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COMMISSION STAFF WORKING DOCUMENT

Activities relating to financial instruments

Accompanying the document

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on financial instruments supported by the general budget according to Art. 140.8 of the Financial Regulation as at 31 December 2014

{COM(2015) 565 final}

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I. INTRODUCTION

This Staff Working Document (SWD) constitutes an Annex to the report of the Commission to the European Parliament and the Council on financial instruments supported by the general budget according to Article 140(8) of the Financial Regulation[1] as at 31 December 2014. Complementing the information given in the main report, it provides additional specific information on individual financial instruments, on progress made in their implementation and on the environment in which they operate.[2]

In many Member States access to finance for SMEs remains challenging and may jeopardise the economic recovery. At the same time, infrastructure investment needs for transport, energy and broadband networks are estimated at EUR 1 trillion through 2020. Hence, the risk of a funding gap in Europe remains acute, against the backdrop of continuing deleveraging pressures and still significant fragmentation in financial markets across Member States.

In this context, the real economy in the Union and beyond can benefit from EU financial instruments, which aim to alleviate financial market failures – as identified in the relevant ex-ante evaluations – while at the same time leveraging on the positive effects of EU-wide actions.

In general, funds available for public policy are limited and therefore additional resources are needed to pursue public objectives more effectively. For this reason, financial instruments can play a very useful role in catalysing private and public funds by sharing some of the financing risks through limited Union resources, thus providing *financial leverage*. Financial instruments also ensure *policy leverage* by incentivising financial intermediaries to pursue common objectives through alignment of interest, and *institutional leverage* by mobilising EU policy expertise of the institutional actors involved in the implementation chain.

Based on this rationale, financial instruments have already played a significant role by reaching out to important target groups such as SMEs, innovative enterprises and microenterprises, and supporting high-value projects in strategic sectors like transport and energy. They helped address market failures and were able to mobilise significant additional resources from the private and the public sector. For example, the main EU-level 2007-2013 financial instruments dedicated to SME support (CIP-GIF, CIP-SMEG 07 and RSI) and micro-SME support (EPMF) with an overall contribution of more than EUR 1,6 billion (commitments from Union budget), by the end of 2014 supported lending of over EUR 20 billion and also mobilised equity investments of about EUR 1 billion, thus enhancing access to finance for almost 373 000 SMEs.

With the experience gained in the course of implementation, and in the context of programme evaluations, audits and consultations with a wide range of stakeholders, several lessons have been learned on how to further improve the design and management of financial instruments. In particular, the following best practices have been capitalised for the design of the 2014-2020 facilities.

First, more consistency has been achieved in the governance, supervision and control of these instruments through the regulatory framework established in the Financial Regulation, and via standardised contractual arrangements with entrusted entities (Financial and Administrative Framework Agreements, Template for Delegation Agreements, etc.). These efforts have been largely supported by the Financial Instruments Inter-service Expert Group at the Commission level[3] and by the Commission Expert Group 'EU Platform for Blending in External Cooperation' (EUBEC).

Secondly, Financial Instruments will now cover all main types of final recipients over the full funding cycle and will include offer of both pro- and counter-cyclical products to respond flexibly to market needs, based on demand-driven implementation.

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[1] Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012, (OJ L298/1, 26.10.2012).

[2] Reports on Financial Instruments implemented by Managing Authorities in the Member States under shared management, and instruments under the EDF will be prepared separately.

[3] Commission-internal group established for the purpose of cross-policy coordination among Commission services in view of the design and management of 2014-2020 financial instruments.

Thirdly, effectiveness and efficiency have been enhanced through fewer instruments with larger volumes, ensuring critical mass in full consistency with State aid rules. Further, alignment of interest with entrusted entities and financial intermediaries is ensured through risk sharing and fees and incentives.

Financial instruments are thus a proven way to achieve EU policy objectives. They use EU funds to support economically viable projects and attract significant volumes of additional public and private financing. By injecting money into the real economy, financial instruments contribute to the achievement of the EU policy objectives enshrined in the Europe 2020 Strategy, notably in terms of employment, innovation, climate change and energy sustainability, education and social inclusion.

In consequence of the expanded role of financial instruments, this SWD not only provides quantitative information on performance of financial instruments such as leverage and volume of financing supported, but also analyses the macro-financial context of potential final recipients and financial intermediaries, outlining general market developments in the EU policy areas supported and their implications for the financial ecosystem.

Compared to last year, the present SWD has been enriched, notably with further information on instrument performance, volume of financing supported and fiduciary accounts.

The SWD is divided into six parts. After the present Introduction (Part I), it offers an overview table (Part II) of the financial instruments covered.

Thereupon, with the aim to provide a rationale for use of financial instruments in a given policy area, the general context (Part III) describes the EU economic environment in 2014 taking into consideration strategic target groups, sectors, and non-EU regions.

Thereafter, Part IV provides detailed information on each financial instrument. This part is divided into six chapters dealing with equity instruments, guarantee instruments, risk-sharing instruments, and dedicated investment vehicles, as well as instruments in the enlargement and neighbourhood countries and in countries covered by the Development Cooperation Instrument.

Finally, Parts V and VI contain references and acronym lists, respectively.

II. OVERVIEW TABLE

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[4]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2014 (EUR mln)**	**Aggr. Pay-ments 2007-14 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repayments (EUR mln)**	**Admin Expenditure (EUR mln) [5]**
GIF (CIP)[6]	E[7] Old[8]	Dec N° 1639/2006/EC	GROW ECFIN	EIF	Increase the supply of equity for innovative SMEs	SMEs	SMEs with no specific sector / innovative	605,70	625,20	358	984* 3 204**	371*	19,5	18,5
EFG (COSME)	E New[9]	Reg. N° 1287/2013	GROW	EIF	Increase the supply of equity for SMEs	SMEs	SMEs with no specific sector focus	633,00	51,67	32.50	2 600 to 3 900***	360 to 540***	n/a	1,4
InnovFin SME Venture Capital(H2020)	E New	Reg. N° 1291/2013; 1290/2013	RTD	EIF	Improve access to risk finance by early-stage R&I-driven SMEs and small midcaps	Innovative SMEs & Small Midcaps	R&I	430,00	n/a	n/a	n/a	n/a	n/a	n/a
SMEG07 (CIP)	G[10]Old	Dec N°1639/2006/ EC	GROW ECFIN	EIF	Increase the supply of debt financed to SMEs	SMEs	SMEs with no specific sector focus	637,80	649,90	336.15	18 600* 25 445**	356 589*	12,1	17,08

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[4] Implementing Body in charge
[5] Note: Including management fees
[6] The executed budget is computed including EFTA contributions and third countries contribution paid by Participating Countries and/or regularised interest, the same applies also to SMEG07 (CIP) and EMPF-G.
[7] Equity
[8] 2007-2020 financial instruments
[9] 2014-2020 financial instruments
[10] Guarantee

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[4]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2014 (EUR mln)**	**Aggr. Pay-ments 2007-14 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repayments (EUR mln)**	**Admin Expenditure (EUR mln)** [5]
EPMF-G	G Old	Dec N° 283/2010/EU	EMPL ECFIN	EIF	Enhances access to microfinance by reducing microfinance providers' risk	Micro-enterprises/ Households	Micro-finance/no specific focus	23,60	23,87	18,47	160,26* 279,03**	14 448*	0,27	1,84
EaSI-G	G New	Reg. (EU) N ° 1296/ 2013	EMPL	n/a	Microfinance for vulnerable groups/ Support social enterprises	Micro-enterprises/ Households	Micro-finance	190,00[11]	28,40	0	528***	1 350*** Soc. Entr. and 41 000*** Microfin.	n/a	n/a
Loan Guarantee Facility (COSME)	G New	Reg. (EU) N° 1287/ 2013	GROW	EIF	Increase the supply of debt financed to SMEs	SMEs	SMEs with no specific sector focus	686,00	89,13	41,74	14 300 to 21500*	330 000*	n/a	2,45
RSI (2007-2013)	G Old	Reg. (EU) N ° 1291/ 2013; 1290/ 2013	RTD	EIF	Address the financing gap for innovative SMEs and Small Midcaps	Innovative SMEs & Small Midcaps	R&I	270,00	270,00	270,00	831* 3 301**	1 376*	1,32	12,6
InnovFin SME Guarantee (H2020)	G New	Reg. (EU) N° 1291/ 2013; 1290/ 2013	RTD	EIF	Address the financing gap for innovative SMEs and Small Midcaps	Innovative SMEs & Small Midcaps	R&I	1 060,00[12]	168,6	168,6	11* 475** 9 500***	21*	61 000	4,72

[11] Out of which 96 million reserved for EaSI-G (Guarantee facility)
[12] Estimation depending on the effective contribution of H2020 to the SME Initiative

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[4]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2014 (EUR mln)**	**Aggr. Pay-ments 2007-14 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repayments (EUR mln)**	**Admin Expenditure (EUR mln) [5]**
The CCS[13] Guarantee Facility	G New	Reg. (EU) N° 1295/ 2013	EAC	EIF	Strengthen the competitiveness of the cultural and creative sectors	SMEs	Arts & Culture	121,00	n/a	n/a	690***	n/a	n/a	n/a
Student Loan Guarantee Facility	G New	Reg. (EU) No 1288/ 2013	EAC	EIF	Support mobility, equity and study excellence	Students	Education	517,00	28,4	n/a	3 000***	200 000***	n/a	2
PF4EE	G New	Reg. (EU)N° 1293/ 2013	CLIMA	EIB	Support access to finance and/or better financing conditions to EE investors	Private individuals, associations SMEs	Energy	80,00	30	6	540***	n/a	n/a	n/a
RSFF (2007-2013)	RS[14] Old	Reg. (EU) N° 1291/ 2013; 1290/ 2013	RTD	EIB	Improve access to risk finance for R&I projects	Large firms, large & medium Midcaps, Research Institutes	R&I	960,73	960,73	960,73	9 556* 11 313**	98*	136,11	79,69
InnovFin Large Projects InnovFin MidCap Growth Finance InnovFin MidCap Guarantee (H2020)	RS New	Reg. (EU) N° 1291/ 2013; 1290/ 2013	RTD	EIB	Improve access to risk finance for R&I projects	Large firms, large & medium Midcaps, Research Institutes	R&I	1 060	483	483	1 157,2* 2 446,4* 13 250***	15*	None	15,53

[13] Cultural and Creative Sectors
[14] Risk Sharing

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[4]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2014 (EUR mln)**	**Aggr. Pay-ments 2007-14 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repayments (EUR mln)**	**Admin Expenditure (EUR mln)** [5]
LGTT	RS Old	Reg. (EC) N° 680/ 2007; 670/2012	MOVE	EIB	Enhance risk-sharing in transport infrastructure for TEN-T projects	Infrastructure Projects	Transport	250,00	250,00	211,88	497* 497**	6*	35,4	2,56
Project Bond Initiative	RS Old	Reg. (EU) N° 670/ 2012; 1316/ 2013	MOVE ENER CONNECT	EIB	Stimulate capital market financing for infrastructure projects	Infrastructure Projects	Transport, Energy, Broadband	230,00	230	146	493* 840**	5*	7,04	3,71
Risk Sharing debt instruments (CEF)	RS New	Reg. (EU) N° 670/ 2012; 1316/ 2013	MOVE ENER CONNECT	EIB	Stimulate capital market financing for infrastructure projects in transport, energy, broadband networks	Infrastructure Projects	Transport, Energy, Broadband	n/a	n/a	n/a	18 000 to 45 000***	n/a	n/a	n/a
NCFF	RS New	Reg. (EU) N° 1293/ 2013	ENV CLIMA	EIB	Promote the preservation of natural capital	Infrastructure Projects	Environment	60,00	10	3,25	100-200***	n/a	n/a	n/a
EU SME Initiative	RS New	Reg. (EU) N° 1287/ 2013; 1291/ 2013; 1303/ 2013	REGIO RTD GROW ECFIN	EIF	Enhance SMEs financing	SMEs	SMEs with no specific sector focus	815	n/a	n/a	5 723***	n/a	n/a	n/a
FCP-FIS (PMF FCP-FIS)	DIV Old	Dec N° 283/2010/EU	EMPL ECFIN	EIF	Increase access to microfinance	Micro-enterprises/ Households	Micro-finance/no specific focus	80,00	80,00	63,43	114* 292,1**	16 025*	Revenues 8,7 Repaym. 13,4	3,62

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[4]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2014 (EUR mln)**	**Aggr. Pay-ments 2007-14 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repayments (EUR mln)**	**Admin Expenditure (EUR mln)** [5]
Marguerite	DIV Old	Reg. (EC) N° 680/2007	MOVE	M.A[15]	Support infrastructure investment: ransport, energy, renewables sectors	Infrastr. Projects	Transport, Energy, Environment	80,00	80,00	31,32	4 900* 10 000**	10*	n/a	7,8
EEEF	DIV Old	Reg. (EU) N ° 1233/ 2010	ENER	Deu-tsche Bank	Invest in energy efficiency, renewable energy, clean urban transport	Infrastr. Projects	Energy	146,34	146,3	98,55	200* 265**	9*	n/a	5,2
Guarantee Facility under the WBEDIF[16]	EnC[17] Old	Reg. (EC) N°1085/2006	NEAR	EIF	Create the preconditions for the emergence and growth of innovative and high-potential companies	SMEs	SMEs with no specific sector focus	21,90	21,90	21,90	32,46* 97,9**	532*	n/a	1,35
ENEF under EDIF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	11,00	11,00	10,40	77**	10-14**	n/a	0,4
ENIF under EDIF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIB, EIF, EBR DKf W	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	21,20	21,20	21,20	n/a	n/a	n/a	n/a

[15] Marguerite Adviser
[16] Western Balkans Enterprise Development and Innovation Facility
[17] Enlargement countries

Organisation				Policy Targets			Implementation				Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[4]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2014 (EUR mln)**	**Aggr. Pay-ments 2007-14 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repayments (EUR mln)**	**Admin Expenditure (EUR mln) [5]**
EFSE	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Extend loans to local comm.banks and micro-finance institutions in the Western Balkans	Micro-enterprises/ Households	Microfinance/ no specific focus	87,68	26,23	26,00	3 200*	496 716*	n/a	0,55
GGF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Provide dedicated financing for energy efficiency and renewable energy	Micro-enterprises/ Households	Energy	38,60	38,6	38,6	185,1* 281***	11 375*	n/a	0,32
SME Recovery Support Loan for Turkey	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIB	Mitigate the crisis impact for SMEs and contribute to the development of the Turkish economy and employment	SMEs	SMEs with no specific sector focus	30,00	30,00	30,00	299,64* 299,34**	265*	n/a	0,36
NIF	NDC[18] Old	Reg. (EC) N° 1638/ 2006	NEAR	EFI [19]	Mobilise investments to support prosperity and good neighbour.	Infrastructure Projects, SMEs	SMEs, Environment., Energy, Water/Sanit., Social Sector, Transport	1 159	1 159	448,85	26 000*	101*	n/a	12,15
IFCA & AIF	NDC Old	Reg. (EC) N° 1905/ 2006	DEVCO	EFI	Promote investments and key infrastructure	Infrastructure Projects	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	171,57	171,57	45,43	465* IFCA 2 046* AIF	15* IFCA 13*AIF	n/a	4,83

[18] Neighbourhood and other partner countries
[19] Eligible Finance Institutions

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[4]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2014 (EUR mln)**	**Aggr. Pay-ments 2007-14 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repayments (EUR mln)**	**Admin Expenditure (EUR mln) [5]**
LAIF	NDC Old	Reg. (EC) N°1905/2006	DEVCO	EFI	Promote investments and infrastructures	Infrastructu-re Projects, SMEs	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	210,4	210,4	104,86	6 600 * 1 400-1 750***	27*	n/a	3,77
Support to FEMIP	NDC Old	Reg. (EC) N°1638/2006	NEAR	EIB	Provide capital to the private sector of Mediterranean partner countries	SMEs	Private Sector	224,00	224,00	224,00	6 700*	n/a	6,8	23,9
GEEREF	NDC Old	Reg.(EC) N°1905/2006	DEVCO	EIB, EIF	Promote energy efficiency and renewable energy	SMEs	Energy	81,1	81,1	79,5	1 000*	n/a	n/a	0,56

Further explanations:

***Financing supported - Target** – the amount of finance that the operations envisaged to be signed by the entrusted entity with financial intermediaries (or final recipients) are targeted to provide to eligible final recipients.
****Financing supported - Expected** – the amount of that the operations already signed by the entrusted entity with financial intermediaries (or final recipients) are expected to provide to eligible final recipients.
*****Financing supported - Achieved** - the amount of finance that the operations already signed by the entrusted entity with financial intermediaries (or final recipients) have provided to eligible final recipients.

III. GENERAL CONTEXT

1. The EU Economy in 2014

In order to outline the macroeconomic background against which EU financial instruments operated in 2014, the fundamental evolution of key macro-financial variables is sketched out below in this section.

