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Financial Instruments in Regional Operational Programs in the Years 2014–2020

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Abstract. To ensure conditions for economic growth, prosperity and social integration in the European Union there are financial repayable instruments (JEREMIE Initiative). Despite the need to give money, this form is evaluated favorably, and thanks to revolving generates more benefits, because the money once transferred returns, multiplying the value of support and the number of beneficiaries.

Considering the functioning of the JEREMIE Initiative from the point of view of financial intermediaries and the role they play in the financial market, one may be tempted to say that by eliminating inequalities on the market, they are able to effectively distribute financial resources.

Introduction

One of the objectives of cohesion policy is to ensure conditions for economic growth, prosperity and social integration in the European Union. As a result of this policy, differences in economic development should be reduced. Feedback support is an increasingly popular form of implementation of these goals in place of popular subsidies in the past. Despite the need to give money, this form is evaluated favorably, and thanks to revolving generates more benefits, because the money once transferred returns, multiplying the value of support and the number of beneficiaries. An example of this type of funding from European Union funds in the 2007–2013 programming period were financial engineering

instruments (IIF), which are a way of using structural funds to implement cohesion policy, contributing to long-term and sustainable economic growth in individual regions and the entire Union. In the 2014–2020 programming period, the feedback support financing development is identified with financial instruments (IF).

The aim of the study is to show the essence, scope of financial instruments used and the role in their implementation of Bank Gospodarstwa Krajowego and to propose an innovative approach in this area. For its implementation, the analysis and deduction method were used, using data made available by Bank Gospodarstwa Krajowego in this process.

1. Financial instruments – theoretical aspects

The process of extending the European Union to new countries in 2004, the weakness of the existing financial infrastructure and limited access to small and medium-sized enterprises for external financing have changed the approach to the involvement of structural funds. Building on the experience of the European Investment Fund (EIF) in the implementation at European level of financial engineering instruments, JEREMIE (Joint European Resources for Micro-to-Medium Enterprises) initiative was created.

The Initiative was established in order to fill the financial gap relating to financial assistance instruments for small and medium enterprises as well as increase demand for capital including risk capital for enterprises, especially the smallest ones which perform their activity regionally (Hübner, 2005). The concept behind the Jeremie Initiative was presented for the first time in October 2005 in the context of the EU funds for 2007 to 2013. The originators had an idea of establishing a tool for developing enterprises by means of expanding their access to the outside sources of finance. In May 2006 the memorandum on cooperation relating to the development of the Initiative between the European Commission and the European Investment Fund was signed. The first financial contract with the governing institution, however, was initialed in 2007. The next stage of implementation (from 2007 onwards) was a competition arranged by all the regions (countries) for appointing Holding Fund Manager who was to be responsible for the initiation, functioning and squaring accounts of the project as well as signing agreements with the financial intermediaries. The third stage (from 2008 onwards) was the actual implementation stage of the project which included initiation of the financial engineering instruments and a cooperation platform for exchanging information, experience and opinions on the implementation and operation of the Initiative which, by the way, can be implemented in two possible ways. The first way is on the national level, the second is regional. At the moment the two strategies are being implemented in Poland. In the final analysis, the EIF had a minority role in managing trust funds, but the way the institution acted had a significant impact on the effects of the whole (Tamowicz, Lepczyński, Liszewska, 2013, p. 30).

Financial instruments under regional operational programs are an example of how commercial solutions popular in financial markets can be implemented at the level of

public intervention. The use of market means of capital management at the level of public intervention has already taken place in the first half of the 1990s. However, these were isolated cases, taking the form of loan, guarantee or risk capital funds (Evaluation..., 1998). In the following years, this process accelerated in the form of various financial instruments. Their task is to support cohesion policy with the simultaneous implementation of risk sharing and achieving objectives included in the development programs of member countries.

The reorientation of the European Commission from grant instruments, toward repayable instruments in the effective use and management of structural funds was related to the possibility of obtaining much better economic and social effects. The main reasons for IF implementation included in the Regulation of the EP (Regulation..., 2013) can be indicated (Financial Instruments..., 2013, p. 52; Mackiewicz, Przybyłowski, Rybkowski, Tamowicz, 2014, p. 28):

- assistance in implementing regional policy supporting the development of the SME sector, in particular enterprises in the early stage of development (start-up) (art. 44a), supporting urban development and urban regeneration (art. 44b), assistance in mitigating and reducing changes climate by increasing energy efficiency (art. 44c),
- imitating the financial gap by increasing entrepreneurs' access to financing, also through better interest rates or greater availability of risk capital,
- more effective use of public funds in comparison with grants (subsidies), due to the revolving nature and the involvement of public funds, thanks to which the size and scope of support is multiplied,
- the ability to involve the capital of other financial institutions, resulting in a leverage effect,
- other technical aspects that allow greater absorption of EU funds, also increasing the level of their certification.

