

## **Proposal for the Introduction of Repayable Assistance to ERDF Investment priority 4f – ‘Promoting research and innovation in, and adoption of, low-carbon technologies’**

### **Decision required:**

1. JPMC is asked to approve the use of repayable assistance in the Scottish ERDF Programme.

### **Purpose**

2. The Scottish Government as Managing Authority intends to introduce Repayable Assistance as a form of finance to be used in the delivery of operations under ERDF Investment Priority 4f (Promoting research and innovation in, and adoption of, low-carbon technologies’) in the Scottish 2014-2020 Operational Programme.

### **Background**

3. The activity under Investment Priority 4f is new activity in the Scottish Programme and in Scotland in general. The Operational Programme was based on a mix of support thought to be appropriate at the time of non-repayable grants and Financial Engineering Instruments, which have been used successfully in other Scottish ERDF Programmes. The MA approved the initial application for the delivery of this activity on this basis in March 2015, and the beneficiary has delivered the first year of the operations using non-repayable grants only.

4. In line with Article 66 and 67 of the Common Provisions regulation, this change would introduce an element of Repayable Assistance alongside non-repayable grants, with Repayable Assistance being used to fund large-scale demonstrator projects and elements of development support, where appropriate, in line with the activity outlined in the OP.

### **Rationale**

5. The MA and the lead partner have considered progress to date, the funding options currently available and the types of low carbon projects which have or are expected to come forward and concluded that this change would have three main benefits:

- Support is designed to develop and/or demonstrate the viability of new technologies in Scotland, therefore the outcomes are understandably unpredictable with a wide range of potential outcomes for supported projects (e.g. the success or failure of a technology, or from not being financially successful).
- The nature of the work required to deliver the priority means that the beneficiary has identified that a Repayable Assistance model would enable projects to be supported on a grant basis, with the potential for repayment to the beneficiary where supported projects are successful, but without the obligation for recipients to make a repayment where the project has not achieved its agreed goals.
- Repayable Assistance would be a more attractive and beneficial proposition for many recipients than a loan as it removes the requirement for debt financing and interest payments or an equity stake, which can be critical at early stages, and ensures that they are only required to make a repayment where specific criteria, generally based on the success of the activity, have been met.

- The use of Repayable Assistance will maximise the long-term impact of the operations as it maximises the proportion of the ERDF funding which will be returned to the beneficiary to be reused for this type of activity, in particular in comparison to non-repayable grants.

## **Impact**

6. This change will have no other impacts on the OP, with Repayable Assistance being used to deliver the same activity outlined in the current OP and towards the same targets. In ensuring that an element of the Priority Axis is provided on a repayable basis, the beneficiary will be able to recycle the funding which is provided to recipients who meet the criteria and to use this to fund further activity in supporting the development of low carbon technologies in Scotland beyond the initial scope of the Programme. This will give the opportunity to expand activity supported and associated results, during and beyond the life of the ERDF supported Operations.

## **Support via Repayable Assistance**

7. The MA will ensure that the beneficiary sets out a clear structure for the use of Repayable Assistance and the setting of conditions for repayments, maintains a system for monitoring and reusing repaid funds, and compliance with EU regulations, including Revenue Generation and State Aid (note, that the current activity funded under this priority is a notified State Aid scheme, reference SA.41844). No funding will be awarded as Repayable Assistance until the MA is satisfied the beneficiary has met all requirements, as outlined by the Commission's 'Guidance for Member States on Definition and use of repayable assistance in comparison to financial instruments and grants'. Any awards made as Repayable Assistance will be captured through the MA's IT system and will be reported to the Commission. The efficiency of Repayable Assistance will form a part of the mid-term review of the Programme.

## **Conclusion**

8. Based on experience to date and recent intelligence, Repayable Assistance is considered to be a more effective means of support for this type of operation particularly given the innovative nature of activities and the inherent unpredictability of such demonstration projects. Repayable Assistance offers a greater incentive to potential projects and at the same time ensures that funds can be recovered and recycled where projects bring a financial return. While this is a slight departure from original plans and will require a minor adjustment to the Operational Programme, it is within the scope of the Regulations and the intended purpose of this strategic intervention.

## **JPMC Decision required**

9. The JPMC is asked to consider this proposal and approve the change to the 2014-2020 Operational Programme.