Real GDP

The economic recovery that had started in the EU and in the euro area in the second quarter of 2013 continued, but it struggled to gather momentum in 2014. The subdued pace of the recovery was very much in line with expectations about the rebound following a deep economic and financial crisis. But apart from the crisis-related factors behind the weak growth momentum, in 2014 the uncertainty about the geopolitical situation, commitments to future policy initiatives and energy-price developments have gained importance. While net exports had been the main growth driver in 2013, in 2014 private consumption has become the main growth factor, whereas investment has moderately recovered.

In 2014, real *GDP* grew by 1.4% and 0.9% respectively in the EU and in the euro area, almost entirely driven by domestic demand (Figure 1). Looking ahead, with the help of relatively low oil prices, a lower external value of the euro, and policy support, including the ECB's asset purchase programme ("quantitative easing"), a broadly neutral fiscal policy stance, and the Investment Plan for Europe, economic activity is forecast to accelerate. Real GDP growth is expected to increase in the euro area and in the EU to 1.5% and 1.8% respectively in 2015 and further to 1.9% and 2.1% in 2016.

Figure 1: Real GDP, EU

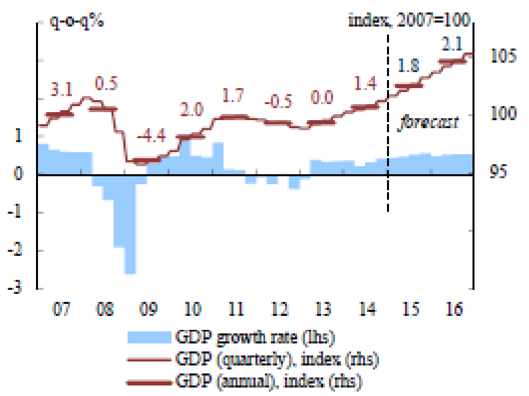
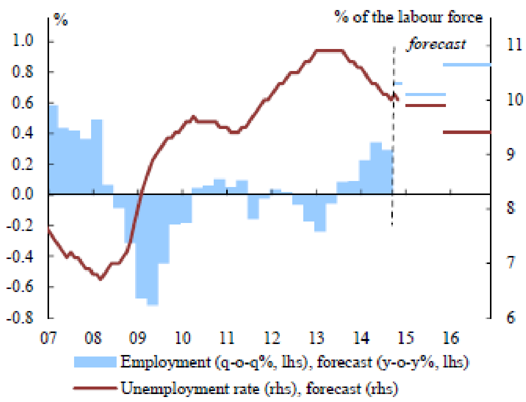


Figure 2: Labour market, EU



Note: Figures above horizontal bars are annual growth rates.

Source: *European Commission (2015)*

Labour market

Since the start of the recovery in the second quarter of 2013 and in 2014, *employment* picked up comparatively fast and strong in response to output developments. Unemployment rates continued following a moderate downward trend throughout 2014 (Figure 2). In December 2014, in the EU the unemployment rate stood at 9.9%, about 0.5 pps. lower than a year earlier, with significant differences across Member States, in respect to unemployment rate, duration and age profile.[20] Thus, the situation in the labour market continues to be reason of concern, in particular in the more vulnerable economies. The expected strengthening of the economic recovery together with structural reforms should trigger stronger net job creation in the second half of 2015 and even more so in 2016.

Public finance

On the *public finance* side, the general government deficit in the EU has continued to decline further from 3.2% of GDP to 2.9% during 2014. According to the European Commission (2015) forecast, non-consolidated deficits should continue falling in the EU to 2.5% in 2015 and 2.0% in 2016. The deficit in the euro area should also continue the decline observed in 2014 (to 2.4%, from 2.9% in 2013), falling to 2.0% in 2015 and 1.7% in 2016.

Inflation and the exchange rate

Prices were stable throughout 2014, and declined mildly in December (-0.1% in the EU, -0.2% in the euro area). Besides the impact of lower energy prices, the persistence of low inflation can also be associated with the remaining slack in the economy and weak domestic demand, as private sector balance sheets had to adjust further and credit channels remained impaired.

The depreciation of the trade-weighted euro *exchange rate* that began in mid-2014 only partly offset the decline in US-dollar-denominated oil prices, and therefore only slowed the decline in headline inflation in 2014.

Financial markets

On the *financial side*, monetary policy in the euro area has become even more accommodative since mid-2014 and some Member States outside the euro area have also cut interest rates. Following the decisions by the ECB Governing Council, short-term money-market rates have declined to close to (or below) zero and also longer-term rates have shifted down. Low policy interest rates, the announcement of additional "quantitative easing" measures (extended asset purchase programme) and reinforced market expectations of a stronger pace of asset purchases by the ECB have supported the upward movement of stock prices at the end of 2014. In combination with expectations about the forthcoming normalisation of monetary policy in the US, the external value of the euro declined vis-à-vis the US dollar.

Investor sentiment towards euro area banks has continued to strengthen amid further progress in bank balance sheet repair and an improved macro financial environment. EU banks have increased their capital levels in recent years, thereby increasing their resilience to market conditions. During 2014, the build-up of capital buffers in anticipation of the ECB's comprehensive assessment and the EBA Stress Test has exceeded EUR 100 bn. Therefore, funding conditions have improved, due to the progressive repair of bank balance sheets and the reduction in the sovereign spread of more vulnerable Member States.

Moreover, by proceeding with the Banking Union in 2014, progress has been made in weakening the links between sovereigns and banks. The establishment of the Single Supervisory Mechanism and regulatory initiatives – such as new bail-in rules – have been crucial in this respect. However, the continued significant correlation between the borrowing costs of euro area banks and sovereigns highlights the need for continued progress. Both banks and governments continued to take action in 2014 to address legacy risks from the

[20] In particular, the unemployment rate of young people, which had started to decline in the second half of 2013, has continued to decline in the last months of 2014, being on average in the third quarter of 2014 lower than in the third quarter of 2013.

crisis. At the same time, progress by euro area governments in implementing fiscal consolidation and structural reforms continued, although the pace was uneven across countries. The improved sentiment has resulted in significantly declining yields on lower-rated euro area government bonds, which in some cases reached levels last seen before the eruption of the euro-area-centred second wave of the global financial crisis in 2010.

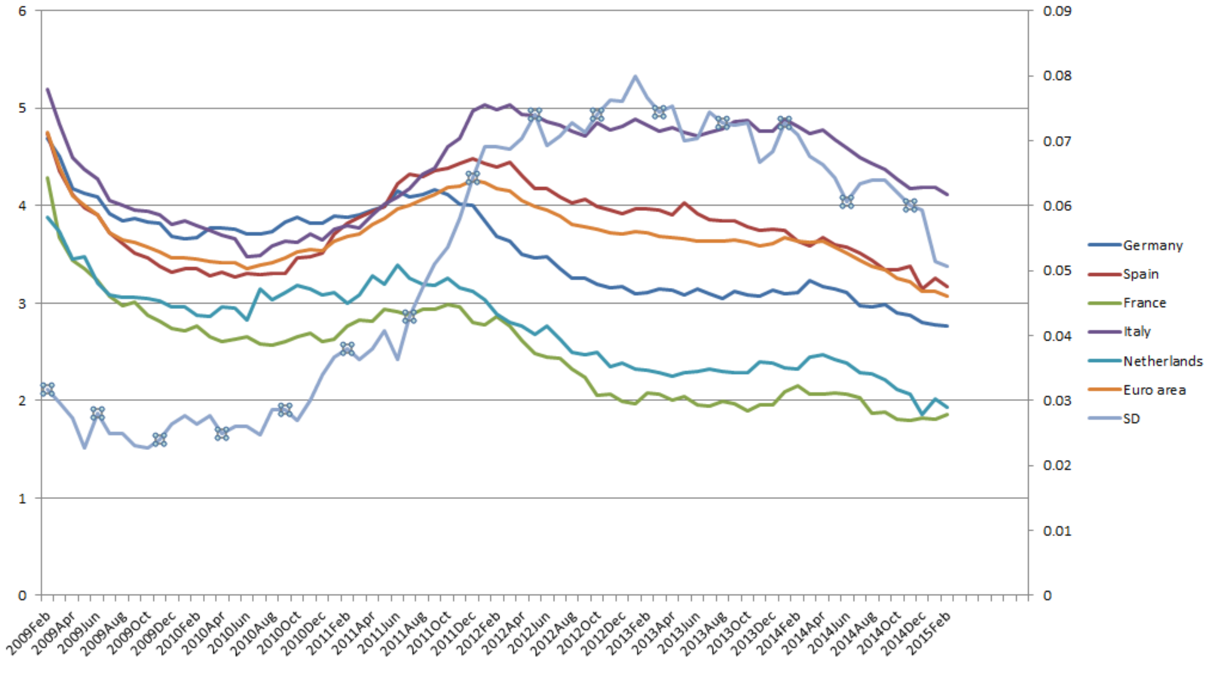
Despite this progress by both banks and governments, financial stability challenges persist.

The financial stability risks faced by the euro area during 2014 can be divided into two broad categories. First, "legacy" issues from the global financial crisis, while receding throughout the year, remained a concern. For the euro area, these mainly related to insufficient progress in addressing weaknesses on the part of both the banking sector and governments. Notwithstanding the strengthening of banks' balance sheets, the banking system was still in need to address remaining fragilities and uncertainties. Persistently weak bank profitability could become a systemic concern if it limited banks' ability to improve their shock-absorbing capacity via retained earnings and provisioning. This could prevent banks from engaging in new lending activities and lead to more structural business model-related concerns in a low growth environment. In such circumstances, banks might have been tempted to take on more risk to improve profitability, which in turn could have made them more vulnerable to future shocks.

The second broad sets of risks were "emerging" risks, which mainly stemmed from a continued global search of banks for yield, as noticed above. This has left the financial system more vulnerable to an abrupt surge in risk premia, which might involve all asset classes.

Figure 3: *Euro Area interest rates on loans to non-financial entities*

(1-year maturity)



Source: *European Commission*

In this context, the prospect of a gradual normalisation of benchmark interest rates coexisted in 2014 with financial market fragmentation across Member States (Figure 3), which continued to reflect the sovereign debt crisis and the vicious spiral between sovereign and bank debt: on the one hand, Governments accumulate debt to support ailing banks, on the other EU banks look at treasuries as a preferred asset.

The trend of interest rates on loans will be analysed more in detail in the next section with specific focus on SMEs.

Relevance of the macro-financial context for financial instruments

The macro-financial dynamics depicted above are bound to affect the performance of EU financial instruments through various channels. For example, the demand of EU financial instruments by financial intermediaries is affected by overall economic activity and interest rates, which inevitably impact on the final recipients' demand for loans and equity. In addition, favourable labour market conditions may encourage the job creation targeted by financial instruments. As a further example, public finance retrenchment may impair a Member State's resource availability, and hence prompt additional demand for loans and equity on the part of financial instruments' final recipients. Moreover, changes in the internal or external value of the currency may affect firms' competitiveness and hence their need for EU financing support.

The following sections analyse in more detail the economic and financial situation of target groups that are of particular interest for policy-making, underlining the rationale for their support through EU financial instruments.

2. Strategic Target Groups

The EU has identified recipients in the business sector based on firm employment, turnover and/or balance sheet, including SMEs (i.e. micro, small and medium-sized enterprises) and midcaps.

2.1. EU SMES[21]

Small and Medium-sized Enterprises (SMEs) in the EU amount to almost 22 million, and constitute the connective tissue of the EU productive fabric: they represent 99.8% of EU companies, almost 60% of GDP (total value added) and near 70% of the total workforce.

Yet despite their economic importance, SMEs typically face greater problems than larger firms in several aspects, including access to finance, especially (but not exclusively) during financial crises.

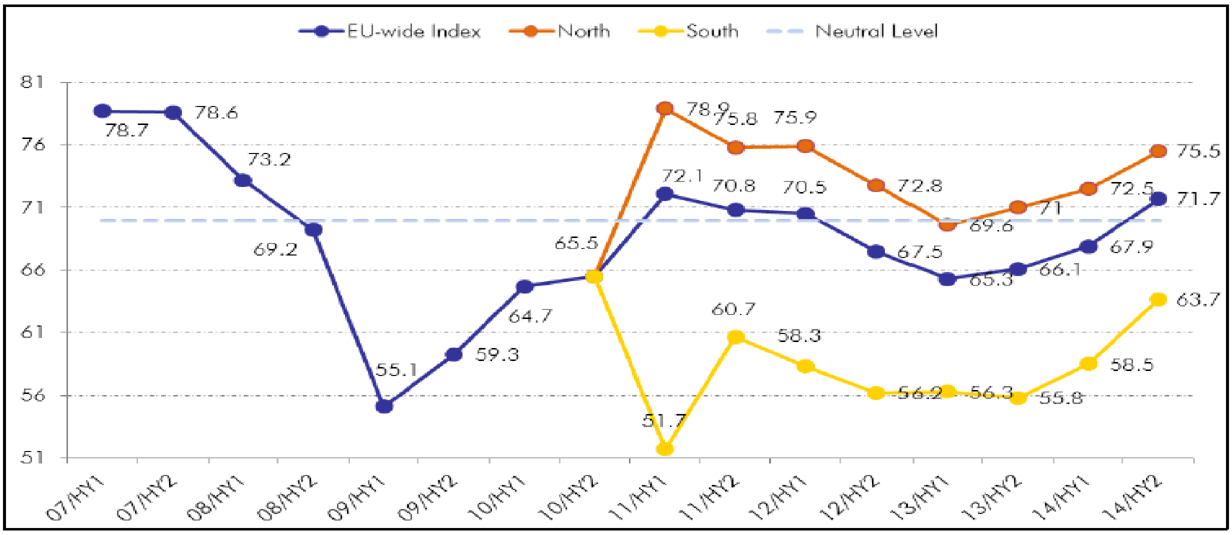
2.1.1. SME Loan Market

2.1.1.1. Demand for SME loan finance

According to the UEAPME (2015), the overall business environment for European SMEs in the second semester of 2014 improved by almost 8.5% from the corresponding period in 2013, recording three consecutive upticks since the first semester 2013 (Figure 5). For the first time since 2012, the Index has risen above its neutral level of 70%, reaching 71.7 percentage points in the second semester of 2014.

[21] The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. (Commission Recommendation, 6 May 2003 C(2003/1422), OJ L124/36, 20.5.2003)

Figure 5: SME Business Climate Index



Note: The UEAPME SME Business Climate Index is calculated as the average of the current situation and the expectations for the next period, resulting from the sum of positive and neutral (meaning: no change) answers pertaining to the overall situation for the business. For example, for "semester A" with 25% positive, neutral 55%, and 20% negative answers, the Index would be (25 + 55 =) 80, and for "semester B" with 40% positive, 30% neutral, and 30% negative answers, it would fall to (40 + 30 =) 70. However, the respective balances of positive minus negative answers would show an opposite result, growing from "semester A" (25 – 20 =) 5% to "semester B" (40 – 30 =) 10%. Therefore, these balances should also be examined, and are reported in UEAPME (2014).

Source: *EIF (2014) (based on UEAPME 2014)*

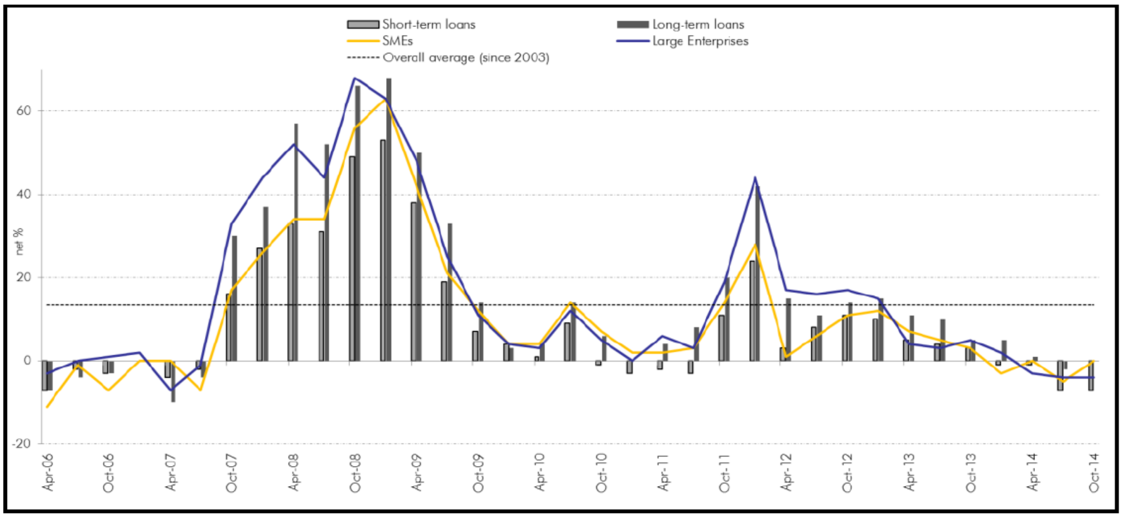
The trend for the EU is rising, indicating that EU enterprises envisage the beginning of a recovery (UEAPME 2014).

