European Union
European Structural
and Investment Funds

On the Spot Verification Visit Guidance for FIs ERDF Recipients ERDF-GN-4-008

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Introduction

This guidance document has been produced to assist ERDF Recipients to complete the OTSV Report, prior to the ESIF Compliance Team visit to the Fund(s). GDT Monitoring Teams will also need to have extensive knowledge of the following:

- ERDF Eligibility Rules (ESIF-GN-1-012)
- ERDF State Aid Law Requirements (ESIF-GN-1-006)
- Procurement Law ESIF Guidance (ESIF-GN-1-001)
- ERDF Publicity Requirements (ESIF-GN-1-005)
- Use of the GBER 651 2014 (ESIF-GN-1-017)
- EDRF Output Indicators Definition Guidance (ESIF-GN-1-002)
- Guidance for Member States on CPR Eligibility Rules for ESI Funds Financial Instruments (EGESIF 16-0006-00)

This document only attempts to provide a few pointers and prompts. The sections highlighted in yellow in the OTSV Report for Financial Instruments are to be completed by the ERDF Recipient prior to the visit. Prompts have been added to guide the ERDF Recipient representative about the type of information that is needed. The prompts are not exclusive as the subsequent dialogue and project specific circumstances and scenarios are limitless.

The FI Compliance Team will send out the relevant documents to the ERDF Recipient as far in advance of the OTSV visit as possible. This includes all the relevant annexes to be used for testing and guidance where applicable. If a Fund has previously received an on the spot check, the governance arrangements can be cut and paste from the previous report and the ERDF Recipient will be asked to confirm there are no changes, when the form is sent out in advance. ***The ERDF Recipient is required to return the completed form(s) at least TWO weeks prior to the visit.***

What is Article 125	
EC Regulation 1828/2006	This is the article in the ERDF regulations that specifies the purpose of the monitoring visit
Article 125 (OTSV) Monitoring Visit	This visit is not a guarantee that the project will not be audited further in the future by either the Government Internal Audit Agency (GIAA) or the European Commission.

Timing and sections tested

Financial Instruments are automatically considered to be high risk and will be visited each year. Unlike grant schemes, the majority of the tests relate to elements of compliance. It is expected that information related to governance arrangements, policies and systems will remain the same, therefore, once these have been tested on the first visit, the ERDF Recipient will be asked to simply confirm that they remain the same on subsequent visits. Should there be a change in Fund Manager or other material change in governance, this would have to be re-tested. During the early years of a Fund, there may be no investments to test. It is often the case that results lag significantly from the time of the investment. Returns will often occur only towards the end of the funding period in the case of equity funds. For this reason the testing forms are cumulative, and the annual visit may not cover all aspects. Over the period of the programme, all areas of the form eventually are covered. Different Funds will have different investment instruments requiring different tests. Therefore, all relevant tabs, equity, loan, co-investment worksheets will be used by the Compliance Team, but it is accepted that not all will be needed for each fund.

Sections of OTSV form to be completed, by Fund type:

Fund type	Sections to be completed	Additional sections
All	1,2,3	
Loan		4
Equity/quasi-equity		5
Fund of Funds/UDF		4,5,6
Product Fund		4 or 5

Section 7 will be completed by the ESIF Compliance Officer and should be used only when the Fund is mature (older than three years) and requires a visit to a sample of the Fund investee final recipients (either SMEs or Urban Development Projects). The investees are not required to evidence expenditure, but the check is required in order to ensure that the final beneficiary is where they said they would be, that they have used the investment for the activity described in their investment application and that they received the investment without any deduction. They also need to be clear that the investment was supported by ERDF.

If the Fund Manager is not the direct ERDF Recipient, the evidence for the procurement of the Fund Manager will be tested in the first visit. The procurement of Product Fund Managers will be tested in the first visit to Fund of Funds (Access to Finance Funds/Urban Development Funds). Little other procurement usually takes place in an FI. However, if a service is procured, at least one of the services procured will be tested.

Sampling

Once the Fund has started to make investments, investments will be tested at each visit (after the first visit has tested the governance arrangements). Generally, a sample of 15% of expenditure and 10% of outputs will be selected, using the random sampling tool for FIs. In the case of equity funds where only a few investments are expected to be made, it would normally be expected that all new investments since the last visit will be tested. In high volume transaction funds, such as the micro loan funds, a sample of 15% will be taken on a random basis, with again different investments being chosen for each visit. The sample should ensure inclusion of at least one investment from each year of operation.

Due to the lagged timescale in achieving outputs and results, investments tested in an earlier visit may need to be re-visited purely to check the evidence for the achievement of outputs.

Any actions identified during the visit will be clearly added at the end of each relevant summary section, numbered and captured in the Actions Annex.

Purpose

As particularly underlined by the EGESIF guidance note on financial instruments, the Structural Funds Regulation and the Financial Regulation and due to the nature of the operations involved, the review of financial instruments entails **two key objectives**:

1. **Legality & regularity objectives**
    - To ensure compliance with applicable regulations;
    - To ensure consistency with most recent Commission guidelines and interpretations;
    - To ensure the Member State statement of expenditure and contributing reports presents accurately, in all material respects, the expenditure actually incurred;
    - To ensure proper and effective management and control over Financial Instrument operations.

2. **Sound Financial Management objectives**
    - To assess whether principles of sound financial management (i.e. ECONOMY, EFFICIENCY and EFFECTIVENESS) have been met;
    - To assess consistency with applicable regulations and Commission services guidelines.
    -

ERDF Recipient Personnel present during visit

As the lead ERDF Recipient organisation you will need to advise and assure us that all relevant personnel will be available on the day of the visit. These individuals will need to be representing roles that cover:

- Fund Manager
- Project Manager
- Project Finance Officer
- Payroll/salaries (access to)
- External delivery partners (if relevant)

Name	Position
	The proposed attendees should in principle satisfy the requirements of the meeting i.e. overall Fund Manager, day to day Fund Management, Financial Administration.

"ERDF Recipient Personnel" mean all employees, agents, consultants and contractors of the ERDF Recipient organisation and/or of any sub-contractor.

1. Project Activity and Management

Please note that the definitions used are in line with those defined in the Grant Funding Agreement

1.1 Grant Funding Agreement: Have the Grant Funding Agreement/Limited Partnership Agreement been fully read and understood by the delivery team and its requirements fully implemented where relevant?	2011 COCOF guidance
It is essential that the ERDF Recipient and the Fund Manager fully understand the ERDF requirements on the Fund. Please confirm the process in place to ensure this.	
1.2 Organisational Status: What is the organisation's legal status? Provide the company number. List the legal and policy documents in place which support this. *"Ownership, Control and Nature of Business" shall be construed in accordance with s 840 the Income and Corporation Taxes Act 1988 and s 1162 Companies Act 2006 and for the avoidance of doubt shall include an evaluation of dominant influence and shadow directorships in the Beneficiary organisation from time to time.*	
The Fund should be an incorporated organisation, and registered with Companies House.	
1.3 Organisational & Project Structures: Describe the organisation and project team structures including the management and delivery personnel and any changes of personnel since the Project Inception Visit (PIV). ERDF Recipient to provide a list of current personnel.	
It is important that roles and responsibilities are clear. There should be a separation of duties between the teams who identify potential investments and propose them for investment, from the investment committee which makes the actual investment decisions.	
1.4 Notification of what Changes: Have all changes been notified to DCLG prior to the relevant change being implemented, as per the Grant Funding Agreement/as per the Limited Liability Partnership*? *delete as appropriate. If there have been changes please detail.	
Significant changes are not expected, but if there were a change of investors, a change in Fund Manager, a change in target group of the Fund, not only the Funding Agreement, but Limited Partnership Agreements, Fund Manager agreements and other documents may need to be changed.	
1.5 Changes to Project: Describe any changes to the name, address or structure of the organisation since the project was first approved. Have changes been notified to the GDT? In particular has there been any variation from the original target market, size, or stage of investment?	
The Funds should have been set up for a specific targeted market failure, but in value and in type of instrument, therefore, the Fund should not vary significantly from this. If the Fund significantly changes its character a re-appraisal and re-approval will be necessary. DCLG should be aware of all changes and hold relevant paperwork and approvals.	
1.6 Governance: What are the organisational units and structures, groupings, and co-coordinating mechanisms (such as steering groups, Investment Board) established within the organisation and in partnership with external bodies, for the management of the project?	

