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"EP Perspective on today's regional policy and the relevance of financial engineering instruments"

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There are many reasons why financial engineering has grown in importance in European economy and its role will be even more important and precious in the future.

As within the post 2013 Multiannual Financial Framework the role of European cohesion policy in shaping patterns of European investment will be fundamental, especially in the context of the EU2020, this policy should continue its commitment to further developing financial engineering investments to achieve more with the same amounts of available public funding.

The importance of financial engineering comes not only from its specific features but also is underpinned by the choice of areas of economy where it has been applied so far and where we will apply it in the future, as well as from the strong link between investment in these areas in the crisis exit context and long term growth of European economy.

Trends, of both economic and political nature (deficits, budget consolidation), indicate that now and in the future all measures that increase the leveraging of public spending will be particularly useful and welcome by decision-makers. As the increased role of public sector and public funding might stay with us for a while, financial engineering can contribute to improving its quality and efficiency. This is one more argument in favour of financial engineering.

In short, as investment funding tools, financial instruments have all advantages we will now need. They provide sustainability by allowing for the recycling of funds in the long-term; they have a leverage effect, attracting other sources of finance including private funds and not crowding them out, making possible combination of public/private sector financial resources; they provide incentives towards better performance and efficiency; they promotes new sources of expertise and know-how; they allow for the modernisation and development of financial markets; they work as catalyst for partnership and cooperation; and they can be tailored to specific needs of partners, of territory of a sector. As cohesion policy Operational Programmes will have to be better tailored to the specific needs, these instruments can generate better funding conditions.

If we want to exploit fully the potential of financial instruments, we have to go beyond the approach of overcoming obstacles, to enhancing their potential. We must maintain their positive features, overcoming existing rigidities in the way they do their job, but we should also try to be innovative in designing financial instruments in the future.

So far we have focused the new instruments on two areas- entrepreneurship support, and urban development support including energy efficiency in housing is indispensible. There are also examples of using financial instruments for environment infrastructure. Moving further towards better tailored instruments for other areas.

Looking now into the future we see growing interest of Member States and regions in the use of these financial engineering initiatives, as well as increasing application on the ground.

However, more work is needed to better understand the impact on the ground and barriers to overcome.

The European Parliament, through the Committee on Regional Development, called already on the Commission and on the Member States to monitor, on a continuous basis, the impact of the crisis in various structural and development fields and the use made of the opportunities offered by the financing instruments earmarked for Objective 2 primarily to support entrepreneurship and SMEs and bodies working for a social, inclusive economy, with a view to increasing their competitiveness and thus the potential for greater employment, and facilitating their access to financial engineering instruments.

More recently, the European Parliament has endorsed the proposal of the Committee on Regional Development encouraging the use of financial engineering instruments, revolving funds and global grants, and calling for simplified access to risk capital and micro-finance.

Needs and ambitions are enormous in particular in the area of resource efficiency, innovation, cooperation, huge infrastructure needs in transport and energy. In my view, in the context of cuts in national budgets, financial engineering investments will be needed not only in EU budget linked investments, also in national budgets.

The 5th Cohesion Report further states that a regulatory environment that renders financial markets sustainable and effective is crucial, while making clear that leveraging of the EU's financial means, the use of innovative models through the combination of public and private finance is necessary. For this to be effective, we will need a good regulatory framework. But to achieve what we aim at, we will need a much bolder regulatory framework that would go beyond overcoming barriers towards truly facilitating and enhancing new financial instruments.

I hope very much that through designing new financing instruments, in particular with the EIB/EIF and the private sector, we will pave the way for a clearer and enlarged scope of action of financial engineering instruments in the future regulatory framework of Cohesion policy.

The mid-term review acknowledges the major contribution of the EIB and proposes that the blending between grants from the EU budget and loans from the EIB "should be extended to become the norm" in certain areas, provided that the new financial instruments are smart, integrated and flexible, and bearing in mind that companies and projects in different stages of development need equity or debt or both at the same time.

The cooperation work should continue within the two specific networking platforms created for JEREMIE and JESSICA as fora for exchange of information, guidance and good practice, so that advisory services can be provided to the relevant stakeholders in the Member States and in the regions. It should be used more.

We have accumulated a lot of experience and this allows to draw lessons and in the next financial perspective to go beyond the current scope of use of these instruments and the range of products offered.

So what we expect from new regulation? First of all, for next financial perspective, cohesion policy framework should envisage broader use of financial instrument. The repayable forms of assistance can be complementary to grants. Regulation should further facilitate the combination of grants and repayable funding. We will need enough flexibility that would allow to offer tailored made funding schemes within the cohesion policy programmes.

Second, we need specific rules for setting, implementing, monitoring and auditing financial instruments. But when decisions has to be made with regard to eligibility rules, I would say the option of one set of those for both grant and non- grant support could be at least considered.

Thirdly let me underline that the regulatory framework should be designed in such a way that benefits of using financial instruments are fully exploited, in particular their revolving character, which provides additional resources and their potential flexibility, which can contribute to better absorption.

Fourthly, experience so far suggests the continued need of providing support for administrative capacity building in the area of financial instruments.

Fifthly, flexibility is the buzzword for the budget solutions. Reform of the Multiannual Financial Framework will most likely strengthen the scope and scale of flexibility of various elements of EU budgeting system.

Cohesion policy has at its disposal a diverse family of structural funds. This diversity combined with growing importance of financial instruments creates a significant flexibility potential. The option of combining resources from different programmes and funds to deliver a financial instrument could increase the effectiveness of financial instruments. I would also consider this option.

And last but not least, I would continue to encourage member states to set up their instruments of repayable financial assistance.