Remarkable progress can be noticed especially in the countries of the EU South and the Periphery (Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain) – "South" in the graph. The SME Business Climate Index for these countries has increased by 7.9% in 2014, which is higher than the increase in the EU North and Centre (Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia, Sweden and UK) – "North" in the graph (4.5%). As a result, the gap between the two country groups has narrowed, with the current wedge equal to 11.8%, which is the lowest figure since the beginning of the sovereign debt crisis (UEAPME 2014).

2.1.1.2. Supply of SME loan finance

The current status of bank lending to non-financial corporations – including SMEs – is analysed in the ECB Bank Lending Survey. The survey reports the net percentage of banks contributing to tightening credit standards for SMEs. As shown by Figure 6, a general decrease in net tightening for loans to SMEs has occurred since the first quarter of 2013. In January 2014, a negative net tightening (i.e. a net easing) has been attained for the first time after almost seven years. Henceforth, during 2014 the overall SME net tightening of credit standards stayed essentially unchanged, while remaining slightly higher for large enterprises.

Figure 6: *Changes in credit standards applied to the approval of loans or credit lines to*

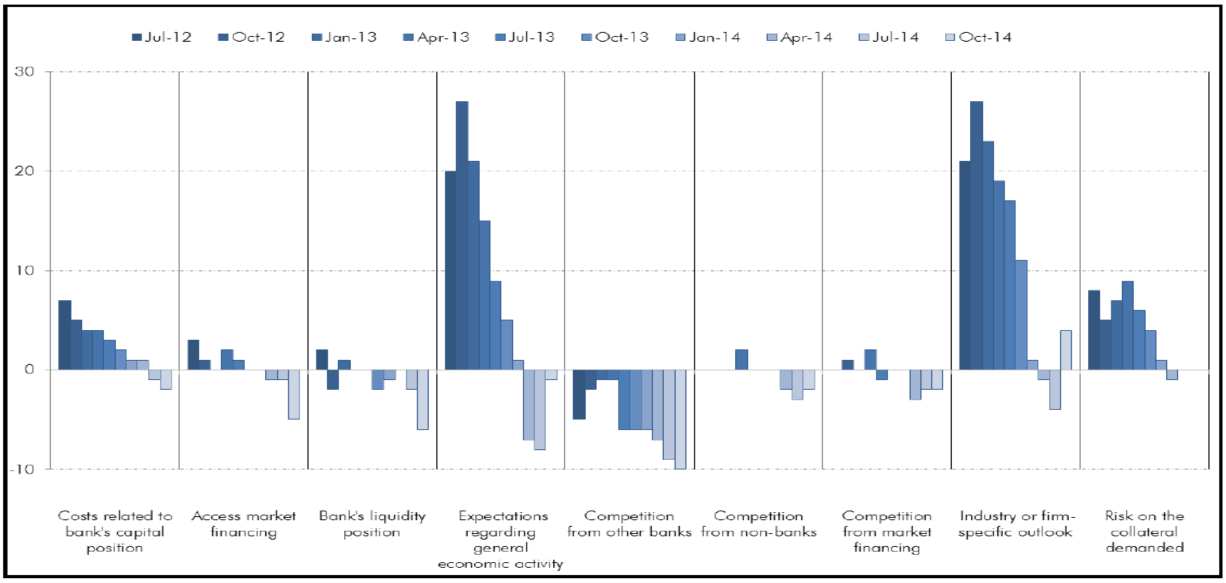


Note: A positive net percentage indicates that a larger proportion of banks has tightened credit standards ("net tightening"), whereas a negative net percentage indicates that a larger proportion of banks has eased credit standards ("net easing").

Source: *EIF (2014).*

In the last two quarters of 2014, several factors including the costs related to bank's capital position, the expectation regarding the general economic outlook and access to finance contributed in net terms to the easing of credit standards for SMEs (Figure 7). It is interesting to notice that the expectations concerning the industry (or firm) specific outlook contributed in the last quarter of 2014 to a tightening of credit standards, whereas the expectation concerning the general economic outlook in the same period contributed to the easing of credit standards.

Figure 7: *Factors contributing to tightening credit standards for SMEs*



Note: The net percentages for responses to questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing.

Source: *EIF (2014).*

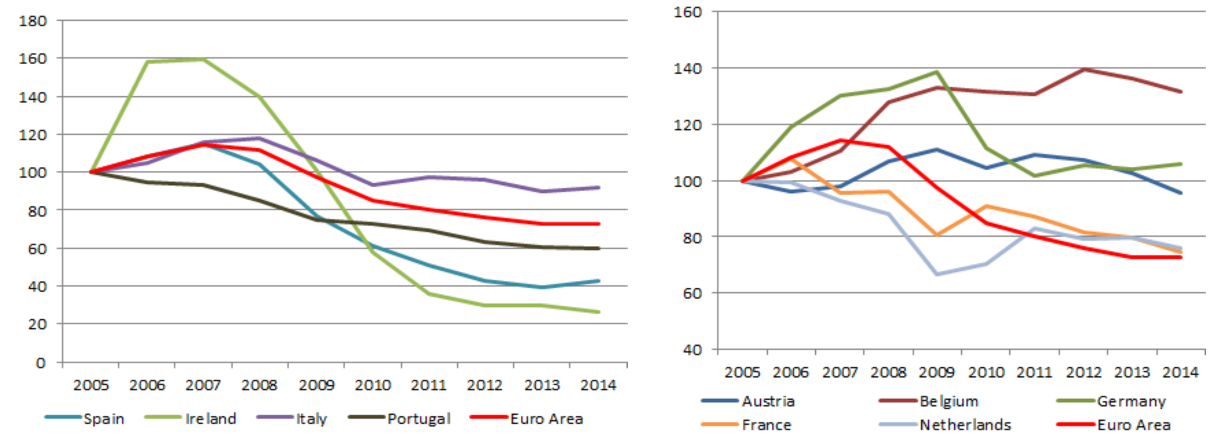
2.1.1.3. Market loan volumes and interest rates

Volumes of SME loans

Credit growth and lending conditions for the private sector in general, and SMEs in particular, have not yet fully incorporated the change in the business climate and financial stability. This picture of still difficult conditions for corporate lending in some Member States and especially for SMEs has been compounded by the continued grim situation in regard to lending volumes. Using again small loans (below EUR 1 million) as a proxy, new SME loan volumes decreased continuously by 36% from their April 2009 peak until June 2013, and stayed essentially stable thereafter, remaining by year-end 2014 21% below their 2003 levels. In comparison, large loans stand today 6% above their 2003 levels.[22] Only small loans up to EUR 0,25 million (data available only since June 2010) are increasing.

Across the Euro Area, new bank lending to SMEs continues to decline from pre-crisis peaks through 2014, but at a slower pace (Figure 8). Among the "South" countries, there were some signs of pickup in Spain in 2014, where economic recovery is taking hold, and a slight uptick in Italy, based on 12-month cumulative flows. In Greece and Cyprus, where liquidity pressures remain acute and credit quality has significantly deteriorated, new lending to SMEs continues to decline sharply. In EU "North" countries, lending volumes have slightly decreased during 2014 across the board, except for Germany. Comparing Figure 8a with Graph 8b, the scale of the volume reduction in the "South" appears much larger than in the "North", so that the former countries lie mostly below the average, whereas the latter remain above.

***Figure 8**: Loan Volumes (New Business)*



Note: End 2004= 100; Loans up to and including EUR 1 million.

***Source:** ECB Data Warehouse*

Outside the Euro Area, new loans to SMEs in the UK increased by over 23% through November 2014 compared with the previous year, although in net terms, the stock of loans fell as repayments remained larger than new lending.[23]

[22] EIF (2014)

[23] The Bank of England defines SMEs as firms with an annual turnover of up to £25 million.

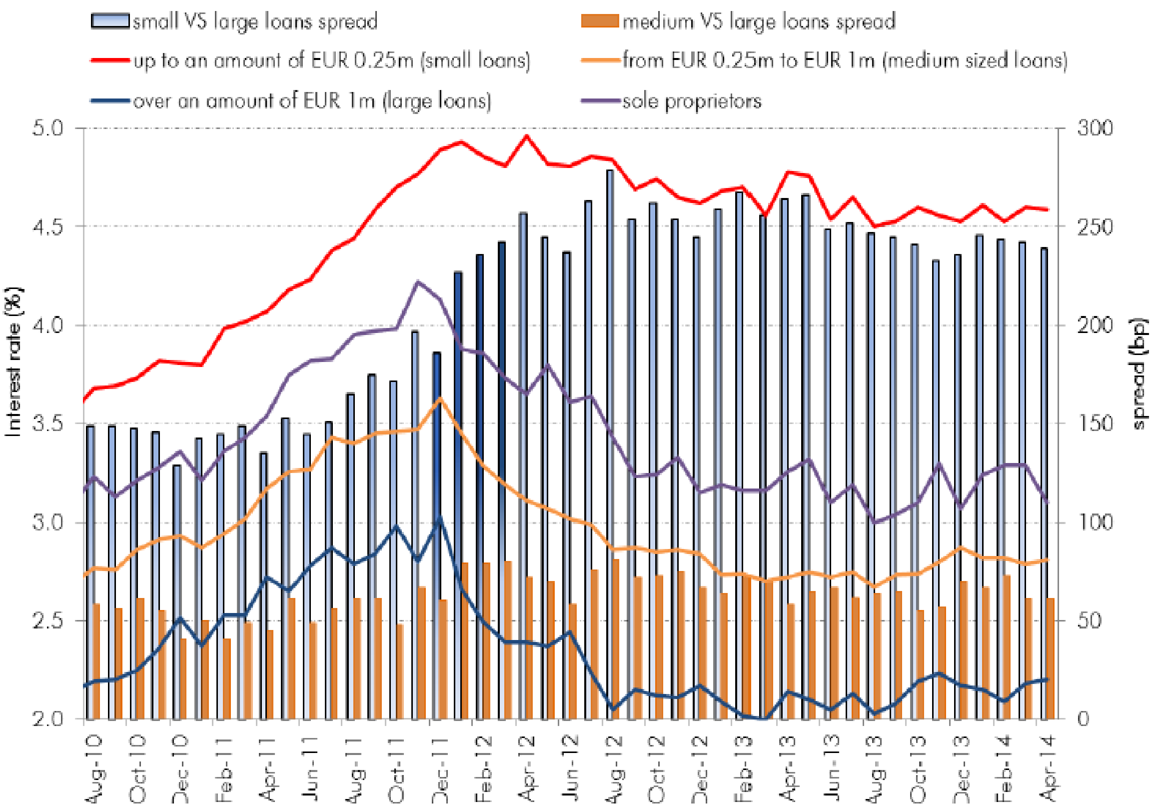
Available data from national central banks on outstanding loans to SMEs – elaborated by IIF (2015)[24] – reports a decline in outstanding loans in Ireland and Portugal since 2012, while in France, loans stocks increased by over 4% from 2012Q1 to 2014Q3.

Interest rates on SME loans

For the Euro area as a whole, medium-size loans (from EUR 0,25m up to EUR 1m) had a rather stable spread over large loans (over EUR 1m), averaging 62 basis points (bp) for the period June 2010 to April 2014 (Figure 9).

The interest rate spread between small loans (below EUR 0,25m) and large loans was higher, but relatively stable at an average level of 145bp from the start of the time series in June 2010 until July 2011; in the following months, this spread showed an increasing trend until August 2012 when it reached a record high of 279bp. Since then, the spread has also been rather stable, averaging 211bp. Thus, financing conditions remain persistently tighter for SMEs than for large firms (ECB 2014), as a consequence of lacking collateral and a supposed divergence in firm-specific risks.

***Figure 9**: SME Loan Interest Rates*



***Source:** EIF Small Business Finance Outlook, December 2014*

Interest rates on new loans to businesses up to €1 million have mostly declined since the start of 2014, with Ireland as an exception, and the spreads between "North" and "South" countries have narrowed, while remaining substantial (Figure 10).

[24] IIF (2015).

Figure 10: *Interest Rates on New Loans to SMEs.*
Comparison EU South and Periphery vs EU North and Centre

Figure 10a: *EU "South"*

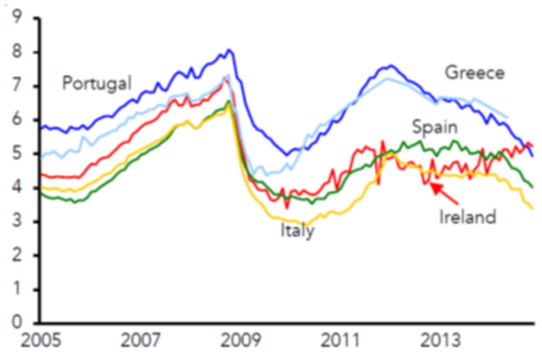
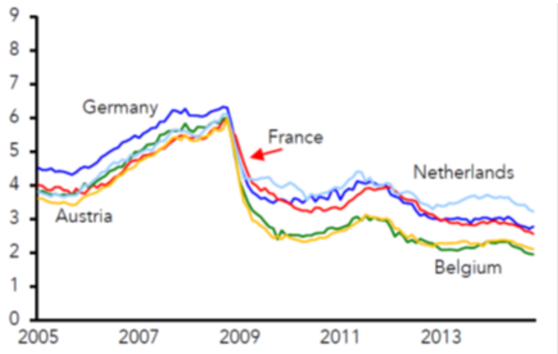


Figure 10b: *EU "North"*



Source: *IIF "Addressing SME Financing Impediments in Europe: A Review of Recent Initiatives"*
Loans up to and including EUR 1 million.

In particular, the difference between the loan pricing conditions for small and large firms remained high in more vulnerable countries, where SMEs remained more dependent on bank funding.[25]

2.1.1.4. Access to loan finance of EU SMEs

As a consequence of this bleak credit dynamics, access to finance is still among the top concerns of the small and medium sized EU enterprises. Younger and smaller firms are the most badly affected, according to the latest "Access to Finance" survey covering the whole EU, released by the European Commission and European Central Bank.

Small EU businesses are increasingly optimistic about their growth prospects but many are still concerned about the lack of access to finance: 13% of survey respondents see access to finance as the most important problem for their companies.

Indeed, more than a third of SMEs surveyed did not manage to get the full bank loan financing they needed during 2014.

In particular, 13% of SME bank loan applications were rejected – a slight increase from 11% in 2013 – and 18% of companies received less than they applied for. In addition, 4% declined the loan offer from the bank because they found the conditions unacceptable and 8% of SMEs were even too discouraged to ask, because of anticipated rejection. The fear of rejection was most often reported in Greece (29% of SMEs), Slovenia (22%), Cyprus (17%) and Ireland (15%). This was particularly the case for young companies: 11% of those who have been in business between 2 and 5 years did not apply for a loan because of fear of rejection.

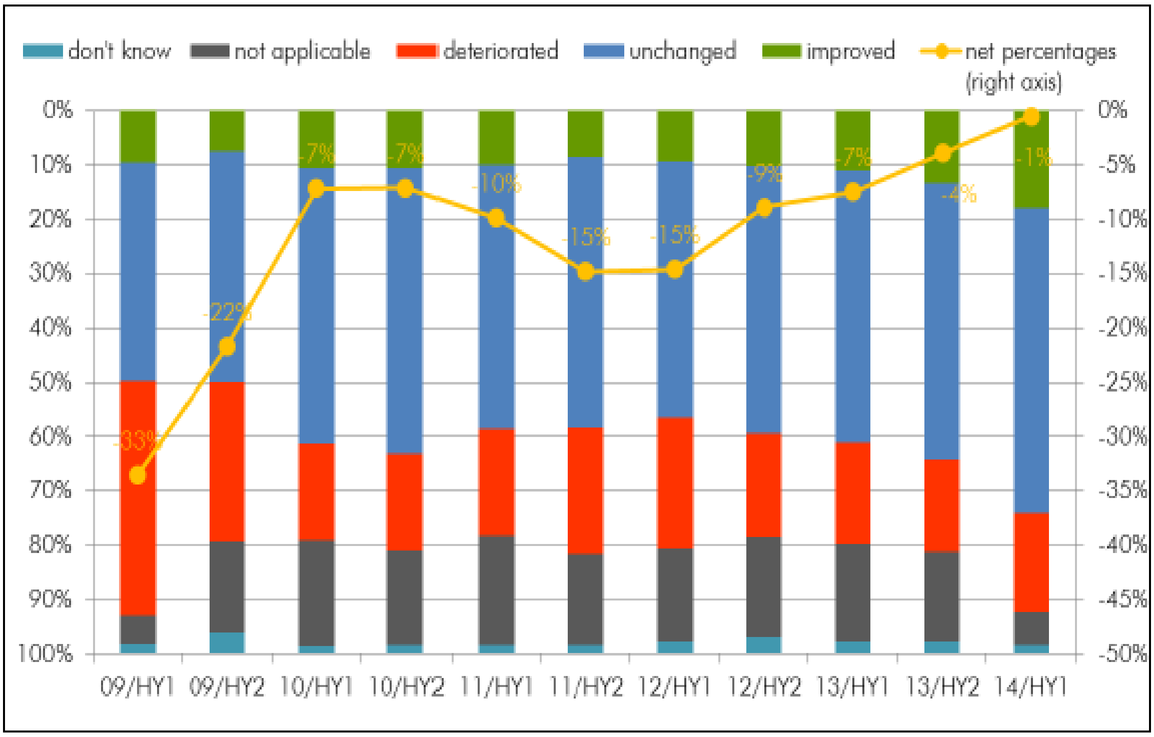
The survey also shows that SMEs are confronted with higher rejection rates compared to larger corporations, a feature magnified in vulnerable Member States. It is also younger and smaller firms that are more likely to obtain only part of the finance they request, or to be outright rejected. The highest rejection rate was among micro companies employing fewer than 10 people (20%) and among SMEs, which had been active for less than 2 years (30%).