The ERDF Recipient should provide the current list of membership of governance groups and also examples of minutes of relevant meetings. There must be a specific investment committee, separate from the Fund Manager.
1.7 Governance Roles and Responsibilities: (i) What are the roles and responsibilities established to manage the project and operational services, and the scope of the power and authority which they exercise? (ii) What are the policies, frameworks and boundaries established for making decisions about the investment, and the context and constraints within which decisions are taken?
The Investment Committee must be separate from the investment proposer. The board or investment committee must have conflict of interest protocols in place, as committee members may have been chosen for their industry expertise but that may mean that they already have links to the investee businesses. The Investment must not take place without first having been approved by the investment committee.
1.8 Financial Conduct Authority (FCA) Registration of the Fund Manager: If the Fund Manager is FCA registered, record here. If not registered, record the reason why it is not required in this fund.
It would normally be expected that the Fund Manager is FCA registered, and their registration number will be checked with the FCA website. However, under the Financial Service Management Act, if the Fund is investing its own money, or only investing the funds of "sophisticated investors", such as HM Government (DCLG), FCA registration is not required. As the public bodies are considered to be "sophisticated investors", an FCA registration will not be required if public bodies and institutional investors are the only investors in the Fund.
1.9. **Separation of Resources:** Have arrangements been made via separate bank accounts and/or cost centres to distinguish new resources provided by the project from existing resources of the organisation? Have these restricted resources been identified separately in the audited accounts? Do these records record investments made, other related expenditure, investment returns, investment gains, and bad debts/investment loses?
It is a requirement of the common provision regulation 480/2014 that ERDF supported funds either are invested in a new Fund with a separate bank account, or if it is a separate block of finance being managed by an existing financial institution, that at the very least that the income and expenditure of the fund be coded to separate cost/income codes to a specific cost centre. A separate bank account is required where ERDF is paid in advance to hold the advanced funds until the point of investment. In the case of a charity operating a micro credit fund, the ERDF advanced should be shown as restricted funds in its accounts. In addition to the transactions i.e. investments, administrative expenditure, the ERDF Recipient must have systems which will allow any returns on investment (i.e. loan repayments, dividends, capital repayments, the proceeds of sales of shares) to be tracked and recorded and the profit element to be correctly identified and recorded.
1.10 Does the Investment Policy reflect the eligibility requirements of the programmes and the target objectives of the Fund?
All funds must operate with an Investment Policy which specifies what are the targeted investments, what can the Fund not invest in, what sectors are excluded; what conditions are required i.e. if it is a co-invest fund, the investment must be made alongside an independent private sector investor on the same terms and the Fund. The eligibility of the investees should reflect national ERDF rules, and comply with

the target areas stated in any invitation to tender used to set up the fund. The ESIF Compliance Officer should compare the Investment Policy with the eligibility rules and tender specifications and also the GFA with DCLG.
1.11 Selection of proposals: What are the procedures for attracting investment proposals / marketing the fund to the widest possible potential investments?
Unlike grant schemes, it is not normally the case that Funds have specific bidding rounds. Instead, it is marketed in a variety of formats. The Fund should be advertised by the organisation operating its website, but should also be actively marketed in a variety of formats. This can include meetings with business organisations, advisor organisations (accountants, business advisors), LEPs and other bodies. The Fund Manager should be able to satisfy the ESIF Compliance Officer that the Fund has not been marketed in a restrictive way, but the format is not prescribed.
1.12 Category of Region: Does the Business Plan demonstrate that the investment(s) will be used in the agreed category of region?
In England the allocations of European Union funding are split geographically into three categories of region, defined under Regulation (EU) No 1303/2013 Article 90, as follows: **Less Developed**: Gross Domestic Product per capita is less than 75% of the EU average. Cornwall and the Isles of Scilly is the only region in England in this category, which means the European Commission can contribute a larger percentage of spend (contribution rate). The maximum contribution rate is 80%. **Transition**: Gross Domestic Product per capita of between 75% and 90% of the European Union average. This category covers Cumbria, Tees Valley and Durham, Lancashire, Lincolnshire, East Yorkshire and North Lincolnshire, Shropshire and Staffordshire, Merseyside, South Yorkshire and Devon. The maximum contribution rate is 60%. **More Developed**: Gross Domestic Product per capita is above 90% of European Union average. The remainder of England falls into this category. The maximum contribution rate is 50%.
1.13 LEP Allocations: Have allocations by LEP area and priority axis been identified and is activity (investments) being monitored against these allocations?
Are these allocations clearly identifiable and is the GR monitoring them to ensure actual activity doesn’t exceed thresholds in each area/PA.
1.14 Eligibility Checks: What checks are carried out to ensure: • the final recipient businesses are eligible and the activity is based in the correct category of region; • that SMEs confirmed by SME test (where relevant) or are an Urban Development project included in the relevant Urban Development Plan in the case of an Urban Development Fund; • when the investment is in an Access to Finance business start-up, development or expansion, confirmation is obtained to ensure they do not meet the definition for Undertakings in Difficulty, not subject to a negative state aid decision, DCLG or Commission recovery order, must not be for re-financing, management buy outs or buy ins, unless following GBER Article 21.
The Fund must have a process to check that any prospective investees conform to the eligibility guidance.

SMEs/Access to Finance Funds

When the fund is targeted at SMEs, the Fund Manager must carry out an SME test. The Model SME declaration can be used. If not used, the test must cover the number of FTE staff, the annual turnover, the total balance sheet gross assets, and must be less than 25% owned or controlled by a non SME. Subsidiaries of public bodies cannot be considered SMEs. Subsidiaries of Universities are permitted if the University holding is 50% or less.

The SME must comply with the IOGs in terms of sectors. It is essential that the SME investment activity is located within the correct category of region as stated and should be checked by post code for state aid eligibility. The BIS post code checker is currently still functional http://aalookup.bis.gov.uk/regional-aa/aa2010_athatest.asp.

The investment must be in start-up, development or expansion. ERDF should not be used for re-financing an existing investment. In particular management buy outs or management buy ins are currently not permitted. You should check the investment proposal for the sample SME for an indication that the investment will be used for new activity.

Funding for working capital is only permitted in the case of small start-up companies.

With regard to Article 21, Risk Finance Aid, eligible undertakings shall be undertakings which at the time of the initial risk finance investment are unlisted SMEs and fulfil at least one of the following conditions:

(a) They have not been operating in any market;
(b) They have been operating in any market for less than 7 years following their first commercial sale;
(c) They require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50% of their average annual turnover in the preceding 5 years.

Exceptionally, an investment that does not meet these conditions could be supported provided it meets all other conditions and is able to attract additional financing from independent investors to achieve an aggregate of at least 60% of the finance provided.

Urban Development Fund Projects

The project must be part of an integrated urban development plan. It should be for a new investment. The investment must take place within the defined area of the UDF. It must meet the specific objectives of the relevant Fund.