The launch of the implementation of the feedback support was preceded by the analysis of the region's needs in terms of financing enterprises and the effective allocation of funds, including investment priorities. The analysis was to enable the proper implementation of financial instruments that could be implemented (Financial Instruments..., 2013, p. 39) by means of the Holding Fund (HF), or through direct involvement of the Managing Authority in the transfer of funds to financial intermediaries (fig. 1).

2. Implementation of financial instruments in the European Union

Repayable financial instruments in cohesion policy were applied before, however, a significant turnaround occurred in 2007–2013, when their total value in operational programs amounted to EUR 16.4 billion. The estimated amount allocated for repayable support in the years 1994–1999 was EUR 0.57 billion, and in the period 2000–2006 – EUR 1.2 billion. This support was dedicated exclusively to enterprises and implemented in several

member countries. It was not until 2007 that returnable financial instruments began to play a greater role. In the middle of this IF programming period, they were implemented by almost all member countries, and their scope apart from the development of enterprises included urban development and energy efficiency (Summary of data..., 2016, p. 7).

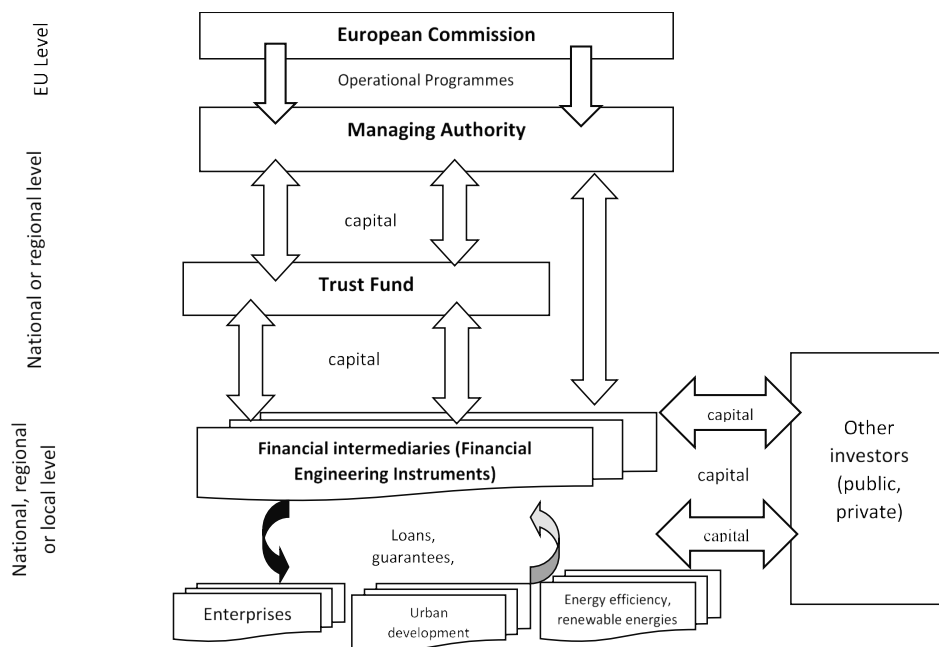


Figure 1. Structure and method of implementing Financial Engineering Instruments

Source: own study based on Financial Instruments... (2013), p. 39.

