Summary

Structural Funds are one of the main instruments used in the Europe Union to mitigate economic and social differences between regions. They are financial instruments that allocate funding to develop local infrastructure, services and other relevant activities. The Structural Funds are composed of two independent financial mechanisms:

- European Regional Development Fund (ERDF); and
- European Social Fund (ESF).

Both of these funds are operated from the payments of all member states. These payments are redistributed to the EU regions with the aim of mitigating social and economic differences. While the distribution mechanism of the fund is overseen by the European Commission’s DG REGIO, there may be differences with regards to the tendering processes in the different member states.

This report is designed to help U.S. companies better understand the process by which projects are funded and financed in the EU and, consequently, to maximize the chances of participating in these projects.

The System

The European Union operates five key financing mechanisms, collectively called the European Structural and Investment Funds (ESIF) that aim to mitigate economic and social differences between the member states and the regions within member states. These five mechanisms are:

- European Regional Development Fund (ERDF);
- European Social Fund (ESF);
- Cohesion Fund (focusing on transport and environment);
- European Agricultural Fund for Rural Development (EAFRD);
- European Maritime and Fisheries Fund (EMFF).

The legislative background of the regional development programs are contained in Regulation (EU) No 1303/2013. Other relevant provisions for financial instruments (e.g. information on priorities/measures, co-financing, eligible expenditures, etc.) can be found in the fund-specific regulations and applicable horizontal regulations:

- The European Regional Development Fund - ERDF (Regulation 1080/2006);
- The European Social Fund - ESF (Regulation 1081/2006);
- The European Grouping of Territorial Co-operation - EGTC (Regulation 1082/2006);
- The Cohesion Fund (Regulation 1084/2006).
How Structural Funds work

As mentioned earlier, EU Structural Funds consist of a redistribution of the EU’s budget, made from contributions from all member states according to their wealth, to the poorest regions of the EU; this is known as the “social cohesion policy” of the EU.

Structural Funds come with a 7-year operational budget for the member states. The priorities and the actual projects along which the budget is distributed is a result of negotiations between EU and national officials. In December 2013, a new set of rules governing EU investments for 2014-2020 came into force. This new set of rules required member states to draw up and implement Partnership Agreements (PAs), which are basically strategic plans with investment priorities. The purpose of these PAs is to define a common understanding from both the member states and the European Commission (EC) on what they consider to be high priority areas that should be financed by the Structural Funds. The Partnership Agreements are negotiated between the EC and national authorities. The starting point for these Partnership Agreements are position papers produced by the EC’s Commission Services in 2012 for each Member State; the position papers set out how EU investments should support smart, sustainable and inclusive growth by focusing on key advantages and important growth sectors in the regions.

Once the national level strategic development lines are defined in the PAs, the individual member states draft Operational Programmes (OPs), which detail what specific activities need to be financed to achieve the overall development goals of the country. These OPs are generally drawn up on the basis of a member state’s regional subdivisions; however, for specific thematic areas that need to be developed across all regions within one country, national level operational programmes may also be prepared.

Following their approval by the EC, the OPs are implemented by the member states and their regions. This means selecting, implementing, monitoring and evaluating the individual projects according to the priorities and targets agreed to in the OPs with the EC. This work is carried out by managing authorities that are usually part of ministries or other public bodies of the member state in question. The OPs and PAs are published by the EC and are available online at DG REGIO’s website.

The amount of financing available is not evenly distributed between the regions of the member states but is allocated according to their economic status. The less developed a region, the more financing it may receive. Three different categories of regional development status are identified:

- Developed regions - those where GDP per capita is at least 90% of the EU28 average;
- Transition regions - those where GDP per capita is between 75-90% of the EU28 average;
- Less developed regions - those where GDP per capita is less than 75% of the EU28 average.

The following picture (taken from the EC’s website) shows the classification of the regions. The less developed a region, the darker the color – consequently, transition regions are colored dark orange, less developed regions are dark yellow, and more developed regions are shown as light yellow.
The aim is to allocate the majority of funds to regions with a GDP per capita under 75% of the EU average. For the period of 2014-2020, the budget allocation is the following:

- Less Developed Regions: € 182 billion;
- Transition Regions: € 35 billion;
- More Developed Regions: € 54 billion.