1.15 Due Diligence: What is the process for the assessment of proposals once they have passed the eligibility test?

Please provide detail. Checks should include financial projects, market research; potentially it could include reports from specialist consultants on the sector. The assessment will normally also include an appraisal of the strength of the management team of the investee organisation. The criteria should not be arbitrary and should be consistent. It may include a credit check on the previous credit history of the investee organisation. In the case of micro credit funds, these checks are expected to be more light touch. The Fund Manager should estimate the chances of success of the investment. Outside of the standard loan funds, this should include an estimate of the return on the investment and the level of probability of return.

Unless the Fund is operating using the De Minimis provisions, all investments are expected to be commercial with a commercial expected rate of return. The Fund Manager should be able to explain the standard rates of return expected in the relevant sector.

The ESIF Compliance Officer will check that the Fund Manager has undertaken the required due diligence only and not to decide whether the correct decision was made.	
1.16 Conflicts of Interest: How are potentials risks dealt with by staff at all levels, at all stages of the process, i.e. selection, implementation, control of the FI. Have any cases of conflict been recorded?	Art 61 Regulation 2018/1046
Staff involved at all levels (MA, FoF, financial intermediaries) in selection, implementation and control of the FI should declare the absence of conflict of interests and report on any risk in this regard.	
1.17 Investment approval: What is the process for approval of investment proposals?	
Please provide detail. Evidence should demonstrate an appropriate separation of roles, which will be checked by the Compliance Team.	
1.18 Project Progress: Is the project progressing in line with the approved business plan/investment strategy? If not, describe any changes and what impact these have had on the delivery of the project?	
The main areas of concern are the number of SMEs/Urban Development Projects invested in, and the level of investment made. These milestones should be closely monitored. Where ERDF is advanced, the risk of not investing all the funds by the end of the programme is a major concern. However, it is a general tendency of risk capital funds to prefer to make larger and follow on investments into the same successful SMEs, instead of risking a wider spread of investments. If the level of follow on investment is significantly outside of the balance between initial and follow on investments envisioned in the business plan or tender, then this will be reported to the GDT Contract Manager as a concern.	
1.19 Monitoring: How do you ensure that appropriate follow-up of the investment made in the final recipient is being monitored?	
It is important that the investees be monitored on a regular basis, both to ensure compliance and to monitor the probability of investment return. The Fund should have regular arrangements in place which allow it to closely monitor the actual success of their investments. Please provide detail.	
1.20 Reporting: How are any defaults or losses from investment recorded and included in reporting of the FI? What reports are provided to the GDT/ESIF Committee?	
Each Fund is required to report regularly to the GDT for onward reporting to the ESIF Committee and MA. Reports should be on file showing this on at least a quarterly basis. As part of that report the level of loan defaults/investments written down or written off must be included. Please provide a copy of your latest report to the GDT.	
1.21 Exit Strategies: What is the final exit strategy of the Fund?	Art. 78.7 GR 1083/2006 and COCOF sections 5.2 & 5.3
The EGESIF guidance requires all Funds to have provisions which clearly indicate whether the Fund will wind up at a particular point, or whether it will operate on an	

evergreen basis. These arrangements must include the provisions for winding up and a clear indication of how funds will be distributed. The managing authority should have a policy for the re-use of such funds in a manner compliant with the EGESIF guidance. Please provide details of your exit strategy.	
1.22 Return of Funds: Have you as the Fund Manager, earned any interest to date on the ERDF drawn down (idle funds) from DCLG? If yes, please give details.	Art. 78.7 GR 1083/2006 and COCOF sections 5.2 & 5.3
Please provide evidence by way of bank statements, where applicable.	
1.23 Return of Funds: Please list repayments/returns from individual investments (capital and interest) as received to date.	
A full list of returns from investment should be provided including: who the return is from and the type of return provided (i.e. interest on loans, dividends, proceeds from sale of the business). A sample of these returns will be taken and the Legacy Returns worksheet should be used to test whether the level of the return is in line with the investment agreement.	
1.24 Use of idle funds interest: Has the interest received on the total ERDF drawdown (up to 4 tranches) been used in line with the Fund requirements, and before the end date of the Programme?	
The interest earned on each tranche of ERDF money drawn down should be used in line with the Fund requirements and before the 31 December 2023.	
1.25 Establishment of Funds: Was the Fund set up and the first tranche of ERDF drawn down (25%) before 31 December 2017?	
To be checked after December 2017. If this does not take place by the 31 December 2017, per the guidance, the Fund is not allowed to set up an escrow account for follow on investments after the Programme end date.	
1.26 Allocation and use of interest and returned funds: Where received, how have interest and other returns actually been allocated and used?	
The Funds should indicate whether the returns have been reused. If they have been reused, they must be re-used for eligible activities, as agreed with the Secretary of State.	
1.27 Legacy Funds: Has a separate legacy bank account been created to receive/record legacy funds?	Art. 78.7 GR 1083/2006 and COCOF sections 5.2 & 5.3
Has the legacy been deposited in the legacy bank account and has the use of any legacy been agreed in advance by the Secretary of State?	
1.28 Use of Legacy Funds: How will ERDF resources returned to the MA (and to the Competent Authority of the Member State), be re-used for the benefit of similar types of actions?	

What arrangements are in place to ensure that the legacy has been used as per the agreement with the Secretary of State?

1.29 Fund Managers Fee: (i) Was the Fund Manager procured? Y/N?
(ii) If No, please explain why not and how the Fund Manager was selected.

If the Fund Management Fee is not part of the eligible project, skip this section and go to section 2.

Was the Fund Manager procured? If so, the Fee level will have been established in the tender (see below).

The Fund Manager must have either been procured, be the EIB, or be the entrust entity operating on a real cost basis.

1.30 Fund Management Fee rate: On what basis is the fee charged?

The Fund Manager Agreement will be checked. Where procured, the tender outlying the level and what elements were included in the tender will be checked against the actual level of fees charged.

If the Fund Manager was the direct applicant, is the EIB, or has otherwise been chosen in a manner which would not break the Procurement directives, then the Management Fee must be capped as follows:

Body implementing…	General – cap rate-thresholds	Base remuneration: rates p.a./*pro rata temporis*	Performance remuneration: rates p.a./*pro rata temporis*
Fund of Funds	7.00%	For first 12 months* 3.00%	0.50%
		For next 12 months* 1.00%	0.50%
		Following years 0.50%	0.50%
Loans	8.00%	0.50%	1.00%
Guarantees	10.00%	0.50%	1.50%
Equity	20.00%	For first 24 months* 2.50%**	2.50%
		Following years 1.00%**	2.50%
Micro credit	10.00%	0.50%	1.50%
Other	6.00%	0.50%	0.50%

* This relates to the period after the signature of the Funding Agreement, the higher rate can be used only within this period but effectively only for the time from the effective payment of programme contributions to the FoF.
** For equity, base remuneration linked to amounts committed to the financial instrument

Where the Fund Manager has been procured, and the procurement has been tested as compliant, the Management Fee is a fixed amount or percentage established in the tender. The ESIF Compliance Officer will check that the level of charges levied, matches that in the tender.

Where a percentage is being used, this is a percentage of the yearly average of the 'life to the end of the programme period. Obtain evidence from the Applicant/Fund Manager of the monitoring of the costs claimed. Compare this total to the fees actually paid out and assess whether this is in line with the % figure agreed for the project. This will provide an idea of whether the project is 'on track' and will not exceed the % cap at the end of the project. If there would seem to be a potential issue, then the Contract Manager can be informed, and additional monitoring can take place.

1.31 Arrangement Fees: Are arrangement fees charged to the final recipients? If so can you confirm that the arrangement fees are not deducted from the investment paid to the final recipient? Please provide a list of arrangement fees charged by the FI to the final recipient.

If arrangement fees are charged to the final recipient, they must not be deducted from the payment to the SME / Urban Development Project. (CPR, 1303/2013).