While SMEs reported a welcome fall in interest rates for loans, and believe that bank financial conditions have improved during 2014 with respect to loan interest rates, in contrast, SMEs reported a substantial net increase in collateral and other loan requirements by banks to which

[25] ECB (2014). Financial Stability Review. November 2014.

they had applied for loans. Collateral requirements were considered as tightened by SMEs in all EU countries, with the highest average increases in Cyprus, Greece and Slovenia, while the lowest average increases were reported in Poland, Slovakia and the Czech Republic. Figure 11 illustrates the change in availability of bank loans for SMEs in the euro area.

Figure 11: *Change in availability of bank loans for euro area SMEs (over the preceding 6 months; % of respondents)*



Note: "Net percentage" means the difference between the percentage of firms reporting an increase (or an improvement) for a given factor and that reporting a decrease (or deterioration).

Source: *EIF Small Business Finance Outlook, December 2014*

Based on Commission analysis,[26] it can be estimated that up to 10% of EU SMEs that have had difficulty in accessing loan finance[27] are in fact financially viable, in the sense that have experienced a positive turnover growth in the previous six months. The difficulty in accessing finance is compounded by the fact that a majority of SMEs look at external financing as their only source of financing, and bank loans are a relevant source of external finance for 57% of SMEs.

The situation is worse for SMEs undertaking R&I, as banks typically lack the ability to value knowledge assets, and are therefore often unwilling to invest in knowledge-based companies or do so only with a risk premium. In consequence, many established and innovative SMEs find it hard to obtain loans for R&I activities.[28]

The above is also valid for cultural and creative sectors SMEs. Due to sector specificities such as importance of intangible assets, lack of uniform sector definition, asymmetries of

[26] European Commission (2013b).

[27] Note: SMEs that have had difficulty in accessing loan finance are defined as those which: i) have been refused a bank loan; ii) have turned down a bank loan, presumably due to the credit conditions; iii) have been discouraged from even applying for a bank loan.

[28] European Commission (2013a).

information, under-capitalisation, low investment readiness, atypical cash-flow plans and project-centric plans, the SMEs are perceived as riskier. This results in the reluctance of financial institutions to finance SMEs from the cultural and creative sector.[29]

The above circumstances underline again the importance of the EU programmes and Facilities aimed at SME support and addressing market gaps or sub-optimal market situations, especially with respect to the 'access to finance' issue.

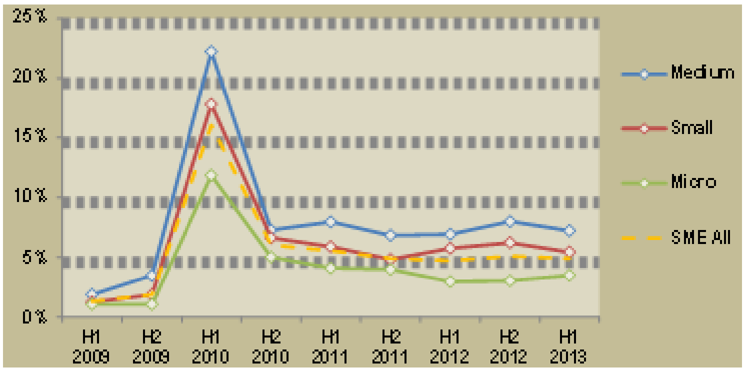
2.1.2. SMEs and the European Equity Market

2.1.2.1. SME Demand for equity

By looking at the demand for equity financing, the latest Survey on Access to Finance of Small and Medium Enterprises in Europe (SAFE) shows that SMEs' needs for equity financing increased in 2014 compared to 2013, with a net increase from 2% to 7%. However, only 20% of SMEs felt confident to discuss financing and obtaining the desired results with equity investors and venture capital enterprises, while 32% did not feel confident. Smaller and non-innovative firms are less confident in their financial competences. In fact, 25% of SMEs considers equity financing not applicable to their firm.

As a consequence, only 3% of EU SMEs used equity financing in the last six months in 2014, registering a decrease from the 5% measured in the 2013 wave (Figure 12).

***Figure 12**: SMEs that used equity financing in the last 6 months, Euro Area*



***Source:** European Commission Elaboration based on SAFE Survey*

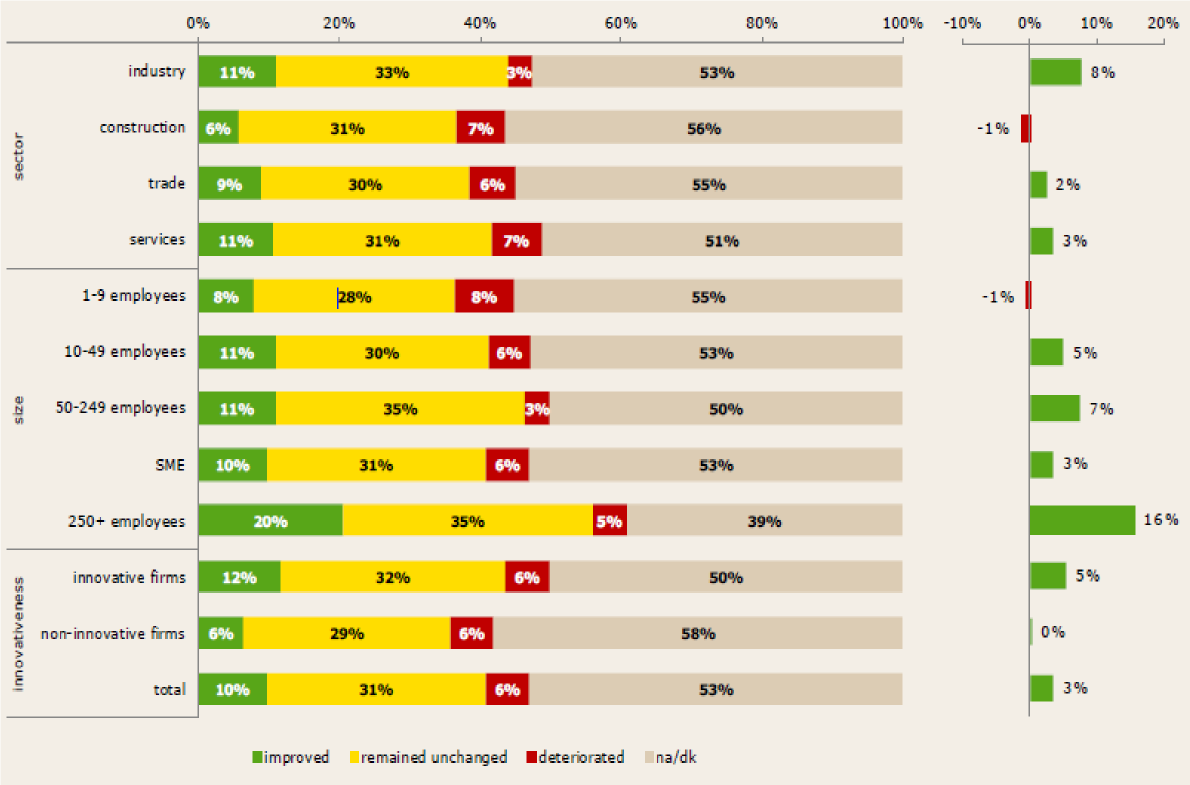
Access to equity financing is nearly twice as common among larger businesses (6% of those with 250+ employees) in the EU, reflecting SMEs' difficulties in accessing this specific financial instrument.

2.1.2.2. Supply of equity for SMEs

In 2014, most categories of enterprises reported an increase in the willingness of investors to invest in equity or debt (Figure 13). Among the 47% of EU SMEs expressing an opinion about the willingness of investors to invest in equity in the past 6 months, most reported no change (31%), 10% reported an improvement while the 6% reported a deterioration.

[29] IDEA (2013).

Figure 13 : Change over the past six months in the willingness of investors to invest in firm equity or debt securities



Note: The results presented in this figure refer only to those SMEs that considered debt securities, equity capital, other loans or other sources of financing relevant to their enterprise. Among the four discerned sectors, a negative net effect is reported by construction only (-1%) with the remaining three reporting a positive net effect.

***Source:** SAFE*

However, the lack of equity finance in Europe is increasingly being recognised as a key bottleneck to the provision of further overall SME funding.

Among the different opportunities of equity financing for SMEs, a crucial role is played by **Venture Capital financing**. Spanning from the seed to the growth phase of companies' development, Venture Capital investments serve 86% of European SMEs seeking equity financing, and 78.5% in terms of total amounts invested in SMEs.[30]

For the purpose of this document, it is thus useful to focus on the Venture Capital market to gain a better understanding of the dynamics of equity financing of European SMEs.

2.1.2.3. Access to Venture Capital of EU SMEs

From a broad supply perspective, the structural challenges in the European Venture Capital market, the difficult fundraising environment, and the still somewhat risk-averse market sentiment, are all sources of significant problems for fund managers in the access to funding in general, and for new funds in particular. Moreover, markets for analysis are underdeveloped, and both private and public investors are disadvantaged in accessing credit information, and therefore find it harder to operate on an equal footing with established

[30] EVCA (2015a). Note that EVCA identifies SMEs as enterprises having less than 250 employees, without any considerations concerning turnover and/or total assets.

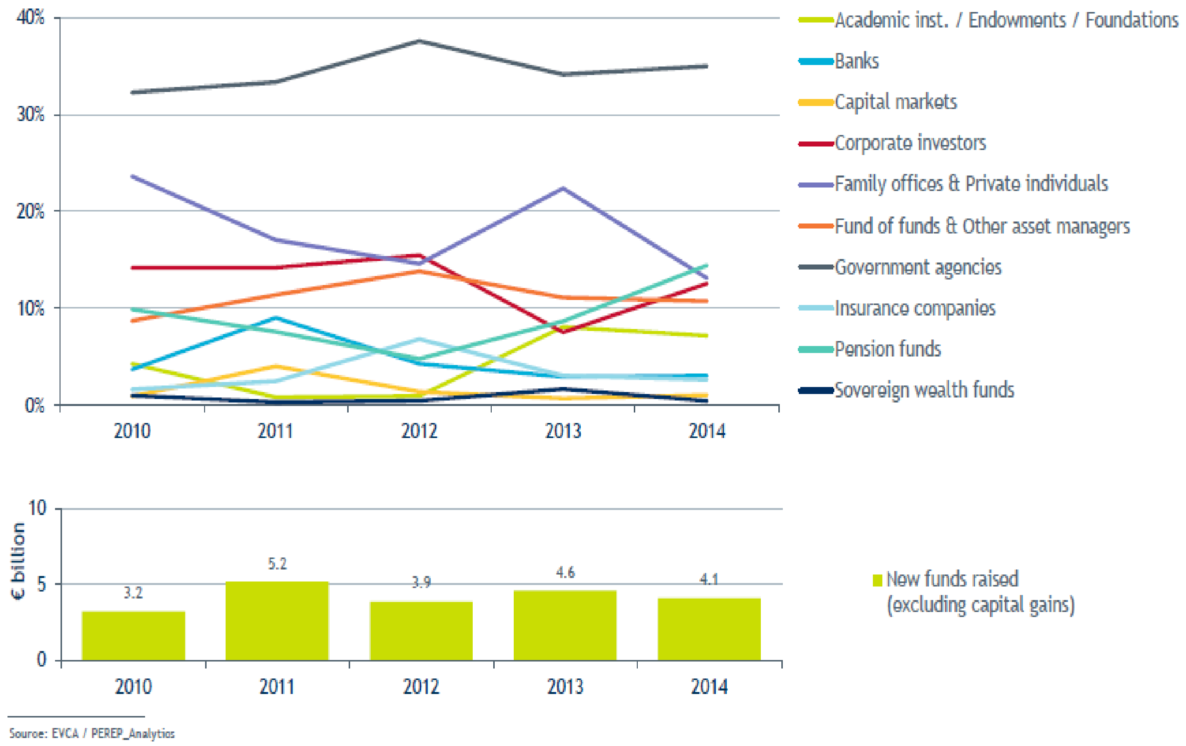
players in the debt-financing sector. This supports a view that public backing is necessary, especially for the early stage segment of the market.

The latest available figures from EVCA (2015a) point to the following trends in the European Venture Capital sector:

a) Fundraising

- Venture Capital fundraising in Europe totalled EUR 4,1 billion in 2014 which represents a decrease of 12% compared to the EUR 4,6 billion raised in 2013 and is broadly in line with the lower volumes recorded since 2009 (Figure 14). Government agencies remained the most prominent provider of funding, representing more than 35% of the total funds raised (compared to 14% in 2007)

Figure 14: *Venture Capital – Funds raised by type of investor*



Note: Incremental amount raised during the year - % of total

Source: *EVCA 2015a*

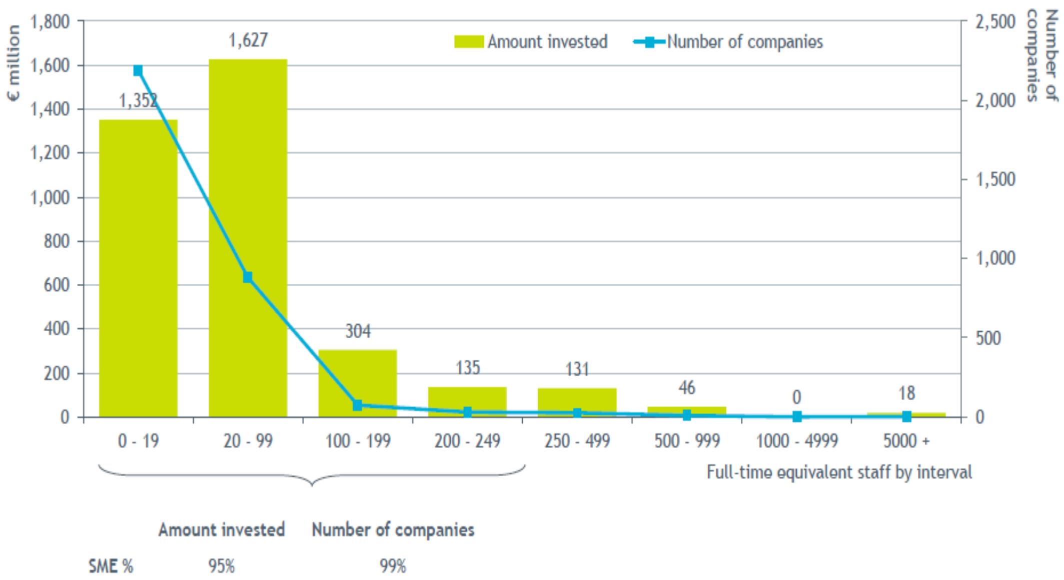
- As regards the geographic breakdown, 46% of the funding came from France and the Benelux region (Belgium, the Netherlands and Luxembourg), followed by 13% from North America and 10% from the UK.

b) Investments

- The total amount of Venture Capital invested in 2014 reached EUR 3,6 billion, up 6% from the total investment volume of EUR 3,4 billion recorded in 2013. This figure is in the same order of magnitude as the volumes recorded each year since 2009 and significantly lower than pre-crisis levels.
- More than 3,200 companies were backed by Venture Capital funds in 2014. Start-up companies were at the centre of Venture Capital funds' attention, as they received 52% of the total amounts invested and represented 60% of the total number of supported companies.

- As regards sectors, life sciences, computer and consumer electronics, and communications accounted over than 70% of all Venture Capital investments.
- In terms of geographic breakdown by equity amount invested in 2014, most of the Venture Capital funds' investment went to France and the Benelux region and to the DACH region (Germany, Austria and Switzerland) with the UK and Ireland each receiving approx. EUR 1 billion of investments.
- While Seed/Start-up/Early Stage funds invested 95% of their capital in SMEs (representing 99% of their target group, Figure 15)[31]; Private Equity funds operating in the *Growth* stage only invested 55% of their capital in SMEs (which still constitute 81% of their target group).