Financial instruments can be used for three thematic areas. Enterprises, in particular micro, small and medium, public-private partnerships and other projects aimed at urban development (urban development funds) and in the field of renewable energy sources and energy efficiency. The contribution made by Managing Authorities at the end of March 2017 amounted to less than EUR 17 billion, of which over PLN 11.5 billion came from Structural Funds (ERDF, ESF), while over PLN 5 billion was a national contribution. In comparison to the previous year, there was a slight increase of 5.5% (885.88 million euros). Analyzing individual countries, there is a noticeable difference in this respect. In some, there was a significant increase (Slovakia, Italy, Romania), while in others, a decrease in funds allocated to IIF (Greece, the Czech Republic, Finland). The total value of funds transferred to the management of Trust Funds amounted to less than EUR 7.5 billion (1.7 billion national contributions). 94% of these funds were transferred to specific intermediaries. Managing Authorities have also transferred the funds without the intermediation of the Holding Fund (EUR 9.4 billion, of which nearly PLN 3.5 billion

is national co-financing). In some countries (e.g. Poland, France, Germany, Italy) the amount invested in the final recipients includes funds already returned and used again, showing revolutions and multiplying the value of support. At the end of March 2017, there were 1,058 Financial Instruments in EU countries, including in the form of loans, guarantees, risk capital of which 89% financed the development and operation of enterprises, 7% urban development, and 4% energy efficiency and renewable energy sources.

3. Financial instruments in the 2014–2020 programming period

In the new programming period 2014–2020, some quite significant changes are planned for Financial Instruments (IF), although they may still be used at both national and regional levels. The support is directed at the development of the SME sector, mainly by means of debt instruments (loans) and guarantees. However, the scope of their use in our country is to be broader, including also environmental protection, transport and low-emission economy as well as energy efficiency and renewable energy sources as well as waste management. In addition, repayable instruments may find application in supporting social economy entities, which is a new way of using them.

A novelty in the application of IF will also be the possibility to use a larger range of financial products, also in combination with grant instruments. The possibility of subsidizing interest or redeeming part of the loan or credit has been envisaged. It should be noted that the possibility to use the Financial Instruments in the new period will be possible after performing an ex-ante evaluation, specifying market imperfections and the appropriateness of the size and scope of support¹.

Regions implementing the JEREMIE Initiative in 2007–2013² will be able to allocate additional (new) funds for supporting enterprises. However, according to art. 33 of the Regulation of the European Parliament and the Council, the Managing Authority will be able to choose one of three ways. The first is to entrust executive tasks to the European Investment Bank, the second – to create a Fund of Funds, whose task would be to organize competitions for financial intermediaries who would support the final beneficiaries. The last solution allows direct implementation of the JEREMIE Initiative by the Managing Authority, by organizing competitions for financial intermediaries in the case

¹ Regulation of the European Parliament and of the Council laying down common rules on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, European Social Fund and Cohesion Fund, and repealing Regulation (EC) No 1083/2006, European Commission 2011/0276 (COD), art. 32.

² In Poland, the JEREMIE initiative in 2007–2013 was implemented at the national and regional level. At the regional level, BGK was the manager of funds in six provinces (Lower-Silesian – PLN 405.73 million, Łódź – PLN 188.63 million, Masovian – PLN 61.45 million, Pomeranian – PLN 287.39 million, Greater Polish – PLN 501.30 million, West Pomeranian – PLN 280.00 million).

of instruments including loans and guarantees³ as well as project management. Financial instruments in the 2014–2020 perspective are applied to three thematic areas:

- enterprises, in particular micro, small averages,
- projects aimed at urban development (urban development funds),
- renewable energy sources and energy efficiency.

The current financial perspective in the use of returnable financial instruments differs significantly from its predecessor. Funds management using the Fund of Funds decided to implement them in all the regions in Poland. In 15 voivodships, the role of this institution is played by Bank Gospodarstwa Krajowego (table 1), while in the Silesian Voivodship it is the European Investment Bank⁴ together with the European Investment Fund⁵. BGK organizes tenders for financial intermediaries for financial instruments. Its role is also to care for the effectiveness of implementing financial instruments and ensuring proper support for enterprises. Based on the ex-ante analysis in consultation with the Managing Authorities, the BGK develops action plans, both in terms of the implemented financial instruments and deadlines for organizing tenders. The role of the bank in the implementation of financial instruments is very important, because it depends on what tenders will be implemented, because it is mainly responsible for the preparation of the tender documentation.