At the end of the Programme period, they will normally be deducted from the eligible costs of investment, unless they can be considered to be part of the management costs and is not duplicating the management fee.

It may be considered to be part of the management fee if it formed part of the overall income expectations of the Fund as set out in the tender.

1.32 Monitoring Fees: If monitoring fees are charged to the final recipients, please advise what services are provided which are different than those included in the Fund Managers fee.

Monitoring fees will also be deducted, unless the Fund Manager can demonstrate that they are being charged for different services than the Fund obtains within its Fund Management Fee.

The investment files of the sample of investments are to be tested to check to see what the arrangements are for both arrangement fees and monitoring fees. A sample of income from the fees for the relevant investments will be checked, to see whether or not the terms of the agreement are being adhered to.

2. Financial Management

OBJECTIVE: • **To ensure that the system used for compiling and submitting ERDF claims to DCLG are robust, that advance claims and progress only claims submitted are accurate, based only on verifiable evidence of defrayed eligible expenditure, comprising investment in Qualifying Final Recipients and associated costs and fees within the relevant month/quarter** *"**Eligible Expenditure**" means expenditure in relation to this Project within the Eligibility Rules and in relation to this Project also the Project Specific Eligible Expenditure contained in Schedule 2 of the GFA.* ***Financial Instruments**: This is measured at two points. Initially this is measured on the basis of the ERDF drawn into the Fund, at set up or agreed tranches. At the end of the programme period, defrayal is re-measured on the basis of money invested into the SMEs / Urban Development Projects plus the agreed management and administration costs. Any funds never invested or spent must be recovered from the Fund and the declaration to the Commission reduced. This also applies should the Fund wind up prior to the end of the programme period.*
RISKS: • **Incorrect or unsupported expenditure included;** • **Lack of documentary evidence retained;** • **Incorrect apportionment applied;** • **Co-investment match cannot be evidenced** • **Returns generated by the project are not accounted for appropriately.**

2.1 Financial Procedures: What written financial procedure/processes are in place for the management of the Fund (this includes any used by Product Funds)?
The Fund should be able to demonstrate that all aspects of investments, Fund expenditure and monitoring of returns can be easily tracked, and are clearly separate in their financial systems. The audit trail for expenditure should clearly show the full audit trail to defrayal in the project bank account. Whereas general fund investments are traced to the Fund's bank account, investments should be able to be tracked to the SME bank account.
2.2 Document Availability: Does the Fund operate an organised system for filing original documentation relating to the investments made and expenditure which are easily retrievable and specific to the project, to be available at one site? If your system is purely electronic you will need to demonstrate how this complies with the regulations. *If any copies are being used they <u>must</u> be true and verified copies, authorised by a senior officer as identified in the scheme of delegation.*
The Fund must have clear processes for the retention of full audit trails. Where a Fund is expected to wind up at a specific point, what arrangements are in place to continue to hold the Fund documents until the end of the auditable period?

2.3 Accounting Records: Does the Fund maintain accounting records that allow easy identification of the project? *Whenever possible there should be a separate bank account from the parent organisation or as a minimum, separate cost centres or cost codes should be used for each fund/project to enable a complete audit trail to exist.*	Art 43.3 IR 1828/2006 and COCOF section 2.3 COCOF section 5.1.2 to 5.1.6
Are there separate bank accounts, cost codes? Please provide details.	
2.4 Payment Approval (for non-investment transactions): Who approves the Fund's spend and how is it monitored against the original approved individual investment?	
This relates to the operating costs of the Fund instead of the investments. Normal separation of duties should be observed, in line with the system of delegation.	
2.5 Financial transactions: Please provide details of the main non-investment transactions to date (e.g. salaries, procured services).	
These will be the day to day running costs of the Fund. A sample of these transactions will be tested using the expenditure tab on the worksheet.	
2.6 System of Delegation: What system of delegation is in place which identifies authorisation limits and separation of duties?	
There should be a documented system of delegation, which can be clearly followed by the ESIF Compliance Officer when testing the sample of investments.	
2.7 Named Investments: Please list the investments to date (or provide a separate spreadsheet if so many).	
This should cover all completed investments where the funding has been paid to the investee. The ESIF Compliance Officer will either take all new investments since the last visit in the case of equity funds, or a sample of investments in the case of Funds with large volumes of investments (e.g. loan funds) and will follow the tests within the respective worksheet(s).	
2.8 Contracts: Are there LLPs/Investment Agreements to manage and demonstrate the match funding arrangements as agreed in the FA?	Art 53 GR 1083/2006, art 43 IR 1826/2006 and COCOF – section 2.5
Please provide evidence of match funding.	
2.9 Annual audits: Are the accounts subject to annual financial audit? If so please provide confirmation of the audit certification, by which accountants/auditors and a copy of the latest set of audited accounts.	
Are the audited accounts readily available? Please provide a copy of the latest, together with evidence of certification.	

3. Verification

3.1 State Aid

DCLG is responsible for ensuring that the projects that are selected for ERDF support are compatible with EU law on State aid. As part of the appraisal process, DCLG will assess if any aid is to be approved under a block exemption, an approved scheme, the De Minimis regulation or any other Commission instrument.

3.1.1 State Aid Scheme: is the project operating under State Aid? If so is it the same State Aid solution(s) as stated in the funding agreement? Is the State Aid solution in the funding agreement still valid? If project is operating using pari passu or commercial interest rates to avoid state aid, describe the mechanisms to ensure compliance.

In order to be a non-state aid project/investment, the Fund will normally invest on a commercial basis, either at commercial interest rates in the case of a loan, or in the case of an equity scheme, it should be a pari passu investment, using the market economic investor principle on the same risk and same reward, proportionate to the percentage of the investment attributable to the fund alongside an independent private sector investor. The investor must not be part of the management of the SME, the former owner, or any other related party.

If the Fund is operating under a state aid scheme(s) identify the scheme(s) below:

Activity Type	Scheme	Reference	Total Aid Amount (£)	% Aid Intensity

Where the project is operating under a state aid scheme, obtain a copy of the scheme. Use the relevant sections of the state aid checklist. Choose which scheme the project is using from the drop down menu. The terms of co-investments must be tested to ensure they are truly pari-passu.

3.1.2 State Aid Scheme: If the Fund is operating as non-state aid, identify which mechanism is being used to ensure that it is state aid free i.e. Market Economic Investment Principle, Commercial loan interest rates, pari passu investment with private co-investors etc…

Clarification of mechanism being used required, as per question.

3.1.3 State Aid Eligibility: Describe the system in place to assess the state aid eligibility of beneficiaries, activities, costs and compliance with aid intensity levels prior to intervention in line with the state aid eligibility of the scheme?

Depending on the scheme, there may be different eligibility criteria for the SME. They must undergo the SME test and the level of investment must comply with the scheme.

3.1.4 State Aid Monitoring: Describe the system in place for monitoring the interventions to ensure compliance with the scheme or non-state aid solution

Where the SME must operate or maintain particular conditions, what systems are in

place to monitor them? Where a project is operating under De Minimis, the full De Minimis administrative provisions must take place. The SME must fill out a questionnaire, asking them what other public funding, or grants, they have received in the previous 3 financial years. The Fund must test whether the level of aid they intend to give plus the previous aid would breach €200,000, they must advise the SME of the level of De Minimis aid they have received in £s and €s. They must maintain a database recording both the answers to the original questionnaire and level of aid provided for 10 years after the last intervention. A sample of final recipients will be reviewed to ensure that the above process has been followed.
3.1.5 Recording Information: Describe the system in place for collecting and recording the required information for state aid audits/returns?
If operating under a state aid scheme, the amount invested, the percentage of public money invested, and the percentage of that public money from national sources must be reported to the Commission on an annual basis. What systems are in place to capture and report this?