The definition of regions is based on the statistical nomenclature system *Nomenclature des Unités Territoriales Statistiques* (NUTS). The NUTS system defines the following levels of territorial units:

- NUTS level 1 is used for a territory with a population between 3 to 7 million;
- NUTS level 2 is used for a territory with a population between 800,000 to 3 million;
- NUTS level 3 is used for a territory with a population between 150,000 to 800,000.
The Structural Funds budget is split into two main parts: one dealing with infrastructure development and the other focusing on education and social issues.

**European Regional Development Fund (ERDF)**

ERDF is one of two main parts of the Structural Funds scheme. It finances product and service development, which can include SME development, eco-innovation, telecommunications, clusters, smart specialization, etc. During the 2014-2020 period, the primary focus areas of ERDF projects are:

- Innovation and research;
- The digital agenda;
- Support for small and medium-sized enterprises (SMEs);
- The low-carbon economy.

Member States are obliged to spend a specific percentage of the budget on projects focusing on the priority focus areas identified above:

- In more developed regions, at least 80 % of funds must focus on at least two of the priority areas;
- In transition regions, this focus is for 60 % of the funds;
- In less developed regions, the focus is 50 % of the funds.

There is a specific requirement for ERDF projects to support transition to a low carbon economy. More developed regions have to spend at least 20% of their ERDF budget towards this goal, while less developed and transition regions must spend 15% and 12%, respectively.

**European Social Fund (ESF)**

The focus for projects under the ESF is to promote social inclusion as well as to facilitate employment and improve education and training conditions (including vocational training); linking them to current and future market demand. For the period of 2014-2020, the key priorities under ESF are:

- Getting people into jobs;
- Social inclusion;
- Better education;
- Stronger public administration.

Possible beneficiaries of ESF projects include private enterprises, NGOs, public bodies, etc. DG Employment maintains a website dedicated to ESF funding in the member states which brings together all relevant information including the contact details for managing authorities.
The Cohesion Fund

The Cohesion Fund is an additional financial instrument aimed specifically at member states whose Gross National Income (GNI) per inhabitant is less than 90% of the EU average. In the current financing period (2014-2020), the countries affected are Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.

The Cohesion Fund targets investments in transport and the environment, particularly projects linked to the trans-European transport networks as well as the Connecting Europe facility. These projects include priority rail, river and sea transport, intermodal transport systems and their interoperability, construction and management of highways, sea and air traffic, urban and rural water distribution systems, water treatment plants, clean urban transport, public transport (metro) and some airport extensions. In the environmental sector, projects in energy efficiency and renewable energy will have priority.

Understanding the Basics of EU Financing

There is not one common on-line database of all current tenders that firms can consult! Instead, interested firms need to visit the websites of the managing authorities in each member state. Most funds are managed at decentralized levels by regional government authorities and not by the EC; it is the member states and their regions that have the task of implementing the programs, i.e. selecting the thousands of projects, monitoring and assessing them.

DG REGIO maintains the main information website on the Structural Funds which allows interested parties to search for information on available funding, operational programmes, thematic priorities and contact details for managing authorities.

All EU regional funding is tied to programs. It is difficult to obtain EU funding for a project that cannot fit into one of the pre-agreed sets of programs for a particular region and there is very little “loose money.” All programs will generate a number of particular projects, which will in the end be tendered with competitive selection. Major projects, those with a budget of at least or exceeding €50 million euros, will need to go through a compliance check by EC bodies prior to being approved.

Eligibility of U.S. firms

All Structural Funds projects are co-financed by the member states with the EC providing up to 85% of the projects’ budgets. This means that, in addition to the EU financing, member states have to allocate funding for these projects in their annual budget. Once the budget allocation is approved by the parliaments of the individual member states, the tendering procedures start.

The majority of Structural Funds projects receive post-financing, meaning that the project leaders/managers submit invoices to the country’s managing authority following the first 6 or 12 months and receive reimbursement for their eligible costs. US companies with subsidiaries in the specific
member state are eligible for participation in Structural Funds projects. Requirements may vary for US companies without registered local presence. Tendering procedures are overseen by the managing authorities in each country.

As a general rule, operations partially financed by the Structural Funds should be located in the eligible region. Exceptions can be made in cases where a region concerned by a measure will benefit wholly or partially from an operation located outside that region. In such cases, the operation must be located in a NUTS III area immediately adjacent to the eligible region.