Table 1. Allocation of financial instruments for 2014–2020 (in PLN)

	Value of contracts with Managing Authority	National contribution Financial Intermediary	Total amount
wielkopolskie	802,606,200.00	141,636,388.25	944,242,588.25
dolnośląskie	703,601,466.88	52,530,023.53	756,131,490.41
łódzkie	570,859,453.16	100,739,903.25	671,599,356.41
małopolskie	555,383,349.00	43,956,073.00	599,339,422.00
zachodniopomorskie	397,991,330.00	70,233,764.12	468,225,094.12
pomorskie	408,414,880.78	21,495,520.04	429,910,400.82
lubelskie	402,446,728.68	23,411,382.09	425,858,110.77
opolskie	285,817,148.00	50,438,320.26	336,255,468.26
lubuskie	256,137,245.96	45,200,690.48	301,337,936.43
warmińsko-mazurskie	254,087,550.00	44,838,979.41	298,926,529.41
podlaskie	265,446,435.33	1,528,482.37	266,974,917.70

³ Ibidem, art. 33, point 4.

⁴ Under measure 4.2 Energy efficiency and renewable energy sources in micro, small and medium enterprises, the value of EUR 33 million allocation, type of support: loans; micro beneficiaries, small and medium entrepreneurs.

⁵ Under measure 3.4. Recapitalization of external sources of enterprise financing, value of EUR 91 million allocation, type of support: loans, guarantees; micro beneficiaries, small and medium entrepreneurs.

	Value of contracts with Managing Authority	National contribution Financial Intermediary	Total amount
mazowieckie	225,736,843.00	56,434,210.75	282,171,053.75
podkarpackie	244,201,812.08	12,852,732.22	257,054,544.30
kujawsko-pomorskie	205,384,480.12	41,683,143.57	247,067,623.69
świętokrzyskie	242,725,743.82	42,833,954.91	285,559,698.73
Total	5,820,840,666.81	749,813,568.24	6,570,654,235.05

Source: Bank Gospodarstwa Krajowego (2018).

The aim of financial instruments under the ROP is not only to finance the financial gap, support entrepreneurs in obtaining external sources of financing, but also to multiply support. Due to the necessity of contributing at the national and regional level as well as the financial intermediary, the value of funds earmarked for support is multiplied. Financial intermediaries will make the largest contribution in the Wielkopolskie (Greater Polish), Łódzkie and Zachodniopomorskie (West Pomeranian) provinces.

The new programming period is the wider use of financial instruments. The support will cover not only development investments realized by micro, small and medium enterprises, but also investments aimed at increasing energy efficiency, renewable energy sources and revitalization of degraded areas. A novelty not only on the national scale, but also the EU is the use of repayable support in financing the activities of the Social Fund, aimed at social inclusion and integration of many regions (table 2).

Table 2. Allocation of financial instruments by support objectives

RPO	FI for SME	Energy efficiency	Renewable enrgies	Urban development	Social Fund
dolnośląskie	398,760,492	188,119,479	60,990,318	—	55,731,176
kujawsko-pomorskie	205,384,480	—	—	—	—
lubelskie	384,439,678	—	—	—	18,007,050
lubuskie	233,646,420	16,791,475	—	—	5,699,350
łódzkie	445,269,153	95,275,400	—	—	30,314,900
małopolskie	285,680,614	99,021,293	—	148,531,942	22,149,500
mazowieckie	225,736,843	—	—	—	—
opolskie	193,143,640	36,325,180	46,070,960	—	10,277,368
podkarpackie	216,467,599	—	—	—	27,734,312
podlaskie	140,110,882	116,674,153	—	—	8,661,400
pomorskie	408,414,880	—	—	—	—
świętokrzyskie	208,800,000	—	—	—	33,925,743
warmińsko-mazurskie	254,087,550	—	—	—	—
wielkopolskie	516,780,000	173,228,000	—	112,598,200	—
zachodniopomorskie	335,196,180	—	—	—	62,795,150
Total	4,451,918,414	725,434,981	107,061,278	261,130,142	275,295,951

Source: Bank Gospodarstwa Krajowego (2018).

Despite the diversification of the objectives of supporting financial instruments, the vast majority of funds will continue to reach the SME sector. As in the previous period, debt and guarantee products are the most popular (table 3). Direct support in the form of loans and credits continues to dominate and results from the needs of the market. Several voivodships have decided to apply for support for innovative projects in the form of capital entries. Certainly, such a way of supporting young ideas deserves recognition, while at the same time risking not using these funds, in particular when there is a strong competition of risk capital at the central level.