3.1a Article 21 - Risk Finance Aid

Please only complete the following section if your project is operating under Article 21, if not then please continue to section 3.2.

3.1a:1 If operating under Article 21, Risk Finance Aid, describe the differentiating arrangements with investors.
Provide detail of the arrangements regarding loss sharing, for public and private investors.
3.1a:2 In the case of asymmetric loss sharing between public and private investors, the first loss assumed by the public investor shall be capped at 25% of the total investment. Can you confirm you have arrangements in place to do this?
Provide evidence of documented detail.
3.1a:3 Is the required level of private sector investment related to the stage of the SME, as per Article 21? i.e. more mature SMEs require a higher percentage of private sector investment.
Provide documented evidence.

3.2. Procurement

ERDF Recipients must comply with European Union Procurement Regulations if applicable, and the general provisions of the Treaty. Breach of tendering requirements is the most common reason for claw back of ERDF and the procedures must be carefully followed and monitored throughout the Project.

3.2.1 Grant Funding Agreement: By signing the GFA you have agreed to comply and ensure compliance with EU Procurement Requirements; please describe how the Fund is applying the procurement thresholds as set out in the National Procurement Guidance
Do you have a compliant Procurement Policy which meets and details the requirements of the national procurement conditions?
3.2.2 Formal Tenders (Fund Managers): How were the Fund Manager(s) procured?
Please provide details. Procurement of Fund Managers will be reviewed by the ESIF Compliance Team at the first visit. Procurement guidance and ERDF Form 4-XXX will be used to test procurement undertaken.
3.2.3. Other services: (legal, accountancy, specialist advisors): How were these services procured?
These are more likely to be below OJEU procurements. At least one service procured will be tested, if there are any. Please give detail. If ERDF funding is not used to pay for these services, please insert ‘Not applicable’ and give this reason. E-Claims should be up to date will all relevant procurement transactions, where ERDF money is involved.
3.2.4 Contract Extensions: Have any of the procured contracts been extended? If so what was the justification to allow the extension?
Please provide detail if applicable.

GDT to complete the Procurement Checks ERDF-Form 4-XXX / ERDF-Form-4-XXX, where necessary

3.3 Publicity

It is very important that the use of Structural Funds across Europe is publicised and there are certain specific European Union requirements in relation to publicity and branding.

3.3.1 Regulatory Requirements: Has the Fund fulfilled its commitment to publicise the EU’s contribution to this project as per CPR 1303/2013 including all documentation related to and communications with the final recipient? Please demonstrate and provide evidence that all these conditions have been met.
Where available, please provide a sample of marketing materials for review to ensure that the ERDF logo is present prominently on all marketing materials including the project web site, and that it is the correct version. The web site will be reviewed and a screen print taken as evidence for the ESIF Compliance file.

3.3.2 Final Recipients? What evidence is there that the Final Recipient has been made aware of the support from Structural Funds? Please demonstrate and provide evidence that all these conditions have been met.
A sample of communications with the Investees will be reviewed, e.g. emails. In particular ERDF must be acknowledged in the investment agreement.

3.4 Defrayal

At the end of the Programme, only the expenditure which has been invested into investees, plus the agreed management fee (either as procured or on a defrayed basis), constitutes the total expenditure defrayed by the Fund.

In the case of a Fund where the Fund Manager has ***not*** been procured, the management costs will only be considered to be defrayed where the expenditure has actually been paid out and can be evidenced as below.

3.4.1a Defrayal project. Regulatory Requirements: Has the ERDF advance been spent eligibly and in line with those transactions included on the progress reports?
Where the Fund Manager has not been procured, the ESIF Compliance Team will check a sample of any claimed project expenditure using the expenditure worksheet. A sample of the investments will be tested using the equity or loan worksheet as appropriate. There should be a full audit trail outlining the relevance of the costs to the Fund i.e. timesheets in the case of staff partially involved in the Fund, hourly rate calculations and the payroll. Where the cost is invoiced is it 100% attributable to the Fund? If not, how is it apportioned? The investment levels should be set out in the investment agreements. The final payments for all should be evidenced in the BACS runs or by cheque and visible on the bank statements of the organisation.
3.4.1b Defrayal evidence: What is the evidence of: i) Phased interim payments into the Fund (up to 25% of ERDF per tranche)? ii) Individual investments into Access to Finance projects (SMEs)/Urban Development projects? iii) Fund operational expenditure?
i) Interim payment agreement, drawdown notice, request for drawdown, bank statements. 1st tranche should not exceed 25% of Fund value. The second tranche can only be released when it is confirmed that 60% of Tranche 1 has been spent on eligible items. The third (and any subsequent) tranche can only be released when it has been confirmed that at least 85% of total previous tranches paid, have been eligibly spent. Where the drawdown is contingent on evidence of match funding, the evidence that the private sector investment has gone into the fund or to the investee (co-invest) is required, together with evidence that the payment has been received in the Fund's ERDF capital bank account. ii) Evidence of the investment agreement, the BACS payment / cheque and payment in full from the Fund bank account. In the case of a co-investment, receipt in the SME bank account of both the Fund and the private sector co-investment match. iii) Normal expenditure audit trail as 3.4.1a above.

3.4.2 Pre or Post Project Spend: Has there been any expenditure which occurred before the start date of the Fund or after the end date of the Fund (if the Fund has been completed), which has been included in a claim to DCLG?
This should normally not be permitted. The earliest and latest expenditure dates will be checked. Investments paid post December 2023 cannot be counted even if legally committed prior to that date.
3.4.3 Sub-contractors: If applicable, has the Fund ensured that sub-contractors of the Fund are aware and comply with the requirements relating to defrayal?
Are there any sub-contractors. If so, has ERDF been included in the terms of sub-contracting agreements? Has guidance been provided to the sub-contractors? Agreements will be checked where in existence.

3.5 Document Retention

3.5.1 Regulatory Requirement: Is there a document retention policy (DRP) in place which is in line with the European requirements? Does it include a document location register?
The document retention policy or document retention statement should be provided by the ERDF Recipient to check the above is contained within. The ESIF Compliance Officer will complete this section.
3.5.2 Regulatory Requirement: Are the policy documents compliant with, and capable of meeting the ERDF requirements as set out in the GFA? *"The Beneficiary will make available the original documents or verified true copies of the documents relating to the Project and its implementation and financing if and when required to do so by the Department of Communities and Local Government, the European Court of Auditors, the European Commission auditors, the National Audit Office or Government Office (and also their respective auditors)."* Has this requirement been incorporated into agreements will all delivery partners / agents of the project?
Please provide a copy of your Document Retention Policy; this may either be project specific or organisational-wide. It must however, refer to ERDF requirements.
3.5.3 Post Project Storage: Where and how will the project documentation be stored after the Fund completion date, including all relevant HR and financial records? Does the DRP include or cross reference with a Document Location Register (DLR) whereby project documents can be tracked and easily located, during and after the Fund's completion?
What are the arrangements for records to be retained?
3.5.4 Technological Obsolescence: What technological obsolescence issues been considered? Have plans to retain the systems, software, and equipment necessary to read any electronic format in the future, been included in the Document Retention Policy?
Is electronic back up stored off site? Are documents copied to the Cloud?

3.6 Expenditure

The ESIF Compliance Officer will complete this section.

