provisions covering guarantee risk, by amount**
Formula	$I17 = \frac{\text{field } 34.1_{\ t}}{\text{field } 25.0.2_{\ t-1}} * 100$
Field definitions according to Regulation (EU) 821/2014	**34.1** - Total amount committed for guarantees provided and called due to loan default **25.0.2** - guarantee (OP amounts committed in guarantee for loans paid to final recipients)

Annex II

How to read the tables in Chapter 3 of the Italian full version of the *Annual Report on the Financial Instruments co-financed by the European Union.*

Name of the Operational Programme	Name of the financial instrument	Type of the financial instrument	**Impegnato nell' Accordo di Finanzia-mento (C14)**	**Versato allo strumento finanziario (C15)**	**Impegnato in contratti con destinatari finali (C24)**	**Versato ai destinatari finali (C25)**	**Prestiti effettiva-mente versati a fronte di garanzie (C26)**
POR Emilia-Romagna FESR	Sezione speciale del Fondo centrale di garanzia	Garanzia	5,2	0,0	0,0	0,0	0,0
POR Emilia-Romagna FESR	Fondo regionale multiscopo - Comparto energia	Prestito	36,0	9,0	0,0	0,0	0,0

Garanzia = guarantee
Prestito = loan
Capitale di rischio = equity

For each of these numbers it is possible to refer to the definition of the corresponding field, set forth by Regulation 821/2014*or (more precisely) by the annotated template**

* *(Annex) Model for reporting on financial instruments Commission Implementing* Regulation (EU) No 821/2014 of 28 July 2014 laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards detailed arrangements for the transfer and management of programme contributions, the reporting on financial instruments, technical characteristics of information and communication measures for operations and the system to record and store data.

http://data.europa.eu/eli/reg_impl/2014/821/oj

** Annotated template for reporting on financial instruments according to Article 46 CPR.

www.fi-compass.eu/sites/default/files/publications/20170405-Template-for-reporting-in-FIs-in-2014-2020-programmes-after-EGESIF_final.xlsx

Annex III

Italian non paper on financial instruments (February 2019)

The proposal of the European Commission for a simplification of the rules on financial instruments is fully shared. Within this context, some elements of the current rules remain essential and should be confirmed in order to preserve the principle that financial instruments are tools contributing to achieve cohesion policy objectives.

1) Market failures are no longer at the core of ex ante evaluations (Article 52.3). Furthermore, great emphasis is given to the multiplier effect of public resources on private ones. This vision cannot be shared for the following reasons. In regions where the economy is weaker, a market failure occurs when economically and financially sound enterprises, perceived as risky, do not obtain credit. As a rule, a high level of the multiplier could be achieved by financing low-risk firms who do not need public support (deadweight effect). Financial instruments for cohesion policy should intervene in the area of market failure with a view to increase the access to credit for firms by mitigating information asymmetries and risks for intermediaries, also in compliance with European legislation that incorporates the so-called Basel Accords on the capital requirements for the intermediaries.

2) The above mentioned issue is also reflected in the rules on guarantee instruments. Based on the proposal of the European Commission (Articles 2.23, 56.1, 62, 86.1), provisions to cover the risk should be quantified -once and for all- by means of a multiplier provided for each individual guarantee contract with the final recipient. It is also proposed that multipliers cannot be changed with retroactive effect (Article 62.2). This proposal does not correspond to the market practice, nor to Regulation (EU) No 575/2013 on the prudential requirements for credit institutions and investment firms or to the other rules that transpose the Basel Accords into European law. Financial intermediaries granting a loan make a first allocation of their own funds into a prudential reserve related to the probability of default that has a temporary horizon (usually one year). Over time, the riskiness of companies change and the amount of these provisions must be correspondingly adjusted. The compulsory static management of provisions proposed by the European Commission implies that a prudent manager should make super-provisions to incorporate any possible risk that may occur for the entire duration of the amortization period of loans. This effect is clearly inefficient. The current rules of Regulation 1303/2013, focused at the level of portfolios (and at level of Financing Agreements rather the one of single contract) are more effective and should be confirmed.

3) In the proposal of the European Commission two very important concepts need to be improved (Recital 41 and Article 52):

- financial instruments should support investment linked to specific objects, without any further qualification;
- working capital should be explicitly mentioned, as it is in the current regulation, by considering its crucial role for enterprises.

4) The effort on simplification should be reinforced by a parallel effort on monitoring. As an example, the information included in the current rules on the number and the amount of defaults should be preserved (Article 37.3) and the content of Article 46 of Regulation 1303/2013 should also be confirmed.