

## ANNEX 3

### Special provisions for investments in working capital

**Working capital** is understood as the difference between current assets and current liabilities of an enterprise. **Any element of the working capital of the business may be supported.** Such categories of expenditure may include, amongst others, the financing of payables for raw materials and other manufacturing inputs, including labour, taxes, inventories and overheads, rent, utilities, current debts, funding to finance trade receivables and non-consumer sales receivables.

Eligibility conditions for support for working capital are explained in the [‘Guidance for Member States on Article 37\(4\) CPR – support to enterprises/working capital’](#).

#### How to assess whether support for working capital is eligible?

ESIF programme support for working capital in enterprises, as for any financing to enterprises through FIs, is subject to compliance with the below basic eligibility criteria:

- the types of enterprise and
- at least one of the seven support targets and eligible activities as per Article 37 (4) CPR.

Moreover, support has to be in line with **Fund-specific rules**, the requirements set out under the relevant programme, and the requirements set out under the relevant priority. This means that in specific cases **the eligibility might be further restricted by programme provisions**, e.g. a programme priority may focus only on support to start-ups.

The CPR also requires that such support must **comply with the applicable State aid rules** and stimulate the private sector as a supplier of funding to enterprises. In addition, there are business areas that ESI Funds should not be supporting taking into account also the regulatory framework related to anti-money laundering.

The **funding agreement for the FI** should set the objectives for the use of the funds in line with the conditions explained above.

In addition, the **business plan together with other supporting documents**, presented by the final recipient when applying for a loan, **has to be analysed from this perspective**.

#### How to assess whether support for working capital was used for the intended purpose?

Article 9(1)(e)(xi) CDR stipulates that there is a need to keep evidence that the funds were used for the intended purpose. Therefore, the auditors should verify the following documents.

In line with normal market practices, the need for working capital should be described and documented ex-ante in the business plan or equivalent document which will be the basis for the credit assessment conducted by the financial intermediary.

The latter should allow the financial intermediary/fund manager to assess whether the support for working capital falls under the objectives, and eligible activities and targets stipulated in the funding agreement in line with the above mentioned set of rules.

Since working capital takes the form of additional liquidity for the final recipient, it can be directed to a multitude of purposes from salaries to other running costs, without the possibility to directly link with specific expenses. Consequently, it is not possible to check ‘used for its

intended purposes' against a single 'supporting' document (e.g. an invoice or a contract) or a series of such documents.

The verification of the use of the intended purpose may depend on the purpose (more/less specific) of the requested support for working capital and should be assessed against the business plan or equivalent document when support was requested. For example :

- 1) if the objective of the enterprise is to expand its business activity and invest in its future activities and growth because of new markets and an increase demand for its goods, it may request a loan for working capital to purchase the required input/raw materials to upscale its production. The business plan will explain the need for such extended operational activity, and the time period. The auditors may check the accounting records demonstrating the purchases, or other relevant reports, or a confirmation by the financial intermediary, by the final recipient or a third party, within the context of the monitoring and control procedures as established in the funding agreement (Annex IV CPR).
- 2) if an enterprise takes a loan for working capital to support its everyday operations in general, with no specific purpose attached to it other than providing the benefiting enterprise with short-term cash liquidity, the auditors should therefore focus their checks to the eligibility of the working capital as described above through a review of business plans and loan agreements.

When financial instruments provide support for working capital, the **CRII Plus<sup>1</sup> removes the requirement to provide, as part of the supporting documents, new or updated business plans or equivalent documents.** Furthermore, evidence allowing verification that the support provided through the financial instruments was used for its intended purpose should not be required during controls on the implementation, i.e. no management verifications nor audits can be performed in this respect.

The expenditure for operations fostering crisis response capacities in the context of the COVID-19 outbreak shall be eligible as from 1 February 2020 till the end of the eligibility period of the programming period 2014-2020. **However, in case of ESIF financial instruments, the expenditure is eligible from the date the adequate amendments (if needed) are introduced in the funding agreements.**

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<sup>1</sup> Regulation (EU) 2020/558 CRII Plus, Article 25a(11)