Figure 15: *Venture Capital – Investment by portfolio company size*



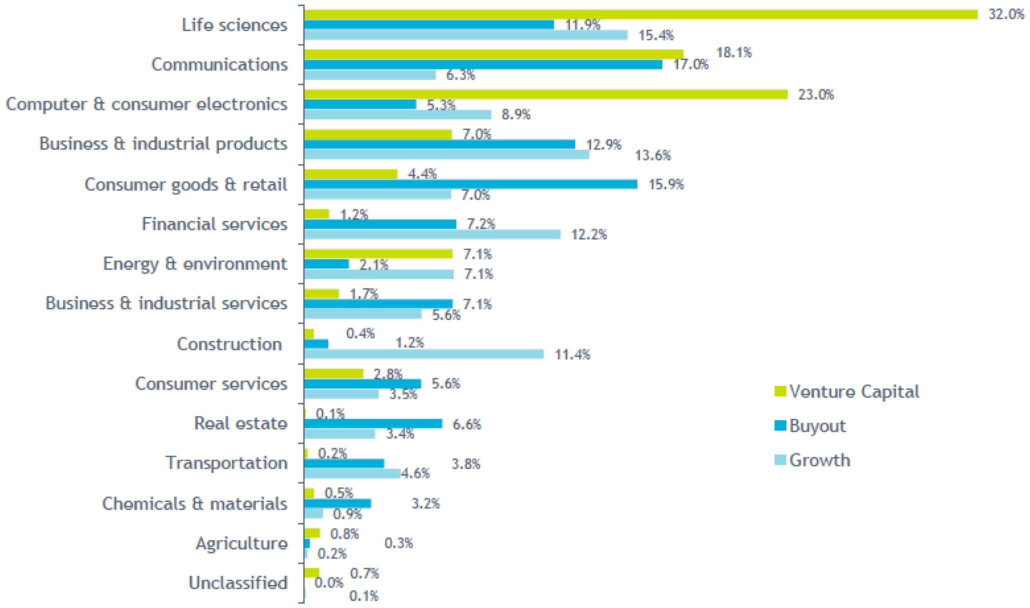
Note: Amount and number of companies
Source: *EVCA 2015a*

c) Divestments

- Venture Capital divestments decreased to EUR 1,9 billion in 2014, up from the EUR 2,2 billion in 2013 but still lie well within the range of EUR 1,9 to 2,4 billion recorded since 2008. Trade sales were the most common exit routes, representing 45% of all divestments.
- The number of exited companies stood just above one thousand.
- The highest financial volumes earned in exits were realised in life sciences, computer and consumer electronics, and communications (Figure 16). The volumes earned in exits in financial services decreased from 18,3% in 2013 to 1,2% in 2014.

[31] EVCA (2014).

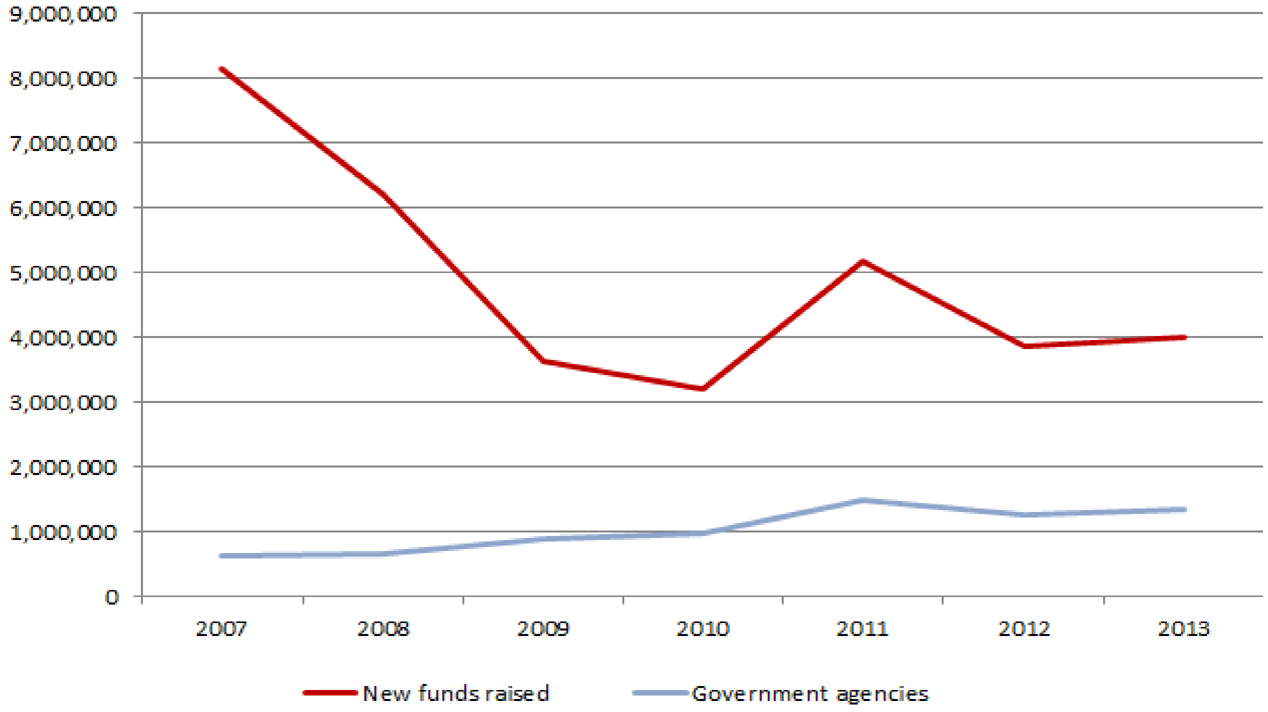
Figure 16: Divestments at cost by sector – Venture Capital / Buyout / Growth



Source: *EVCA 2015a*

As shown above, in 2014, around 35% of funding for Venture Capital came from government agencies, according to EVCA (2015a), and the total amount raised from such agencies for Venture Capital funds in Europe was just under EUR 1,4 billion with government agencies significantly stepping up investments over the past few years.

Figure 17: Government investments and Venture Capital fundraising in EU



Source: *EVCA 2015a*

However, such efforts target mostly national Venture Capital markets, thus contributing less to the emergence of a robust pan-European Venture Capital industry, a crucial factor when it comes to the overall innovative and high-growth capacity of the EU economy.

Importantly, public grants usually dry up as a concept moves from the basic research stage through to applied research, and then to piloting, while private capital is not available until the later stages, when technological and commercial risks have diminished.[32]

These considerations point towards the importance of stepping up the EU intervention in Venture Capital markets in its role as a pan-European institution capable of supporting this asset class by complementing funding sources at both the private market level and national public level.

2.1.2.4. Equity Financing Gap for Innovative SMEs

A recent study commissioned by the European Parliament's Committee on Industry, Research and Energy (ITRE)[33] draws on and synthesises the outputs of a wide range of sources to examine, amongst other topics, the interrelated questions of whether innovative EU SMEs suffer from an insufficient supply of Venture Capital and if Venture Capital funds suffer from a lack of demand for what these funds have to offer.

The study found that the supply of Venture Capital is low in Europe because many institutional investors either withdrew from the Venture Capital market following losses from the bursting of the dot.com bubble and have not returned, or, in the wake of the financial crisis, have ceased to invest in Venture Capital or have moved their focus from seed and start-up Venture Capital investments to later-stage Venture Capital or private equity investments. Europe lacks a pool of large pension funds, university endowments, foundations and family offices willing and able to fill the gap, though public efforts have gone some way to compensate, with government agencies significantly stepping up investments over the past few years.

In addition, Europe suffers from a problem in the quality of the funds supplying Venture Capital: not many are large enough to attract institutional investors or sufficiently experienced in selecting promising companies. Furthermore, the persistent segmentation of the market along national lines reduces cross-border operations and undermines attempts to achieve economies of scale in both fund-raising and investment.

On the demand side, the study found that a common complaint of Venture Capital funds in Europe is the limited number of high-potential firms available for investing in, especially in the early stages, and particularly firms that can be expected to deliver an acceptable rate of return. The causes identified include low relative and absolute levels of R&D expenditure in most Member States, disadvantaging the generation of new ideas; insufficient investment in mechanisms supporting TT and commercialisation; lack of business skills on the part of company management teams and a raft of framework conditions linked to IP rights, public procurement practices, tax regimes, and the flexibility of labour markets.

In the study on financial instruments accompanying the impact assessment for COSME,[34] the authors reject the idea of equating the *aggregate* financing gap in the EU with the amount that would be needed to approach the ratio of Venture Capital investments to GDP found in the US. They argue that this method overlooks structural differences between the two economies

[32] European Commission (2013a).
[33] European Parliament (2012). This study drew on data from EVCA, NVCA, ECB, EC, EIF, IMF and the VICO project's database (http://www.vicoproject.org).
[34] Economisti Associati (2011).

and neglects issues of absorption capacity, such as difficulties in increasing the numbers of skilled Venture Capital fund-managers, or the dearth of investment opportunities. Instead, their approach is to target a doubling of the recent level of Venture Capital investments over five years, requiring, so the authors estimate, a progressively gap-filling increment of about EUR 800 million per year.

The above circumstances underline again the importance of the EU programmes and Facilities aimed at SMEs support and addressing market gaps or sub-optimal market situations, especially with respect to the 'access to finance' issue of early-stage enterprises, including in their expansion phase. In this context, the equity instruments adopted by the EU represent an important measure to address equity financing gaps by leveraging EIB funds while minimising market distortions.

2.2. EU Midcaps[35]

While SMEs are at the centre of EU policy initiatives, mid-sized companies (usually defined as having 250-2999 employees) are increasingly recognised for their important role in growth and employment.

At this stage of the economic cycle and following the constraints posed for the whole EU economy by the financial crisis, mid-caps will play a key role in economic recovery, growth and employment in Europe.

Characteristically mid-sized or mid-cap companies benefit from better name recognition, longer credit history and better product track record than SMEs. In case of mid-sized companies with a stable growth trajectory, this reduces information asymmetries and allows them to have better access to finance than SMEs (1-250 employees), including access to capital market financing. But several mid-caps in the EU are facing the challenge of being obliged to expand and innovate or lose their competitive edge. Those mid-caps need usually to invest in research and development (R&D) and pursue a more active internationalisation strategy than SMEs, with the corresponding needs for equity and debt finance.

A recent study (PricewaterhouseCoopers 2012) estimates the number of mid-caps in the EU to be around 28 000, with about half of them being innovative midcaps. A great part of them has mainly relied on debt finance as their main source of external finance in the recent past. The study also suggests that the market gap in getting access to finance is smaller for mid-sized companies than for SMEs. Most recent data[36] indicates that credit standards were eased on loans to corporations of all sizes.

2.3. EU Micro-enterprises[37]

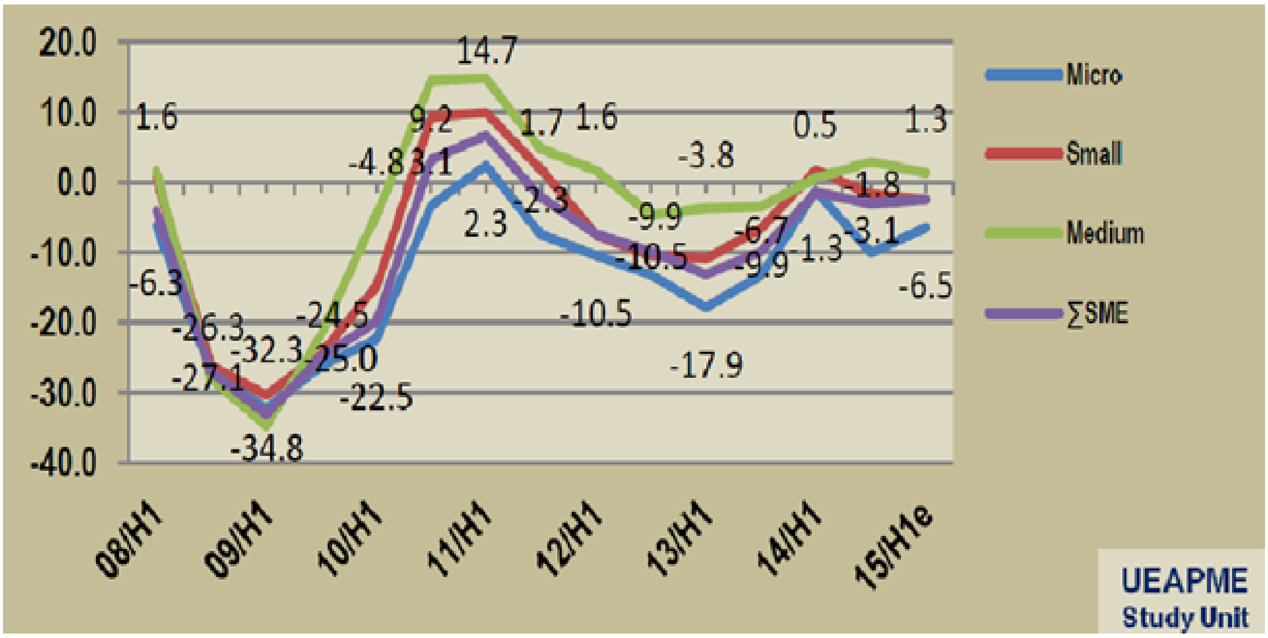
While SMEs represent 99,8% of EU companies, microenterprises constitute 92% of them. As such they are thus decisive for boosting jobs, growth and investment in Europe. In addition, they play an even more important role when it comes to the impact on job creation for vulnerable groups and a resulting positive social inclusion effect. Nevertheless, microenterprises share the same problems as other SMEs, yet typically to a higher degree. Thus, when looking at the expected developments for turnover of SMEs by size classes in 2014, micro-enterprises show a decrease for the last semester, which offsets the positive

[35] At this stage, no EU-wide definition for small midcaps exists. However, for the purpose of Horizon 2020, the Commission defined the small midcap as an enterprise within the meaning of Article 1 of the Title I of the Annex of the Commission Recommendation (C2003/1422, OJ L124/36, 20.05.2003) which i) has up to 499 employees calculated in accordance with Articles 3, 4, 5 and 6 of the Title I of the Annex; and (ii) is not a micro, small or medium-sized enterprise as defined in this Commission Recommendation).

[36] ECB (2015) [Bank Lending Survey, January 2015].

judgement of the first semester. According to their expectations, micro-enterprises will continue facing more difficulties than other SMEs (Figure 18).

Figure 18: *Overall situation of SMEs by class size*



Source: UEAPME(2015)

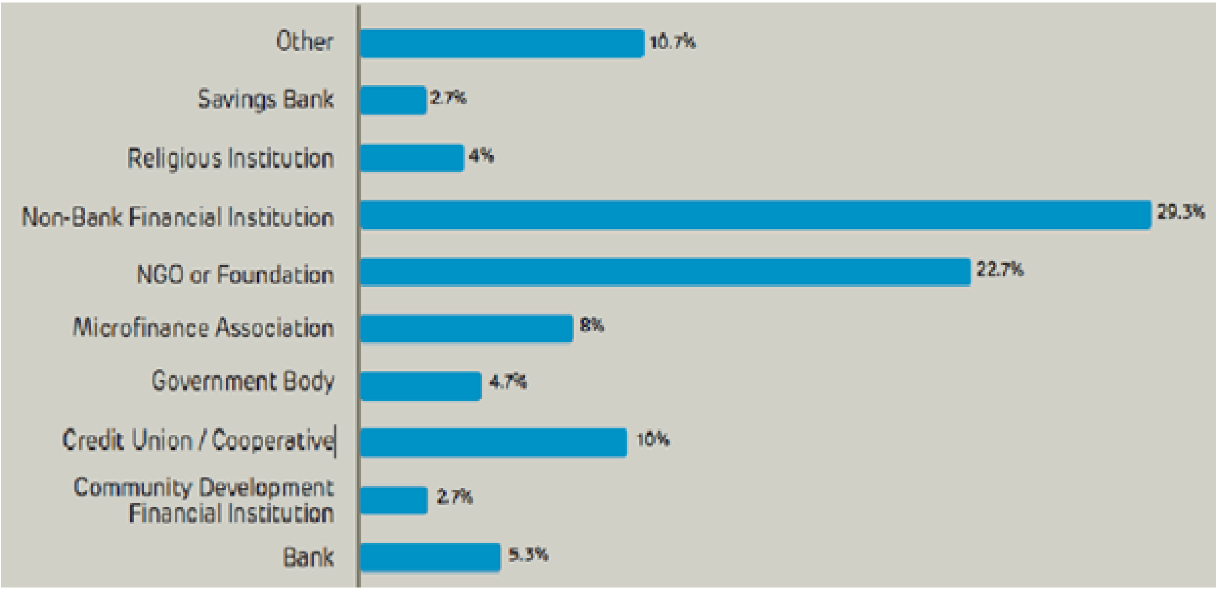
Microenterprises typically face even more difficulties in obtaining financing. Data from the latest Survey on the Access to Finance of Enterprises[38] show that micro-enterprises in the Euro area reported "access to finance" as their third most pressing problem, while it is in fifth place for small enterprises, and sixth for the medium and large ones. Compared to the previous survey wave, the percentage of companies listing access to finance as their most pressing problem has increased for all enterprises, except for micro enterprises.

The main channel of financing of microenterprises is the microfinance market. The European microfinance market is as diverse as its actors. To a large extent, this diversity of institutional structures is related to differences in the national legal environment for loan provision, differences in the established financial systems and the variety of microenterprise promotion and underlying policy directions. The main institutional forms are Non-bank financial institutions (NBFIs), Non-Governmental Organisations (NGOs) or Foundations, Credit Unions and Cooperatives, Microfinance Associations and banks (Figure 19). The decrease of MFIs surveyed structured as NGOs and corresponding rise of NBFIs might be explained by a maturing of the European microfinance sector: existing NGOs may be scaling down their business and consequently changing their legal status to NBFI, since NBFIs can offer a wider range of services and access commercial sources of capital, as they operate under a license from the central bank.