Table 3. Financial instruments 2014–2020 – product assumptions

	Loan	Guarantee	Equity
dolnośląskie	616,472,445	87,129,020	–
kujawsko-pomorskie	183,810,480	–	21,573,999
lubelskie	279,227,486	67,557,009	55,662,232
lubuskie	256,137,245	–	–
łódzkie	570,859,453		
małopolskie	555,383,349	–	–
mazowieckie	183,975,527	41,761,315	–
opolskie	268,537,148	17,280,000	–
podkarpackie	203,065,104	41,136,707	–
podlaskie	252,709,082	–	12,737,352
pomorskie	290,634,880	48,550,000	69,230,000
świętokrzyskie	192,613,743	50,112,000	–
warmińsko-mazurskie	204,758,154	35,873,046	13,456,350
wielkopolskie	544,216,200	258,390,000	–
zachodniopomorskie	373,991,330	9,000,000	15,000,000
Sum total	4,976,391,631	656,789,100	187,659,935

Source: Bank Gospodarstwa Krajowego (2018).

Conclusions

Considering the functioning of the JEREMIE Initiative from the point of view of financial intermediaries and the role they play in the financial market, one may be tempted to say that by eliminating inequalities on the market, they are able to effectively distribute financial resources. Currently, the JEREMIE 2 Initiative or repayable support is being implemented, where the role of the Fund of Funds is carried out by the State Bank of National Economy. A total of over PLN 6.5 billion has hit or will hit the local financial markets in the near future. The amount seems to be large, but in comparison with the credit activity for enterprises of the banking sector in Poland (about PLN 277 billion) small. Despite this, the managers of these funds are facing the challenges of effective supplying regional financial markets, so that the funds from the previous perspective (2007–2013)

do not compete with the new ones (2014–2020). Certainly, proper management of these funds will have an impact on the architecture of regional financial markets. Faced with such a challenge, the regions implementing the JEREMIE Initiative stood, including the West Pomeranian Voivodeship, which launched the Regional Development Fund by transferring funds from the JEREMIE and JESSICA initiatives. However, despite such a solution, the market should be fed quite carefully and skillfully, so that the “old” and “new” funds do not compete with each other. The risk of cannibalization can materialize in the event of disagreement between managing authorities. To successfully feed the market with money, an original approach should be used. Innovation should consist in product complementation with simultaneous close cooperation between the Fund of Funds and Regional Development Funds. The effectiveness of such a solution should consist not only in establishing financial instruments implemented by these institutions, but first and foremost in creating complementary instruments, when one instrument is a perfect complement to the other, and sometimes even implemented, should be simultaneously. An example of such a solution may be an instrument providing capital to regional financial intermediaries (loan funds, credit guarantees) in order to meet the requirements of own contribution in tenders organized by the Fund of Funds. Such a solution will be popular because regional and local loan funds and credit guarantees suffer from a shortage of equity financing their own contribution. The West Pomeranian Voivodeship is on the right track in fulfilling these assumptions. In the future, other regions, including the European ones, will surely follow in its footsteps, as this is an effective way to manage EU funds for repayable instruments, so that these funds do not compete with each other and at the same time are passed on to final beneficiaries quickly and effectively.

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INSTRUMENTY FINANSOWE W REGIONALNYM PROGRAMIE OPERACYJNYM W LATACH 2014-2020

Słowa kluczowe: finanse, instrumenty finansowe, region

Streszczenie. Coraz bardziej popularną formą wyrównywania poziomu rozwoju regionów celów staje wsparcie zwrotne. Pomimo konieczności oddania pieniędzy forma ta oceniana jest korzystnie przez wszystkich beneficjentów, a dzięki rewolwingowi generuje więcej korzyści, ponieważ fundusze raz przekazane wracają, multiplikując wartość wsparcia i ilość beneficjentów. Przykładem tego typu finansowania z funduszy Unii Europejskiej są instrumenty finansowe, będące sposobem wykorzystywania funduszy strukturalnych do realizacji polityki spójności, przyczyniając się do długoterminowego i trwałego wzrostu gospodarczego w poszczególnych regionach i całej Unii. Ponadto korzyścią z punktu widzenia długofalowego rozwoju regionu wydaje się wzmocnienie, a w niektórych przypadkach stworzenie regionalnego rynku finansowego. Ugruntowanie zarówno lokalnych instytucji finansowych (funduszy pożyczkowych, funduszy poręczeń kredytowych, agencji rozwoju), jak i instrumentów specyficznych dla każdego regionu stworzyło podwaliny pod budowę regionalnych instytucji rozwoju.

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