3.6.1 Defrayal projects only: Has the claim been compiled in line with the claim procedure including the checks made to ensure that expenditure had been defrayed, allocated to the correct budget heading and any management checks made before submitting claims?
The applicant must demonstrate that they are able to provide a full audit trail and there is process for verifying this prior to the claim being submitted.
3.6.2 Expenditure measured by investments made: Is there clear evidence that the full value of the individual investment as per the investment agreement has been transferred to the final recipient?
During testing of investments, the amounts in the investment/loan agreements will be compared to the payment shown on the bank statement.
3.6.3 Actual costs: If applicable, have staff and other *actual* costs, been calculated and claimed correctly in the selected claim(s)? Is there evidence to support this?
Timesheets, hourly rate calculations, payroll, BACS runs, and bank statements will be reviewed where applicable.
3.6.4 Fees: Have fund manager fees been claimed in line with the contracts?
Review the contract with Fund manager. Does calculation of fees being claimed align to terms and conditions of contract?

3.7 Outputs

3.7.1 Recording and Reporting: Describe how the outputs are being gathered and calculated before being claimed, and what baseline data is available in order that the effects of the intervention can be measured?
How do you as the ERDF Recipient ensure that a clear baseline is established before the intervention? Is the output evidence independently verifiable? Does it meet the requirements of the national output guidance?
3.7.2 Audit Trail: Will there be a complete audit trail available at the visit site, on the day of the visit? Their absence will cause the visit to be aborted.
Are full audit trails of evidence of each output claimed on the final recipient investment files? A sample of Outputs achieved will be checked at the visit. All evidence in support of outputs claimed will be required to be present.
3.7.3 Is the project progressing in line with the latest forecast identified on the Project Summary report?
If not in line with the forecast what are the reasons for the lag. Is the level of outputs in line with the level of investment against profile? The ESIF Compliance Officer will complete this section.

3.7.4 What was the explanation as to the progress towards delivery of outputs if this is different from the forecast, i.e. the working budget?
Is the additional input required for the outputs within the remit of the Fund? Are steps taken to increase outputs acceptable? The ESIF Compliance Officer will complete this section.

4. Loan Funds Only

To be used for stand-alone loan funds and loan Product Funds of an Access to Finance/ urban development instrument.

4.1 Loans: Additional Eligibility Check Confirmation is required that the final recipients are unable to secure funding to implement a business plan from standard sources; that loans must not be to a related party to the lender; and are not purely for working capital unless in a start-up business. Please provide detail of the evidence retained to demonstrate this.	
There must be evidence form a third party, bank or other investment vehicle that they were not interested in the loan made. What was the loan for? Is it clear in the investment proposal and agreement that it is for start-up, or expansion?	
4.2 Bank accounts: Does the Fund have a separate bank account for the un-invested ERDF drawdown? Is documentary evidence available, to demonstrate that the bank acknowledges the proprietary interest of the Secretary of State?	
Separate bank statements for the operational fund and the ERDF capital bank account should be provided. The Fund should provide a letter to the bank advising of the propriety interest of the secretary of state related to the ERDF account. The ESIF Compliance Officer will complete this section.	
4.3 Idle Funds: **(i)** Where relevant, please provide a copy of your Idle Funds Policy. **(ii)** What is the mechanism for recording the interest generated by the idle funds and the use of that interest? **(iii)** Has it all been invested in line with the Fund requirements and before the Programme end date?	
(i) Please provide a copy where available. (ii) Please provide detail. (iii) Have any idle funds been invested in line with the Fund requirements and before the Programme end date?	
4.4 Verification: Where any financial product (resources returned and returns) is repaid back to the FI what is the process for tracing it back through the Funds systems?	
As the ERDF Recipient, what is your methodology for chasing repayments?	
4.5 Intended purpose of investment: how do you know that the loan has been used for its intended purpose?	Art 9 (1) (e), CDR 480/2014
Is the purpose for which the support was used the same as stipulated in the business	

plan or other equivalent documents? Evidence such as invoices, accounting documents, external assessments, can be taken into account.
4.6 Loans for specific items: If a loan is for the SME to purchase a specific item, what evidence do you obtain/hold to confirm this?
Where the purpose of the loan is for a specific item, do you hold copies of the invoices, defrayal evidence, photos etc to confirm this.
4.7 Debt Write Off: What is the process for doubtful debtors? What is the process for creating doubtful debt provisions? Where (doubtful) debts exist, what is the evidence that all attempts to recover the loan have taken place?
Do you as the ERDF Recipient have a clear measurable debt write off policy? Is the policy being followed? Are provisions made for doubtful debts? How realistic is it that the debts have not been written off?
4.8 What is the value of the debts written off to date? Has the value of the Fund been reduced?
As the GR, have you written off any doubtful debts? What percentage of the Fund has been lost?
4.9 Level of Defaults: How does the level of defaults/written off investments compare to that predicted in the Business Plan? If there is a difference what are the reasons for the difference?
Please provide detail as applicable.
4.10 Level of interest received: Where relevant, is the level of interest / capital repayment income in line with the investment agreements? If not, why is this not the case?
A sample of returns will be selected for review. The evidence will be required to support the sample of returns selected.

Complete the Loan worksheet
The ESIF Compliance Officer will complete this section.
4.11 Actual Loan Interest: Does the loan interest received correspond with that expected in the investment agreement?
The ESIF Compliance Officer will complete this section.
Comments on Loan Fund checks The ESIF Compliance Officer will complete this section. ***Any Recommendations, Actions or Irregularities arising from this section are listed in the Actions Annex***

5. Equity Funds Only

To be used both for stand-alone equity funds and equity Product Funds which are part of an Access to Finance Fund investment.

5.1 Bank accounts: Does the fund have separate bank accounts for the un-invested ERDF drawdown? Is documentary evidence available to demonstrate that the bank acknowledges the proprietary interest of the Secretary of State?	
Separate bank statements for the operational fund and the ERDF capital bank account should be provided. The Fund should provide a letter to the bank advising of the propriety interest of the secretary of state related to the ERDF account. The ESIF Compliance Officer will complete this section.	
5.2 Idle Funds: **(i)** Where relevant, please provide a copy of your Idle Funds Policy. **(ii)** What is the mechanism for recording the interest generated by the idle funds and the use of that interest? **(iii)** Has it all been invested in line with the Fund requirements and before the Programme end date?	
(iv) Please provide a copy where available. (v) Please provide detail. (vi) Have any idle funds been invested in line with the Fund requirements and before the Programme end date?	
5.3 Co-financed funds only: Who are the match funders of the Fund and how is their match funding evidenced?	
Please provide detail and the supporting evidence for review.	
5.4 Co-Investment Match Funders: Provide a list of the co-investors for each investment and the nature of their investment.	Art 53 GR 1083/2006, art 43 IR 1826/2006 and COCOF – section 2.5
Please provide details of the co-investors where applicable.	
5.5 Co-investment Funds only: Provide evidence to confirm that the final recipient (the investee) has received the investment.	
Please provide detail.	
5.6 Intended purpose of investment: how do you know that the investment has been used for its intended purpose?	Art 9 (1) (e), CDR 480/2014
Is the purpose for which the support was used the same as stipulated in the business plan or other equivalent documents? Evidence such as invoices, accounting documents, external assessments, can be taken into account.	
5.7 Dividends/quasi equity loan repayments/Capital gains: Where relevant, please list any returns on investment and the nature of those returns to date.	
Please provide detail of what has actually been received from each investee to date. A sample will be selected for review.	
5.8 Contingency Plans: What contingency plans does the project have in place around 'Key Personnel' Conditions?	

Provide evidence such as insurance documents.
5.9 Current Value: What is the procedure for ensuring that Investments are recorded at present market value?
Please provide detail.
5.10 Write down of Fund value: What is the procedure for recognising the write down of investment value? Is this reflected in the Funds accounts?
Please provide detail.