[37] Note: Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. (Commission Recommendation, 6 May 2003, C(2003/1422), OJ L124/36, 20.05.2003).

[38] European Central Bank and European Commission (2014).

Figure 19: *Distribution of MFIs by institutional type*



Source: *EMN (2014)*

In addition to the institutional variety, the European microfinance markets are characterised by a large diversification of the products offered, especially the underlying product features: current average loan term, average interest rate and the presence of additional fees. Based on the most recent EMN[39] Overview Survey, the average micro loan was reported to have featured an interest rate in the range of 10% with large variations across countries.

The European microfinance sector provides mainly microloans (up to EUR 25 000) tailored to micro-enterprises (92% of all European businesses).[40] In 2013, all MFIs covered by the EMN Survey disbursed 387 812 microloans (including personal loans) amounting to a total volume of around EUR 1 530 million. The EU-based organisations surveyed alone reported 207 335 loans with a total volume of EUR 1 260 million. Combined with the results of the past EMN surveys, this indicates a steady growth of the observed micro-lending activities among the MFIs surveyed in Europe since 2009. The number of loans disbursed increased by more than 400%, and the reported total loan volume has more than doubled since 2009.[41]

National aggregate results from Evers & Jung (2014) show that a total volume of EUR 2,4 billion was issued in the form of microloans in the EU-28 plus Switzerland, Norway and Iceland between 2010 and 2012. The aggregate EU-28 level demand for microloans, calculated along clusters of European countries, is estimated up to a total value of EUR 5,1 billion, highlighting a financing gap of around EUR 2,7 billion in terms of total volume issued. At the level of general supply of microfinance in Europe, commercial banks are expected to keep reducing their lending to small start-ups and micro-enterprises. If commercial banks continue to reduce their already limited exposure to risky small scale loan operations over the coming years, the financing gap for micro-financing may be expected to widen.

[39] European Microfinance Network

[40] Note: the figure also includes people who would like to become self-employed but are facing difficulties in accessing the traditional banking services (EIF, 2013).

[41] Due to issues of sample representativeness and attrition (change in surveyed MFIs over time), the survey results presented here should be interpreted and used cautiously.

Over the past two years, support for microfinance initiatives remained high on the agenda of policy makers in many European countries. Especially in Western Europe, the provision of microloans is regarded as a suitable tool for addressing financial exclusion by commercial banks and creating employment opportunities in the microenterprise sector. After years of continuous political support, the sector is expected to deliver on a larger scale its promises to ease the ongoing situation of high unemployment rates, low economic growth and unstable financial sector.[42]

Despite success in widening the sector's outreach, the development of stable funding patterns remains a challenge for microfinance providers in many countries. Aside from public sources, the availability of affordable funding is limited and prone to external influences. Besides job creation, there is a new trend on the agenda – promoted by politicians as well as researchers – green microfinance. Around 13% of the responding MFIs stated that they offer specific green microloans to finance renewable energy, energy efficiency and environmentally friendly activities. In addition, another 37% mentioned that they cover such activities with their normal microcredit programs.

The general public support for microfinance provision is expected to decline in the coming years, due to budget restrictions and high deficits at national and regional levels. MFIs are attempting to prepare for this by developing more efficient and lean processes and reducing costs. Many of them are already looking for additional sources of funding. Especially fast growing organisations report a need for additional equity to secure lending operations and to collect funding in the formal financial market. In this context, the micro-finance instruments adopted by the EU represent an important measure to address microenterprises' financing gaps by leveraging public and (possibly) private funds while minimising market distortions.

3. Strategic Sectors

At the sectorial level, the infrastructure sector performs a crucial role in both development and sustainable growth, in contexts where private enterprises of all sizes and public entities interact to provide the necessary output. Infrastructure improves the productivity of the rest of the economy, enabling growth, and facilitates the interconnection of the internal market.

The EU infrastructure market has been evolving extremely quickly. Whereas institutional investors in Europe were reluctant to enter the long-term infrastructure financing market until a couple of years ago, recent months have witnessed an increased liquidity in the market although largely targeted at a restricted number of countries and sectors. In this context, analysing the existing trends and correctly forecasting the medium-to-long-term orientation of the market will be crucial for creating successful financial instruments. A fundamental challenge for the EU will be to build capacity to perform such tasks covering a variety of sectors.

Investment needs for transport, energy, and telecom infrastructure networks of EU importance – that is, cross-border and of large amounts – are estimated at EUR 1 trillion for the period up to 2020. Significant investment will also be needed in human capital and in R&D, new technologies and innovation as well as energy efficiency under the Europe 2020 strategy and the 2030 climate and energy package. Given the scale of the investment required, the reduction in infrastructure investment by the majority of Member States, it is clear that private sector financing will be important, and should be complemented by possible interventions at a global (e.g., EU) level.

[42] EMN (2014).

In order to increase the ability of the private sector to undertake these investments, EU financial instruments can contribute to provide financing which otherwise would not be available and absorb some of the risks, which the private sector is not able or willing to take.

Given that one of the key market failures emerging in infrastructure is the lack of mature projects, efforts should be concentrated not only on the development of appropriate instruments but also on the provision of technical assistance to assist national authorities to prepare eligible projects. In this respect, additional efforts will be made to extend the pipeline of projects benefiting from EU financial instruments outside of the core sectors and core geographical markets.

The long-term financing required to fund infrastructure embodies some key features that the policy-maker should take in due consideration:

- It finances productive activities which support growth by reducing costs, diversifying means of production and creating jobs in a smart, sustainable and inclusive way;
- It is patient, in that investors take into account the long-term performance and risks of their investments, rather than short-term price fluctuations. This long-term perspective acts in a counter-cyclical manner and promotes financial stability;
- It is committed, in that investors take longer-term aspects such as environmental, social, governance issues into account in their investment strategies.

The climate of uncertainty and risk aversion created by the financial and economic crisis has affected both the demand and the supply of long-term financing. On the demand side, this has been evidenced by reduced demand from SMEs, Private Public Partnerships and other investment projects requiring long-term financing, resulting in a suboptimal level of long-term investment and financing. On the supply side, the crisis has increased risk aversion, leading to a preference for liquidity. This, together with bank deleveraging, has affected the economy's ability to finance itself at long maturities. The sub-optimal levels of long-term financing also reflect market failures and inefficiencies in the intermediation chain.

3.1. Research and Innovation

The financial crisis had a significant negative impact on innovation. Since 2012, the percentage of firms that managed to bring new or improved products to the market has declined across all industries in the EU-27. There are various reasons for this:

- public support for innovation decreased in several countries because of the priority given to fiscal consolidation;
- a fragile banking sector forced to restore its balance sheets meant that innovating firms had additional difficulties finding external financing;
- the reduced demand for goods and services, together with greater uncertainty about the future, made long-term R&D projects with high sunk costs more risky (OECD 2012).

The above effects were only partially compensated by other offsetting factors. First, there was a shift of focus towards process innovation, aiming at reducing costs and prices. Second, by lowering demand, the financial crisis reduced the opportunity costs of spending on innovation rather than output (OECD 2012, Barlevy 2007).

Nonetheless, EU Industrial R&D Investment Scoreboard data and PCT patent applications from the WIPO database show that innovation activities declined. As compared with pre-recession levels, a large proportion of European firms decreased their spending on innovation following the outbreak of the crisis. Indeed, the 2009 Innobarometer also provides evidence of the negative impact of the crisis, showing a substantial impact on firms in the medium and high innovation-intensive sectors.[43]

Against this backdrop, an effective pursuit of the Europe 2020 Strategy's objectives and headline targets requires a recovery of R&D activities, and possibly an acceleration to meet the 2020 target of 3% R&D expenditure over GDP. To this purpose, the effectiveness of the R&I financing can be enhanced by the adoption of dedicated EU financial instruments.

3.2. Transport

The existence and quality of an integrated transport network (comprising road, rail, inland waterways, maritime, airports and air traffic management) is strongly correlated with international competitiveness of the country, due to reduced travel and transportation times, better interconnections between the modes of transport, and integration of regional and national production sites with distribution and selling channels targeting the national and global markets.

Transport infrastructure is therefore fundamental for the mobility of persons and goods in the internal market, and for the economic, social, and territorial cohesion of the European Union. According to DG MOVE data, the EU comprises 5 000 000 km of paved roads, of which circa 65 000 km are motorways, over 213 000 km of rail lines, of which more than 110 000 km electrified, and nearly 43 000 km of navigable inland waterways. In order to address those transport investment from a systemic perspective, the EU adopted in 2013 a regulation on Union guidelines for the development of the trans-European transport network[44] (TEN-T Guidelines).

The regulation establishes a legally binding obligation for the Member States to develop the so-called "core" and "comprehensive" TEN-T networks. In addition, the regulation identifies projects of common interest and specifies the requirements to be complied with in the implementation of such projects.

The core network overlays the comprehensive network and consists of its strategically most important parts. It constitutes the backbone of the multi-modal mobility network Europe's citizens and businesses need. It concentrates on those components of TEN-T with the highest European added value: cross-border missing links, key bottlenecks and multi-modal nodes. The core network is to be in place by 31 December 2030 at the latest.

The cost of EU transport infrastructure development is estimated at over EUR 1,5 trillion for 2010-2030. The completion of the TEN-T network alone requires about EUR 550 billion until 2020 out of which some EUR 215 billion can be referred to the removal of major bottlenecks. This compares with total investment on transport infrastructure during the period 2000-2006 of EUR 859 billion.

The Connecting Europe Facility (CEF) Regulation[45], adopted in December 2013 laid down a financial envelope for the period 2014-2020 of EUR 33 billion, of which EUR 26 billion are allocated for the transport sector. The overall contribution to the CEF financial instruments is up to 10% of the overall financial envelope of the CEF budget.

The CEF regulation established detailed provisions for the design and implementation of financial instruments in support of TEN financing needs. Due to the proposal of the

[43] European Commission (2014a).

[44] Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network, OJ L 348, 20/12/2013.

[45] Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, OJ L 348, 20/12/2013

Commission on the establishment of the European Fund for Strategic Investments (EFSI), it is expected that EUR 2,7 billion will be transferred from the Transport CEF funding towards this new initiative.

In January 2014, the Commission adopted a Communication and a delegated act (EU) N° 275/2014 setting the transport funding priorities for the CEF implementation 2014-2020.

In July 2014, the Commission concluded the ex-ante assessment required for setting the new financial instruments under the CEF. The assessment led to the design of a new CEF Debt Instrument, funded with EUR 2,6 billion, in which all previously existing instruments, namely PBI and LGTT will be merged into. As foreseen in the regulation, the Commission will entrust the implementation of the CEF Debt Instrument. The implementation will be entrusted with the EIB by means of a new Delegation Agreement.

In September 2014, the Commission launched a call for proposals for co-financing projects with EUR 11,9 billion of EU funding to improve European transport connections. This is the largest ever single amount of EU funding earmarked for transport infrastructure. Applicants had until 3 March 2015 to submit their bids. Most of the CEF funds should be focused on major cross-border projects and main bottlenecks on the 9 TEN-T multimodal Corridors, as well as on traffic management systems, which allow making the best use of the existing infrastructure (European Rail Traffic Management System (ERTMS) for railways, and deployment of new generation of air traffic management technologies and procedures (SESAR) for aviation).

The CEF will support primarily projects listed in Part I of the Annex to the CEF Regulation, which have been pre-identified by the Commission in consultation and cooperation with the Member States concerned. The transport infrastructure investments require long term commitments from the national authorities in charge of infrastructure planning and procurements in order to establish the necessary credibility and transparency among all actors involved in the planning and financing of infrastructure, including the public and the private sectors.

The transport infrastructure lifecycles, depending on the sector, are very long term (above 30 years for roads, with necessary maintenance cycles), which in the absence of sufficient supply from long-term bank lending (corresponding to the lifetime of the infrastructure financing, including the spending on the maintenance), or high expectations on the rates of return from the equity providers, leads in many cases to postponement of the planned infrastructure investments and their upgrades and to a decline in new investments.

Against this backdrop, several market imperfections have been identified in the transport sector, requiring the consideration of public intervention:[46]

1. Decline in gross investments and expenditure on maintenance in the transport sector in most EU countries since the financial crisis
2. Insufficient bank lending for long-term infrastructure assets at the European level
3. Lack of a planning framework for the European projects of common interest
4. Barriers around the Public Private Partnerships (PPPs)

In addition, there are other reasons, varying across Member States, why most of transport infrastructure is financed by the public side.[47] Public funding of the basic transport

[46] European Commission (2014b).

[47] Note: A large share of transport infrastructure is not revenue generating (inland waterway and most of roads) or is not generating sufficient revenue (rail). Procurement via PPP structures is more complex and engages the public

infrastructure has been considered in many European countries as a "*service d'intérêt public*" and expression of the "acquis of the welfare state" and therefore not subject to the user-pays principle. It estimated that over the last 20 years, 90-95% of transport investments have been financed through national government budgets. When transport infrastructure is privately financed, it is usually based on a public-private partnership (PPP) with a project finance underpinning.[48] Project financing is well established in the road, port and airport sector, whereas for inland waterways currently the first PPP projects are in preparation. An exception is the rail sector, where projects are often financed on a corporate finance basis by the railway infrastructure companies.

The scarcity of funding, due to slow growth rates and constraints on the public expenditure, coupled with insufficient long-term bank lending, has made it necessary to consider other infrastructure financing possibilities, including private-public partnerships and financial instruments – possibly at the EU level – to alleviate parts of the risk inherent to the projects.

3.3. Energy Infrastructure and Energy Efficiency

Major efforts are needed to modernise and expand Europe's energy infrastructure as well as to increase energy efficiency and renewable energy and interconnect networks across borders to meet the Union's core energy policy objectives of competitiveness, sustainability, and security of supply.

For the next years to come the EU is projected to invest <u>annually</u> at least some EUR 200bn on average in the energy sector, with energy efficiency measures alone amounting to some EUR 80bn. Since the Commission's Communication on energy infrastructure priorities for 2020 and beyond, adopted on 17 November 2010,[49] the existing Trans-European Networks for Energy (TEN-E) policy and financing framework have been overhauled to coordinate and optimise network development on a pan-continental scale.

The main aim is to ensure the completion of the internal energy market and the security of energy supply, while promoting energy efficiency and energy saving as well as the development of new and renewable forms of energy.

The framework for the policy is now defined in the TEN-E guidelines regulation[50] adopted in April 2013. It is estimated that in electricity alone the transmission grid expansion to accommodate these changes would require EUR 104 billion to 2022 (or, extrapolating, EUR 207 billion to 2030)[51] in addition to the normal replacement of assets, estimated at EUR 76 billion to 2035.[52] In addition, approximately EUR 40 billion will be required by 2020 for a smart grid investment on the transmission level. Some EUR 70 billion will need to be invested by 2020 in gas transmission assets of European importance such as gas interconnectors, storages, Liquefied Natural Gas (LNG) reception terminals. These costs will be predominantly financed from network fees paid by the energy end-users.

The projects will be developed by Transmission System Operators (TSOs) i.e. companies set up specifically to develop and run the electricity and gas transmission networks. TSOs operate in a highly regulated business environment. Although regulations differ from Member State to

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authority in very long-term commitments spanning many years. Finally not all procuring authorities accord high priority to whole-life-cost approach that favours sufficient maintenance.

[48] Note: PPP hereby includes also concessions as the common model of financing motorways in certain of Member States and airports in general.

[49] European Commission (2010a).

[50] Regulation (EU) 347/2013.

[51] ENTSOE (2012).

[52] IEA (2011).

Member State, they frequently include aspects such as agreed investment volumes, maximum debt ratios, maximum debt remuneration, etc. The regulatory approved revenue is normally linked to the book value of the assets they operate, the so-called Regulated Asset Base (RAB).[53]

The scale of the undertaking – only partially financed from network fees paid by the energy end-users – as well as its cross-country nature and its strategic importance as a public-interest infrastructure warrant a substantive intervention at the EU level, which can be effectively implemented through financial instruments.

3.4. ICT/Broadband

The Digital Agenda for Europe (DAE) recognises the role of fast and ultra-fast broadband access platforms for innovation and growth and sets ambitious targets for broadband coverage and take-up: (i) making basic broadband access available to all EU by 2013, (ii) making broadband access at internet speeds of above 30 Mbps[54] available to all EU by 2020 and (iii) ensuring that by 2020 50% of EU households subscribe to internet broadband of 100 Mbps or higher. Full coverage with basic broadband has recently been achieved (with a combination of fixed, mobile and satellite technologies) and the focus is now shifting to the challenges associated with the deployment of Next Generation Access (NGA) networks and take-up.

The second and third broadband targets ("NGA targets") require substantial investments in the modernisation of access networks. Total investment needs are difficult to quantify with precision, but indicative estimates from different sources suggest that total investment costs for NGA may exceed EUR 200 billion.