The EU does not set minimum thresholds for consortium or partnership participation in Structural Funds projects; however, there may be limitations in the individual tender calls. The notion of “partnership” is central in particular for Structural Fund projects: U.S.-based companies are strongly advised to find a suitable European partner that will act as a key player with the local regional authorities. Getting development agencies or academic organizations into the partnership will increase the chances of forming a winning consortium. U.S. subsidiaries located in the EU and legally registered in a Member State are considered “European firms” and eligible as such.

The Three Js

The EC, the European Investment Bank (EIB) and heads of other financial institutions have jointly created three initiatives for investment, growth and jobs – JASPERS, JEREMIE and JESSICA – in order to provide technical assistance to member states’ authorities in charge of project design and management:

- JASPERS, Joint Assistance in Supporting Projects in the European Regions;
- JEREMIE, Joint European Resources for Micro-to-medium Enterprises;
- JESSICA, Joint European Support for Sustainable Investment in City Areas.

**JASPERS**

JASPERS is a joint initiative between the EC, the EIB and the European Bank for Reconstruction and Development (EBRD). JASPERS assists 12 EU member states that have joined between 2004 and 2007 to manage and oversee EU Structural Funds and Cohesion Funds projects. JASPERS is complementary to the preparation (from early stage to final application and appraisal) of high-quality projects and provides upstream technical expertise for major transportation and environmental projects.

**JEREMIE**

JEREMIE was launched in October 2005 and was created by the EC, the EIB and the EIF in order to develop financial resources in areas where entrepreneurship is hampered by market failures owing to high risks associated with Research and Technological Development (RTD) activities. The program enables EU member states and regions to use part of the EU Structural Funds to obtain a set of financial instruments that are specifically designed to support micro, small and medium-sized enterprises (SMEs) through the setting up of a holding fund. JEREMIE foresees three main financial instruments: advisory and technical assistance, equity and venture capital and guarantees.
JESSICA
The main objectives of JESSICA are to help the authorities managing EU Structural Funds to exploit all financial engineering mechanisms to support social investments in urban areas and to speed up co-financing with the Paris-based Council of Europe Development Bank (CEB) and the EIB. Jessica promotes sustainable urban projects by supporting projects in the following areas: urban infrastructure, heritage or cultural sites, redevelopment of brownfield sites, creation of new commercial floor space, university buildings and energy efficiency improvements.

Opportunities for Loans: The European Investment Bank

The Structural Funds programs described above offer non-reimbursable grants for projects. Loans from the European Investment Bank (EIB) represent another financing possibility for the private sector. The EIB is one of the world's largest multilateral development banks and acts as the European Union’s financing arm. In 2014, the EIB approved € 77 billion worth of projects, of which 90% was given to EU member states. The United States does not hold a share in the EIB, nor does it sit on its board.

The EIB supports the same "key European policy objectives" as the EU Structural Funds. In fact, it is possible to combine a grant from the EU Structural Funds with a loan from the EIB. The bank has identified four priority areas for financing:
- Innovation and skills;
- Access to finance for smaller businesses;
- Climate Action;
- Strategic Infrastructure.

The EIB offers various financing mechanisms including: project loans, venture capital or micro-financing and preferential rates and longer payback periods than most commercial banks can offer. As a general rule, projects should contribute to growth in the less developed regions, with an emphasis on innovation and job creation. The EIB is well known for its expertise in project identification and appraisal by teams of engineers, economists and financial analysts. EIB staff prepares project monitoring, completion and post-completion evaluation reports. The EIB is ready to finance projects to be developed in Europe and elsewhere, and the EIB has also stated its willingness to examine projects sponsored by U.S.-based firms.

Total project costs are typically in the range of € 20 to 25 million. For smaller-sized projects, the EIB works in partnership with the major commercial banks in the EU Member States.
Websites of interest

Directorate-General for Regional Policy: general information on EU Structural and Cohesion Funds

Operational Programmes
http://ec.europa.eu/regional_policy/en/atlas/programmes?search=1&keywords=&periodId=3&countryCode=ALL&regionId=ALL&objectiveId=ALL&tObjectiveId=ALL

The Cohesion Fund

TED: Tenders Electronic Daily
http://ted.europa.eu/

Trans-European Networks:
http://ec.europa.eu/ten/transport/index_en.htm

Connecting Europe Facility

The European Investment bank:
http://www.eib.org/

For More Information:

For More Information
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