Complete the equity worksheet. For Co-investment Funds complete the co-investment worksheet.
The ESIF Compliance Officer will complete this section.
5.11 Returns on investment: Have the dividends/quasi equity loan repayments/ capital gains been properly calculated correctly in accordance to the investment agreement?
The ESIF Compliance Officer will complete this section.
5.12 Level of Write Offs: Is the level of written down/written off investments in line with the business plan? If not what reasons are given for the difference? Are there any concerns with the Fund's performance or management?
The ESIF Compliance Officer will complete this section.
Comments on Equity Funds checks The ESIF Compliance Officer will complete this section. ***Any Recommendations, Actions or Irregularities arising from this section are listed in the Actions Annex***

6. Access to Finance/ Urban Development Funds only

Both the Fund of Funds and each Product Fund will need to complete sections 1, 2 and 3 of this form as well as this section. Loan Product Funds will need to also complete section 4. Equity and quasi equity Product Funds will need to also complete section 5.

6.1 Access to Finance Funds/Urban Development Funds only: Provide details of each bank account for the Fund of Funding and each separate Product Fund? Is documentary evidence available to demonstrate that the bank acknowledges the proprietary interest of the Secretary of State for each fund?
A separate account from the operational account must be maintained for any ERDF advanced and not invested. Each capital bank account holding an ERDF advance must demonstrate that the bank has been advised of the proprietary interest of the Secretary of State.
6.2 Idle Funds: **(i)** Where relevant, please provide a copy of your Idle Funds Policy.

(ii) What is the mechanism for recording the interest generated by the idle funds and the use of that interest? **(iii)** Has it all been invested in line with the Fund requirements and before the Programme end date?	
(vii) Please provide a copy where available. (viii) Please provide detail. (ix) Have any idle funds been invested in line with the Fund requirements and before the Programme end date?	
6.3 Urban Development Funds only: Is each investment part of an integrated urban development plan?	
Please provide evidence to demonstrate this.	
6.4 Intended purpose of investment: how do you know that the investment has been used for its intended purpose?	Art 9 (1) (e), CDR 480/2014
Is the purpose for which the support was used the same as stipulated in the business plan or other equivalent documents? Evidence such as invoices, accounting documents, external assessments, can be taken into account.	
6.5 Fund Structure: What is the process for identifying Product Funds and fund managers?	
On what basis have you as the ERDF Recipient/Fund of Funds Manager identified which funds are required and at which level of funding?	
6.6 Product Fund Managers: Has the Fund of Funds Manager ensured that Product Fund managers of the project are aware and comply with the ERDF requirements and that only investments paid to final recipient SMEs / Urban Development Projects will be considered defrayed at the end of the programme period?	
Has this instruction been provided in the sub manager contracts, instructions or guidance notes? These documents will be reviewed to confirm this.	
6.7 Product Fund Monitoring: What are the arrangements for monitoring the Product Funds by the Fund of Funds Manager?	
How is performance monitored and measured? What procedures do you as the ERDF Recipient/Fund of Funds Manager have in place to address poor performance by Product Fund managers? Please provide details.	
6.8 Flexibility of Product Fund management: Is the ability of the Fund of Funds manager to reduce or close the Product Fund and re-absorb funds into the Fund of Funds recognised in the agreements with the Product Fund managers?	
Any Product Fund manager agreements will be checked.	
6.9 Write downs: What is the procedure for recognising the write down of investment value? Is this reflected in the Funds accounts?	
Is there one procedure across all funds, or are there different protocols for each Fund? Are they being followed? Are the levels of defaults in line with the business plan? Please provide detail.	
6.10 Wind up/Exit of Product Funds: What are the arrangements for the wind up of the Product Funds and returns on investment to the Fund of Funds?	
Are these provisions clear in the Product Fund agreements? They will be checked to	

confirm this.
All Product Funds also need to answer sections 1, 2 and 3.
Comments on Access to Finance Funds/Urban Development Fund checks The ESIF Compliance Officer will complete this section. ***Any Recommendations, Actions or Irregularities arising from this section are listed in the Actions Annex***

Annex 1

Financial Instrument Article 125 Glossary

Access to Finance Funds: Promote the use of financial instruments to improve access to finance for SMEs via Structural Funds interventions. Access to Finance Funds operate with a Fund of Funds which receives the ERDF monies and then distributes those monies into a series of targeted Product Funds, i.e. a micro-loan fund, a proof of concept fund, a start-up equity fund, development equity fund etc.

Beneficiary: The body that implements the financial instrument of Fund of Funds as appropriate.

Buy-out: the purchase of at least a controlling percentage of a company's equity from the current shareholders to take over its assets and operations through negotiation or a tender offer.

Category of Region: In England the allocations of European Union funding are split geographically into three categories of region, defined under Regulation (EU) No 1303/2013 Article 90, as follows:

Less Developed: Gross Domestic Product per capita is less than 75% of the EU average. Cornwall and the Isles of Scilly is the only region in England in this category, which means the European Commission can contribute a larger percentage of spend (contribution rate). The maximum contribution rate is 80%.

Transition: Gross Domestic Product per capita of between 75% and 90% of the European Union average. This category covers Cumbria, Tees Valley and Durham, Lancashire, Lincolnshire, East Yorkshire and North Lincolnshire, Shropshire and Staffordshire, Merseyside, South Yorkshire and Devon. The maximum contribution rate is 60%.

More Developed: Gross Domestic Product per capita is above 90% of European Union average. The remainder of England falls into this category. The maximum contribution rate is 50%.

EGESIF: Expert Group on European Structural and Investment Funds. He Group's main tasks are to assist the Commission in relation to the implementation of existing Union legislation, programmes and policies and to co-ordinate with Member States, and exchange of views.

Co-financing: All Structural Fund resource are required to be co-financed by other public or private resources for MAs to be able to distribute Structural Funds (SF). The Operating Programme (OP) sets out how the SF and its co-financing should be invested, either as grant or through FEIs.

Co-investment: refers to public or private resources additional to SF contributions, which when added to the SF creates a leverage effect. Part of co-investment which constitutes national co-financing of OP is subject to SF regulations. That co-investment which is additional to OP contributions is not subject to SF regulations.

Debt Instrument: means an agreement which obliges the lender to make available to the borrower an agreed amount of money for an agreed period of time and under which the borrower is obliged to repay the amount within the agreed period. Debt instruments may take the form of loans and other funding instruments which provide the lender / investor with a predominant component of fixed minimum remuneration possibly with security, if possible. Interest is normally payable.

Early-stage capital: Financing for enterprises before they initiate commercial manufacturing and sales or generate any profit. This includes seed and start-up financing.

Equity investment: means the provision of capital to an undertaking, invested directly or indirectly in return for total or partial ownership of that undertaking and where the equity investor may assume some management control of the undertaking and may share the undertakings profits.

Escrow account: A contractual arrangement where an independent trusted third party receives and disburses the contributions for the transacting parties, with the timing of such disbursement by the third party dependent on the performance by the parties of agreed upon contractual provisions. (In the UK the third party is normally the law firm responsible to arranging the joint investment agreement).

European Investment Bank (EIB): The EIB is the European Union's bank. It is the only bank owned by and representing the interests of the European Union Member States. It works closely with other EU institutions to implement EU policy.

Evergreen Fund: A fund in which returns which are generated on investments are automatically returned to the general pool, with the aim of keeping a continuous supply of capital on hand for investments.

Exit strategy: means a strategy for the liquidation of the holdings by an investment vehicle or another investor, in accordance with a plan to achieve maximum return, including trade sale, write-offs, repayments of preference shares/loans, sale to another investment vehicle or another investor, sale to a financial institution and sale by public offering, including an initial public offering (IPO). We would normally expect an FI to develop an exit strategy for the liquidation of each of its investment holdings.

Expansion Capital: Expansion capital is financing provided for the growth of an Enterprise, which may or may not breakeven or be profitable. Expansion capital may be used to finance increased production capacity, market or product development, or to provide working capital as set out in a Business Plan.