Despite projects being initiated at various levels, current investment plans in fixed network infrastructure are subject to frequent revisions. However, even if they were fully implemented they would most likely not be sufficient to achieve the necessary coverage for the Digital Agenda NGA targets, especially as far as rural areas are concerned. All in all, the current pace of NGA roll-out is likely to leave a sizeable investment gap in the years to 2020.

Traditionally, the bulk of network investment in telecoms has been shouldered by vertically integrated telecom network and cable operators and to an increasing extent by alternative telecom carriers and municipalities. Along with these actors, a number of alternative investors and new business models have been recently emerging.

An alternative group of investors is represented by regional or local utilities, especially in the energy sector. Network investments initiated by municipalities or regional governments represent another class of projects. For instance, municipal fibre networks account for a significant share of NGA coverage in Sweden. Models with public sector participation also comprise PPP structures for broadband, which have been pioneered, for example, by local and regional public authorities in France.

In addition, there is a growing trend of investment initiatives from private open access providers operating on a purely commercial basis, who provide fibre network services, from rolling out to maintenance, to municipalities or regional governments. These companies remain relatively small compared to traditional telecom operators, provided they are mostly relying on their own funds to develop.

[53] Note: TSOs build new projects with e.g. the accumulated capital or borrow money against the strength of their balance sheets. The value of such new project is added to Regulated Asset Base (RAB) and therefore results in increased revenue of that TSO.

[54] Megabits per second (referring to the speed of data transfer).

The correlation of NGA investment increasing costs with decreasing population density gives rise to a specific issue: a significant part of the EU population lives in areas situated between urban clusters (where there is a clear business case for commercially-driven roll-out). In such rural regions broadband deployment without public support is often not conceivable, although exceptions exist. If a number of conditions are fulfilled, a business case exists for these areas; however, this business case is usually not as compelling and clear-cut as in or at the fringe of conurbations. Specifically, the question is often whether expected revenues and cash-flows can adequately remunerate the risks associated with the project.

Equally, there is often a mismatch between the risk-return profile of projects and the type of investments targeted by investors providing the bulk of financing. On the debt side, long payback cycles combined with high levels of construction and demand risk (at least in the early stages of operation) mean that NGA projects may not qualify for standard senior bank lending; where lenders are ready to extend credit, loan tenors often do not match the long asset lives of telecom networks. At the same time, debt capital market solutions may not be available to fill the gap because transaction costs are prohibitive in relation to the relatively small size of the projects.

On the equity side, the weakness of NGA investments is that they do not fit the definition of popular asset classes: NGA projects carry greater risk than more traditional infrastructure in transport, energy or water and are by no means comparable to the high-risk/high-return strategies with short- to medium-term exit of other fund investors.

The above constraints are exacerbated by additional factors, which impede the matching process between investors and candidate projects. Both senior lenders and other investors have difficulties with appraising the risks associated with broadband projects and with valuing telecom network assets. Especially, regulatory risk is perceived as a major hindrance in the telecommunications sector, and regulatory uncertainty on potential open access obligations of NGA networks severely impedes investment decisions. Moreover, small ticket sizes and lack of standardisation across projects may further complicate the deal-making process. These factors drive transaction costs and often prove to be a decisive obstacle.

Against this backdrop, EU financial policies, facilitating access to well-designed financing solutions which optimise risk allocation and address the specific challenges associated with NGA investments, can give a decisive boost to the economics of projects and greatly improve NGA roll-out dynamics.

3.5. Social Enterprises

Traditionally, the European social model has always been characterised by the prominent role played by a variety of organisations that differ from mainstream private corporations and traditional non-profit organizations/social economy entities. These private organisations that are grouped under the notion of "social enterprise" pursue an explicit and primary social aim. Their main purpose is to achieve measurable, positive social impacts, rather than to generate financial gains for their owners or stakeholders. They provide goods and services which generate a social return and/or employ methods of production of goods or services that embody a social objective.[55] There are 2 million social economy enterprises in Europe, representing 10% of all businesses in the EU.

The Social Business Initiative of the Commission[56] in 2011, which focussed on social entrepreneurship, recognised the importance of social economy organisations in this field:

[55] EaSI Regulation (EU) No 1296/2013 (OJ L 347/238, 20.12.2013)

[56] EC (2011d).

"The specific legal statuses of the social economy are particularly suited to social enterprises as their method of governance favours participation and openness". The social economy employs more than 14 million people – about 6.5% of the EU's employees. Social economy organizations are traditionally organized in the legal forms of cooperatives, mutual undertakings, associations and foundations. They have various objectives ranging from agriculture and banking to provision of employment and sheltered workshops.

These enterprises, which have been active in Europe for nearly two centuries, have been recognised and regulated in many countries through specific legal forms (including in particular the cooperative, the mutual, the foundation and the association, as well as other legal forms and business models recently developing), have set up their own representative organisations to interact with public authorities, and have contributed in various ways to the social and economic development of Europe. In fact recent studies highlight the correlation (and at some point the causality) relationship between social capital and economic growth.[57] Moreover, the recent crisis has pointed out the fragility of an economic and financial system merely based on the profit maximisation benchmark.

Social enterprises play an important role in complementing the action of public authorities, not least because of their innovative nature. They also create jobs - often more sustainable and of better quality than those in the mainstream economy. However, they face a number of obstacles to growth, notably (but not exclusively) in accessing finance. Particularly in some Member States the social enterprise sector is still underdeveloped.

In the Social Business Initiative,[58] the Commission pointed out that "the funding system for social enterprises is underdeveloped in relation to that used by other businesses". This was confirmed by a 2013 study on imperfections in the social investment market[59] as well as by a number of national studies. For instance, in a UK survey with 865 social enterprises,[60] lack of/poor access to/affordability of finance (45%) was ranked first among the barriers for start-ups, before cash flow (22%), lack of appropriate skills/experience (19%) and lack of awareness of social enterprise among customers (15%). As the UK is one of the most developed markets for social entrepreneurship finance, it can be expected that the demand for capital is not met in most parts of Europe.

Another factor is the investment readiness of social enterprises. There is often a lack of understanding on both sides (supply and demand for social finance), an unwillingness to pay interest rates, an orientation towards the so-called grant economy or a lack of necessary documents such as impact reports or business plans. Analysing the supply side, investors often complain that they do not have enough investment opportunities. There is thus a mismatch between existing supply and demand.

A recent study[61] outlines several constraints to starting and scaling-up social enterprise activity. Access to finance was identified across almost every European country as a significant barrier. For example, over a third of social enterprises in Denmark do not have any lines of credit and in the Netherlands this figure is 40%. Moreover, a number of Member States have highlighted the limited range of financial instruments available to social investors. Stakeholders in Hungary noted that financing options available to SMEs (such as investment funds and state guarantees) were not available for social enterprises. In contrast, although

[57] Beugelsdijk and van Schaik (2005).
[58] EC (2011d).
[59] Spiess-Knafl, W. (2013)
[60] Social Enterprise UK (2011)
[61] EC (2014d).

available private funds are significant in Germany, they are usually conservatively managed and not necessarily accessible for innovative social enterprises or start-ups.

The EU can play an active role in supporting the development of the supply and demand sides of the social investment markets and in facilitating the access of social enterprises to funding. Through the new Programme for "Employment and Social Innovation" (EaSI), the Commission aims to facilitate and improve the access to finance for social enterprises by providing specific financial support for their development.

In addition, the ESF and ERDF investment priorities promoting support to social entrepreneurship, envisaged in the MFF 2014-2020, can be used to raise awareness and recognition of social enterprises and contribute to the development of this sector within Europe. To help mobilise additional public or private investments, these investment priorities can be implemented via financial instruments.

3.6. Education

Education and training are at the core of the Europe 2020 Strategy and of the *Integrated Guidelines for the Economic and Employment Policies of the Member States*.[62] Arguably none of the Europe 2020 objectives and headline targets will be reached without strong investment in human capital.

There is a positive and statistically significant relationship between the level of cognitive skills in a population, productivity and economic growth. For example, an average increase of 25 points in PISA performance across the EU countries could lead to a 3% gain in GDP per capita. The increase in average educational attainments by emerging countries makes the human capital accumulation for EU an even more important challenge in light of international competition for growth. The benefits of learning mobility are clear with significant benefits to graduate employability as well as personal development.[63] This importance is recognised by the agreement of the EU and 'Bologna' mobility target that by 2020, at least 20% European Higher Education Area graduates should have had a study or training period abroad.

The total amount of investment in education over the last years has been dampened by adverse economic and financial conditions on both the demand and supply side. In particular:

- The financial crisis increased uncertainty and risk aversion, lowering long-term private investments in human capital and hampering cross-border student mobility.
- The sovereign debt crisis led to fiscal consolidations, especially in peripheral countries exhibiting low growth / high debt dynamics (such as Greece, Spain, Portugal, Italy), jeopardising previous levels of public spending in education.

The EU could play an effective role in supporting investment in education, both on a long-term basis and as a means to accelerate recovery from the current financial and sovereign crisis. The use of EU financial instruments, envisaged in this sector for the first time for the MFF 2014-2020, is likely to boost student mobility by providing financial support on a larger scale than otherwise possible.

[62] European Commission (2010c).
[63] Humburg, van der Velden and Verhagen (2013).

4. Strategic Non-EU Regions

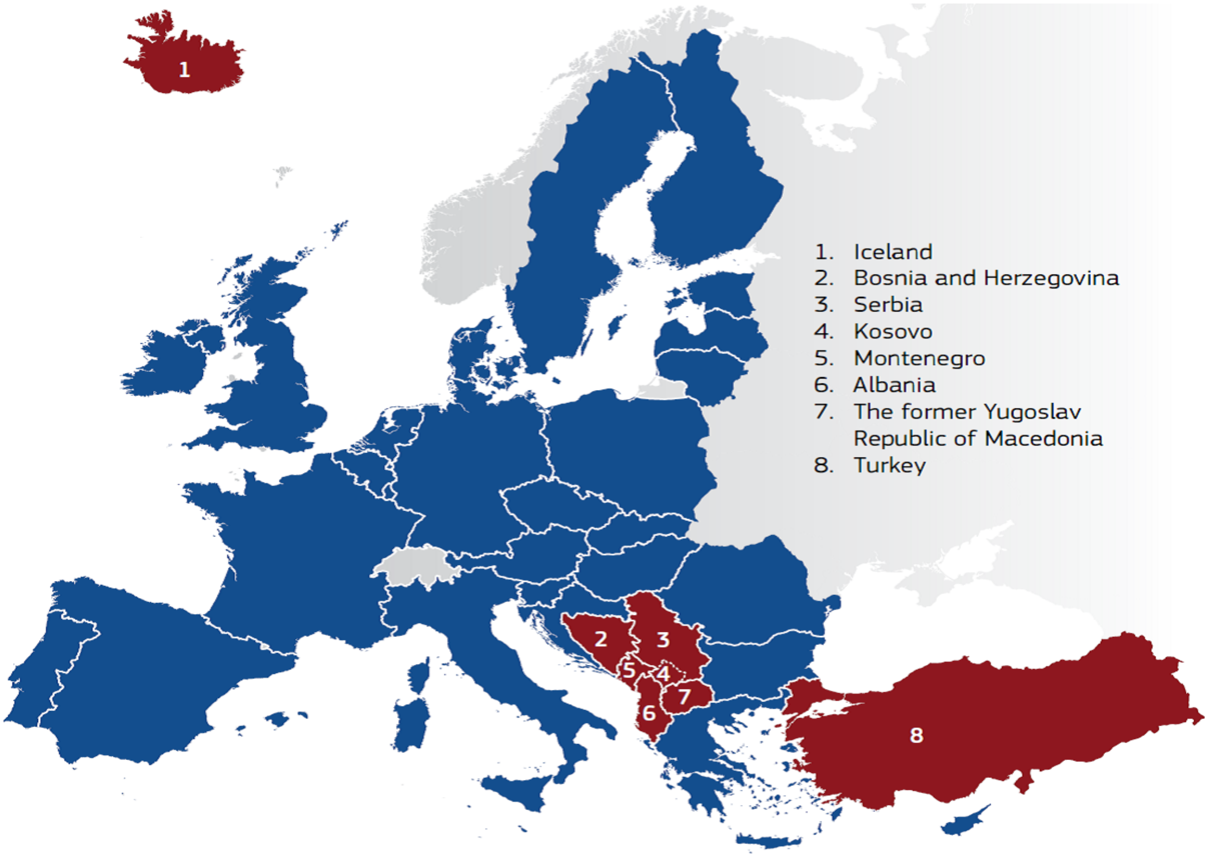
The European Union is a global economic and political player, with regional and global interests and responsibilities. Its network of international agreements with partners and organisations all over the world, not matched by individual Member States, gives all of them influence in almost all fields of international relations.

This delicate role can be primarily developed by maintaining sound international relations, also in view of the growth of the world's economy, especially through the financial support to strategic world economies, with possible gains in terms of trade with Member States.

Besides this, the EU international role is particularly important to prepare access to the Union to Enlargement countries, through economic, technical and administrative support.

4.1. Enlargement Countries

Enlargement countries are composed of five candidates,[64] one applicant which has put the accession negotiations on hold[65] and two potential candidates.[66]



Source: *DG NEAR*

[64] The former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Albania.

[65] Iceland has put its accession negotiations on hold and no longer wishes to be considered a candidate, although it has not withdrawn its accession application.

[66] Bosnia and Herzegovina, Kosovo. Kosovo's designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

The Treaty on the European Union states that any European country may apply for membership if it respects the democratic values of the EU and is committed to promoting them.

The first step is for the country to meet the key criteria for accession. These were mainly defined at the European Council in Copenhagen in 1993 and are hence referred to as 'Copenhagen criteria'. Countries wishing to join need to have:

- stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- a functioning market economy and the capacity to cope with competition and market forces in the EU;
- the ability to take on and implement effectively the obligations of membership, including adherence to the aims of political, economic and monetary union.

The EU also needs to be able to integrate new members.

In the case of the countries of the Western Balkans additional conditions for membership, were set out in the so-called 'Stabilisation and Association process', mostly relating to regional cooperation and good neighbourly relations.

To ensure that enlargement brings maximum benefits to both the EU and to countries in the process of joining it, the accession process needs to be carefully managed. Hence the Commission has a stake in the support of socio-economic development in enlargement candidates by providing both financial assistance through the Instrument for Pre-Accession Assistance and technical assistance, through TAIEX, which is the Commission's Technical Assistance and Information Exchange instrument.

4.2. Neighbourhood Countries

There are 16 neighbourhood countries[67] to the East and the South of the EU. The European Neighbourhood Policy offers these partners political association and economic integration with the EU. Available instruments are of a political, sectorial, and financial nature.

The ENP rests on two regional dimensions: the Eastern Partnership (EaP) for the East and the Partnership for Democracy and Shared Prosperity and the Union for the Mediterranean (UfM) in the South.

The ENP builds upon the legal agreements in place between the EU and the partner in question: Partnership and Cooperation Agreements (PCA) or Association Agreements (AA). Central to the ENP are the bilateral Action Plans or Association Agendas between the EU and each ENP partner (12 of them have been agreed so far). These set out an agenda of political and economic reforms with short and medium-term priorities of 3 to 5 years.

Financial cooperation with European Neighbourhood Partner Countries is one of the key areas of interest, where funding focuses on shared political objectives and underpins reforms set out in agreements or Action Plans/Association Agendas with the partners. The bulk of funding comes from the European Neighbourhood Instrument (ENI), with over €15bn for 2014-2020. Apart from providing grants, the EU is also leveraging additional, substantial funding through cooperation with International Financial institutions (EIB, EBRD, WB, etc), and notably through a specific mechanism, the Neighbourhood Investment Facility.

The Ukraine crisis, the ongoing Syrian conflict and its regional spill-over effects, tense situations in Egypt and the significantly worsening state of internal affairs and security

[67] The European Neighbourhood includes Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, the Republic of Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine.

situation in Libya also underline the need for effective partnerships and will form part of the ongoing review of the European Neighbourhood Policy, launched by the European Commission and the External Action Service in early 2015..

4.3. Countries covered by the Development Cooperation Instrument (DCI)

Investment needs in EU partner countries are huge. Governments and other public donors' funds are far from sufficient to cover all substantial needs in EU partner countries. In parallel global realities have changed in the past 15 years. Many emerging economies are now thriving, with incomes in some upper middle-income countries outscoring those of EU countries. At the same time, disparities within developing countries are increasing.

The strategic role of the EU in sustainable social and economic growth of the DCI countries as a *condicio sine qua non* for poverty reduction lies in its capacity to mobilise a critical mass of financial and political support, having a significant impact on a given social or economic issue. The European Union, through its common resources and the available national capabilities, has means, experience and expertise to act efficiently and in a cost-effective way.

There is a growing importance of EU partner countries due to their increasing share in world growth. Financial instruments, such as the EU blending facilites contribute to achieving EU development policy objectives in line with regional and national priorities of partner countries. In particular, the SME and infrastructural sectors – that the EU already supports domestically – represent targets of interest also in to reduce poverty and foster economic growth.