Financial Instrument: Union measures of financial support to address one or more specific policy objectives. Such instruments may take the form of equity or quasi-equity investments, loans or other risk sharing instruments and may, where appropriate, be combined with grants.

Final Recipient: a legal or natural person receiving financial support from a financial instrument.

Follow on investment: means additional investment in a company subsequent to an initial investment.

Fund of Funds: (Access to Finance Funds/ Urban Development Fund) is a fund set up to invest in several Product Funds or urban development funds or equivalent instruments for energy efficiency and use of renewable energy in buildings, including in existing housing. Where financial instruments are implanted through a Fund of Funds, the body implementing the Fund of Funds shall be considered to be the only beneficiary.

Funding Agreement: Contract governing the terms and conditions for contribution from ESIF programme to financial instrument. This will be established between a managing authority and the body that implements the Fund of Funds or the body that implements the Fund of Funds and the body that implements the financial instrument.

Fund Manager: the individual or entity responsible for implementing the investment strategy and managing the portfolio of investments related to the Fund of Funds or to the financial instruments in accordance with the stated goals and provisions as set out in the funding agreement.

GBER: As part of the simplification of State Aid rules, the Commission adopted a General Block Exemption Regulation (GBER). The main purpose being to remove the need for prior notification and approval of state aid schemes in areas where the Commission has defined the circumstances in which it will find aid to be compatible with the common market.

Fund of Funds (Access to Finance Funds/Urban Development Funds): is a fund set up to invest in several venture capital funds, loan funds or urban development funds or equivalent instruments for energy efficiency and use of renewable energy in buildings, including in existing housing.

Independent private investor: means a private investor who is independent from the SME, in which it invests, including financial institutions, irrespective of their ownership, to the extent that they bear the full risk in respect of their investment. If involved alongside the ERDF FEI, normally on pari passu (see below) terms. There must be no form of subordination of the FEI investment to any other investor.

Investment: means one or more investment rounds in a company.

Investment Advisory Committee: May include representatives of the sponsoring public body and include perform a monitoring or advisory function. However, must not be involved in the actual investment decision.

Investment Committee/ Investment Manager: Group or person responsible for the final approval of investments made by Funds. It must be separate from the Investment Proposer.

Investment Proposer: Officer responsible for identifying investments, carrying out eligibility and due diligence on the investments and proposing them to the Investment Committee for approval. May sit on the Committee but must not solely make the final decision on whether or not the Fund invests.

Key Personnel: means those individuals possessing the necessary capability to manage the Fund of Funds/Product Fund(s) in accordance with the requirements as set out in regulation 1303 and Article 7 of Regulation 480.

Leverage effect: In the ESIF context, the leverage is the sum of the amount of ESIF funding and of the additional public and private resources raised, divided by the nominal amount of the ESIF fund's contribution.

Loan: A loan is a type of debt. In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular instalments at a cost referred to as interest on debt. Interest is normally payable.

Management buy-in (MBI): A management buy in is a corporate action in which an outside manager or management team purchases an ownership stake in an enterprise and replaces the existing management team.

Management buy-out (MBO): A management buy-out occurs when the managers and/or executives of an enterprise purchase a controlling interest in their enterprise from the existing shareholders.

Management costs and fees: Costs: refer to direct or indirect cost items reimbursed against evidence of expenditure. Fees: refer to an agreed price for services rendered established via competitive market process, where applicable, management costs and fees are based on a performance-based calculation methodology.

Micro-credit: Small loans, usually up to €25,000, granted either by institutions specialising in micro-credit or by other financial intermediaries. Interest is normally payable.

Quasi Equity investment: means a type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity and whose return for the holder is predominately based on the profits or losses of the underlying target undertaking and which are unsecured in the event of default. Quasi-equity investments can be structured as debt, unsecured and subordinated and in some cases convertible into equity, or as **preferred equity.**

Pari Passu: literally on equal terms. See independent private investor above.

Replacement capital: means the purchase of existing shares in a company from an earlier investor or shareholder.

Repayable Advance: means a loan for a project which is paid in one or more instalments and the conditions for the reimbursement of which depend on the outcome of the project.

Resources Returned: Resources returned / returns to the financial instrument from investments in final recipients can be categorised as capital receipts and income receipts. Capital receipts tend to mean payments or distributions or other amounts received or to be received by the relevant financial instrument (or Fund of Funds) representing the repayment or return of all or part of the principle or capital element of any interest. Income receipts tend to mean payments to, distributions to or other receipts by the relevant financial instrument representing the payment of income, or the earning of revenue by the relevant financial instrument in respect of its investments other than capital receipts which could include: (i) interest, (ii) dividends and / or (iii) capital gains.

Risk capital: Equity and quasi-equity financing to companies during their early growth stages (seed, start-up, and expansion phases), including informal investment by business angels, venture capital and alternative stock markets specialised in SMEs including high growth companies (also known as investment vehicles).

Risk finance loans: Means loans provided by a financial intermediary to the eligible SMEs on the condition that the intermediary contributes to the financing of such and that the financial intermediary is able to demonstrate on the basis of its previous 3-year financial statements that the loan portfolio supported under the risk finance measure includes a significant number of SMEs which, in the light of its internal rating criteria, would not have been financed without the measure.

Risk sharing instrument: a financial instrument which allows for sharing of a defined risk between two or more entities, where appropriate in exchange for an agreed remuneration.

Securitisation: a transaction or scheme whereby the credit risk associated with an exposure or pool of exposures is tranched, having both of the following characteristics:

a) Payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures;
b) The subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

For ESIF, securitisation is possible under the SME initiative only.

Seed capital: Seed Capital is the financing provided to study, assess and develop an initial concept. The seed phase precedes the start-up phase. The two phases together are called the early stage.

SME: small, medium sized enterprises, as defined in EU law, EC recommendation 2003/361.

Start-up capital: Provided to enterprises for product development and initial marketing. Enterprises may be in the process of being set up or may exist but have yet to sell their product or service commercially.

State Aid: Article 107(1) of the EU Treaty prohibits the granting of State Aid, i.e. a subsidy paid by government to the business or economic sector. A number of exemptions set out he circumstances in which State Aid is, or may be compatible with the Treaty.

Structural Funds (SF): EU structural funds include the European Regional Development Fund and the European Social Fund (ESF).

Undertaking in difficulty: means an undertaking that fulfils the following conditions:

(a) In the case of a limited liability company, where more than half of its registered capital has disappeared and more than one quarter of that capital has been lost over the preceding 12 months;

(b) in the case of a company where at least some members have unlimited liability for the debt of the company, where more than half of its capital as shown in the company accounts has disappeared and more than one quarter of that capital has been lost over the preceding 12 months;

(c) Whatever the type of company concerned, where it fulfils the criteria under its domestic law for being the subject of collective insolvency proceedings.

These rules do not apply to SMEs within the first 3 years of their existence.

Urban Development Funds: Support sustainable urban development and regeneration through financial instrument mechanisms. EU countries can choose to invest some of their EU structural fund allocations in revolving funds to help recycle financial resources to accelerate investment in Europe's urban areas.

Venture Capital: investments in unquoted companies by investment funds (venture capital funds) that, acting as principals, manage individual, institutional or in-house money and includes early-stage and expansion financing, but not replacement finance and buy-outs.

Winding up: a process that entails selling all the assets of a fund, paying off creditors, distributing any remaining assets to the principals, and then dissolving the fund, i.e. liquidation.

Working capital: Working capital relates to the liquid assets an enterprise has available to build its business, but also a measure of its efficiency and financial health. Working capital can be positive or negative, depending on how much short-term debt the company is carrying. A negative working capital means that a company currently is unable to meet its short term liabilities with cash, accounts receivable, or an inventory. Working capital is calculated as current assets minus current liabilities.