The Agenda for Change emphasises the support of inclusive growth and job creation as a key priority of EU external cooperation. In this context blending, combining EU grants with loans or with equity from other public and private financiers as a financial instrument, is a useful tool to leverage additional resources, increasing the impact of EU aid and driving sustainable growth as a basis for poverty reduction.

5. Conclusion

The set of potential recipients, as outlined above, are struggling to finance their activity; each country and sector of the real economy shares a common difficulty arising from the global financial crisis, but also presents its own financial issues and has therefore been targeted through specific financial instruments.

Addressing these issues is a priority for Europe. The capacity of the European economy to make long term financing available, reinforcing the competitiveness of the productive sectors, depends on its ability to channel savings through an open, safe and competitive financial system.

In this context, the financial instruments adopted by the EU represent an important measure to address financing gaps by leveraging public and (possibly) private funds while minimising market distortions. Indeed, in times of a European crisis, a central EU intervention and the combination and better use of public resources carry a strong political message about the European construction that would not only be captured by investors and originators alike and contribute to the creation of a broader and more standardised market, but it would also give a strong signal to the public of the joint effort to fight the crisis enforcing the message to markets.

Against this backdrop, the Commission has to ensure a consistent and effective roll-out of centrally-managed financial instruments for the 2014-2020 MFF.

6. Annex-Additional Information on the European Equity Market

6.1. The structure of the European Equity Market

The European equity market is composed of different types of private equity investment funds. The nature of such funds depends on the stage of the company's development the funds invest in. Although different definitions and terminologies exist, a commonly accepted approach to split equity funds' investments is described in Box 1:

Box 1: *Equity investment stages*

1. Pre-Seed/Seed: in this phase the major focus of the company's activities is on research activities and product development, so as to transfer the new idea into usable results, and set up a functional prototype. It is at this stage that company founders need to prepare a sustainable business plan in order to attract potential investors.

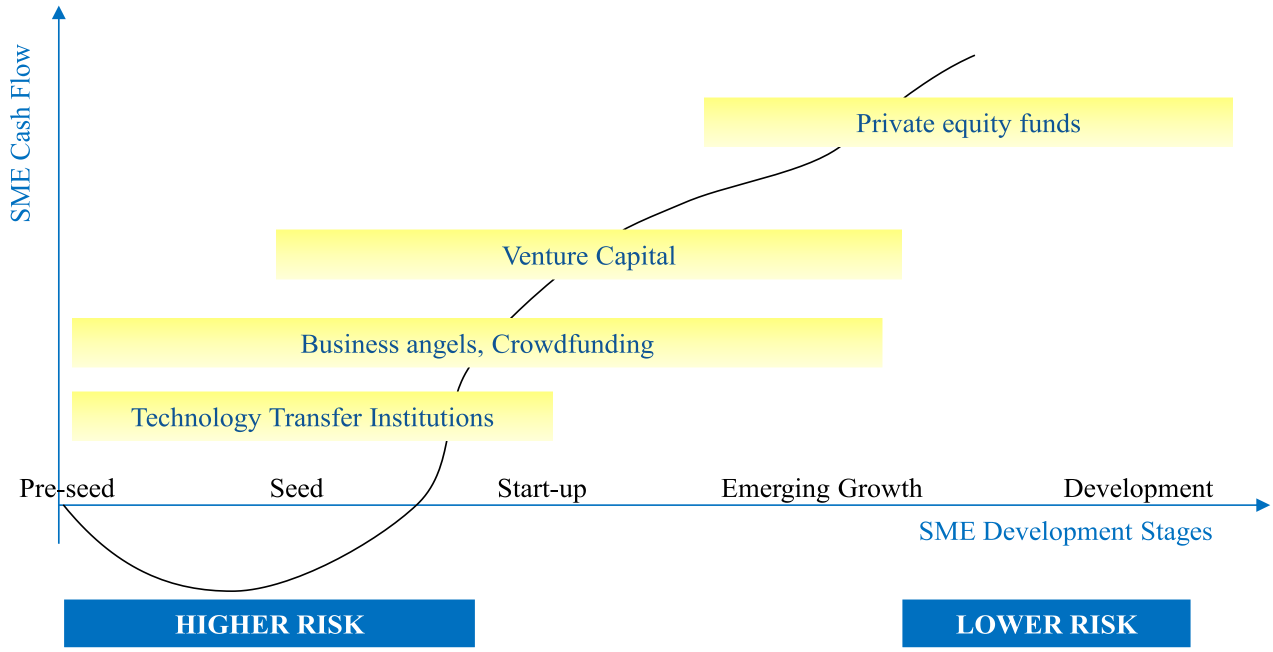
2. Start-up and Early Stage: this phase includes the planning and preparation of production. Targeted project management is important in order to keep control of the market entry schedule as well as the cost of R&D projects.

3. Emerging Growth: this phase is characterised by the establishment of the company at both the organisational and institutional level. At this stage it is crucial to establish and expand manufacturing capacities and sales channels so as to ensure revenue growth.

4. Development: beyond the breakeven point, profits enable the company to expand the product portfolio and tap new markets. A company is usually considered to be an established company if it reaches the fifth year after its foundation.

Further information is contained in Figure 20, which also links the different stages of SME development with a set of equity instruments that are the most appropriate to address the needs of the market.

Figure 20: *Different stages of SME's development and most typical financial sources.*



Source: *European Commission (2014), based on EIF (2014)*

Box 2 further expands on the characteristics of the different markets depicted above and discusses key data on alternative equity financing sources.

Box 2: *Characteristics of equity market stages*

Technology Transfer Institutions, Business angels, Crowdfunding

The term Technology Transfer Institutions (TTIs) is used to describe organisations[68] which help the staff at research organizations to *i)* identify and manage the organization's intellectual assets, including protecting intellectual property and transferring or licensing rights to other parties to enhance prospects for further development, and *ii)* create new companies (spin-offs) to develop or commercialise an invention such as Technology Parks and Incubators.

Business angels are individual investors, usually with business experience, who provide capital for firms in early-stage. They are an important source of equity for small firms long before they become attractive for venture capital funds.

The expression crowdfunding refers merely to a channel of financing promoted through internet and social media, which can be used in many different ways. Financing can come in the form of donations (donation-based crowdfunding), or contributions based on rewards and/or product pre-sales. Other crowdfunding campaigns may also offer some form of financial return, by promising a share of future profits. Security-based crowdfunding involves issuing equity or debt to contributors (crowd investing). Finally, crowd lending campaigners borrow money from people and promise to pay back the capital on specified terms with (or in certain cases without) interests.

Venture Capital Funds

Venture Capital (Venture Capital) Funds are typically private partnerships or closely-held corporations pooling money from private and public pension funds, endowment funds, foundations, corporations and wealthy individuals, to provide equity investment for young, rapidly growing companies that have the potential to develop into significant economic actors. The equity investment is usually provided to companies placed between the seed stage and the growth/expansion stage, and it is supported by expertise in the form of technical knowledge, business contacts and strategic advice.

Private equity

Private equity (PE) refers to investments made in companies whose shares are not quoted in some form of stock exchange. Normally, public equity investors make hands-off purchases of shares in these listed companies. The investors are not usually involved in providing advice or otherwise assisting the owners or managers in the development of the firm.

PE investment funds are "vehicles" enabling pooled investment by a number of investors in equity and equity-related securities of companies. These are generally private companies whose shares are not quoted on a stock exchange. These funds may take the form of either a company or an unincorporated arrangement such as a Limited Partnership.

6.2. Regulatory framework for the Venture Capital market

The regulatory framework varies significantly between Member States, and hence the Venture Capital market is highly fragmented, with each country having created a different operating environment for Venture Capital. Cross-border fundraising and investing, while possible, is complex and costly, with funds usually needing to set up an additional legal entity in each Member State concerned.

In addition, fund managers are confronted with problems of double taxation, tax-related administrative obstacles, and uncertainties over tax treatment. In this context:

- The European Venture Capital Funds Regulation[69] (EVCFR) creates an opt-in regulatory regime for fund managers whose funds are below the EUR 500 million threshold requiring registration under the Alternative Investment Fund Managers Directive (AIFMD). EVCFR introduces the protected designation of "European Venture Capital Fund" (EVCF).

[68] European Commission (2004).

[69] Regulation (EU) No.345/2013 (OJ L115/1, 25.04.2013)

After a domestic registration process, a fund manager can market EVCF-qualified funds[70] in all Member States without further national registration or approval by national regulators. The hypothesis is that the implementation of EVCFR will lead to larger and more cost-effective funds that can also specialise by type of investment or sector, increased competition between funds, a wider diversification of funds' investments, and hence to SMEs having greater access to equity finance.

- Despite diminishing obstacles to cross-border fund-raising, EVCFR will not in itself solve any taxation problems that funds invested across borders may face, because the Regulation does not contain rules on taxation. In 2010 a group of tax experts published a report[71] on the taxation problems, which might arise when Venture Capital is invested across borders.

However, the 2012 Commission's public consultation on Venture Capital-related cross-border direct tax problems[72] did not yield sufficient evidence to conclude either that the potential tax problems identified occur in practice, or to be able to estimate the real extent of such problems, the frequency with which they occur, and their financial impact. Given this outcome, the Commission is currently reflecting on what, if any, steps it could take in the tax field.

- The prudential regulation of Venture Capital investors, such as Solvency II for insurers, has increased investors' risk aversion and further constrained fundraising.
- The Commission has adopted on 15.1.2014 new guidelines[73] setting out the conditions under which Member States can grant aid to facilitate access to finance by European SMEs and companies with a medium capitalisation (the so-called "midcaps"). These guidelines are part of the Commission's State Aid Modernisation (SAM) strategy, which aims at fostering growth in the Single Market. The guidelines will enter into force on 1 July 2014.

[70] Note: Funds must meet certain requirements, such as that 70% of commitments are invested in SMEs.
[71] European Commission (2010d).
[72] European Commission (2012).
[73] OJ C19, 22.01.2014

IV. INFORMATION ON FINANCIAL INSTRUMENTS according to Article 140.8 of the Financial Regulation

1. Equity Instruments

1.1. The High Growth and Innovative SME Facility (GIF) under the Competitiveness and Innovation Framework Programme (CIP)

A - Summary

Policy DG in charge:	DG GROW, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 623* million
Current Overall (2007-2013) Programme Budget:**	EUR 605,7 million
Executed Budget since beginning until 31/12/2014*:**	Commitments: EUR 625,2 million **** Payments: EUR 358,0 million

**Initial commitments (GIF 550 million EUR), including the CBS programme reallocations (73 million EUR).*

***Including increase in budget commitments from 2008 to 2013. The initial split of the Competitiveness and Innovation Framework Programme (CIP) budget between the GIF and SMEG instruments was only indicative. During the lifetime of the CIP programme, the share of the SMEG instrument in the total CIP budget was increased in line with market needs, therefore leading to a lower current overall programme budget for GIF, compared to its initial situation.*

****Including EUR 19,5 million EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest.*

*****Including EUR 19,5 million EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest, capital repayments and dividends generated on the trust accounts until 31/12/2012. Relevant interest, capital repayments and dividends generated on the trust accounts during 2013 were not recovered to the EU budget due to shortages in the balance of the trust account. Relevant interest, capital repayments and dividends generated on the trust accounts during 2014 were not yet calculated nor recovered on the fiduciary account at writing date.*

The overall objective of GIF is to improve the access to finance for the start-up and growth of small and medium-sized enterprises (SMEs) in order to support their investment in (eco-) innovation activities, through increasing investment volumes of risk capital funds. GIF used 94,3% of its allocated budget of EUR 625,2 million, with a leverage ratio of 5,5 to 1. It invested in 43 venture capital funds, therefore supporting 433 final recipients[74] and creating more than 3 000 jobs as of December 2014.

GIF's added value is to contribute to the establishment and financing of SMEs and the reduction of the equity and risk capital market gap, which prevents SMEs from exploiting their growth potential, with a view to improving the European venture capital market. Moreover, it supports innovative SMEs with high growth potential, including in their cross-border expansion of their business activities. In this context, GIF provided a critical lifeline of public support to the European VC market throughout the recent crisis. The leverage effect of more than 5 means that the impact of the aggregate budgetary commitments on the overall economy is expected to reach EUR 3 billion of funding to recipient SMEs.

B - Description

(a) Identification of the financial instrument and the basic act;

Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013)[75]

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
Financial instruments are part of the Entrepreneurship and Innovation Programme (EIP), one of the three specific programmes under the Competitiveness and Innovation Framework Programme (CIP).

The overall objective of the financial instruments under the CIP is the improvement of access to finance for the start-up and growth of small and medium-sized enterprises (SMEs) in order to support their investment in innovation activities, including eco-innovation. Under GIF, this is done by increasing investment volumes of risk capital funds and other investment vehicles.

Implementation arrangements
The High Growth and Innovative SME Facility (GIF) is implemented by the EIF on behalf of the Commission. It aims to increase the supply of equity for innovative SMEs in their early stages (GIF1) and in the expansion phase (GIF2). Investment proposals by financial intermediaries are selected based on a *notice of implementation* (OJ C 302 of 14.12.2007).

The total budgetary commitments for the CIP financial instruments for the whole period of 2007-2013 were foreseen to be EUR 1,13 billion, with an original indicative split of EUR 623 million for GIF (including eco-innovation) and EUR 506 million for the SME Guarantee Facility.

GIF funds equity or quasi-equity investments in intermediaries, which then must provide long term equity or quasi-equity capital (including subordinated or participating loans and convertible bonds) to innovative SMEs. Such intermediaries operate in the Member States and other participating countries and target in their investment policy more than 50% of investments in eligible final recipients (SMEs meeting the GIF criteria).

[74] This is the total number of Final Recipients supported through the programme. Out of those, 371 are Eligible Final Recipients.
[75] (OJ L 310/15, 9.11.2006)

Moreover:

*i)*The GIF EU Investments typically consist of 5-12 year positions in intermediaries, the amount committed to a single such vehicle requiring a critical mass and not exceeding EUR 30 million (or equivalent). At the same time, GIF 1 was required to invest at least 10%, but not more than 25% of the total commitments to an intermediary (the maximum limit could reach 50% exceptionally, including for eco-innovation focused venture capital funds). GIF 2 had to invest at least 7,5% and no more than 15% of total commitments to an Intermediary (the maximum limit could reach 25% exceptionally, including for eco-innovation focused venture capital funds). GIF may co-invest with other EIF-managed resources.

*ii)*The GIF EU Investment is required to rank *pari passu* (i.e. Like Risk, Like Reward) with market-oriented investors investing in the same intermediary. These will represent the majority of the capital invested in any intermediary, in order to catalyse private sector investments. GIF normally invests at the first closing of an intermediary and avoids risk capital funds targeting buy-out or replacement capital intended for asset stripping.

*iii)*The GIF targets commercially-oriented intermediaries managed by independent management teams combining the appropriate mix of skills and experience which demonstrate the necessary capability and credibility to manage a risk capital fund. They are required to demonstrate a clear strategy, create adequate deal flow, establish appropriate exit policies, and apply good market practice in areas such as legal structure, investment principles, reporting, and valuation.

Added value

The added value of the GIF instrument consisted in addressing specific market needs, structuring input, and providing catalytic effects.

As response to *market needs*, GIF supported numerous first time teams, composed of motivated professionals, to raise their first independent fund. It also addressed regional equity and risk capital market failure, including by developing an appropriate private equity infrastructure in the less-developed Member States and participating countries.

GIF contributed to filling the sizable gap in access to finance for local young SMEs in their development phase, as well as helping companies in their international expansion strategy. It also increased competition in the market, spread best practices around the region, and highlighted to other private equity teams the support the European Union is providing as well as motivated them to raise independent funds of their own.

In terms of *structuring input*, EIF, as entrusted entity for the GIF Facility, assisted Fund Managers to fine-tune their investment strategies, including by positioning themselves in relation to current and future competition. It also contributed to the alignment of interest between the LPs and the GPs, including by increasing the management team's commitment and optimising the composition of the Managers' Boards.

GIF helped introduce and spread best market practices, including standard LP protective clauses, establishing transparent legal fund structures, and implement AML/KYC procedures.

In terms of *catalytic effects*, the GIF provided a strong signalling effect, which helped attract private and institutional investors, therefore ensuring viable and timely closings of funds, which offered the possibility to implement the envisaged strategy and provide proper risk diversification and risk-commensurate return expectation. The venture capital funds' reaching critical mass, enabled by the GIF investment, allowed the intermediaries to support longer their investee SMEs, thus optimizing the exit timing, and therefore valuations for all participating investors.

(c) The financial institutions involved in implementation;

The Commission empowers and mandates the EIF to provide EU venture capital investments in its own name but on behalf of and at the risk of the Commission, under a Fiduciary and Management Agreement ('FMA', signed 22/11/2007).

Furthermore, the EIF is responsible for identifying, evaluating and selecting the Financial Intermediaries ('FI') by applying selection criteria and processes set out in the Investment Policy, which is part of the FMA. Under the FMA, the EIF examined, on a continuous basis, proposals collected based on a published call for expression of interests.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 625 197 747
Aggregate budgetary payments as at 31/12/2014	EUR 358 038 250

(e) The performance of the financial instrument, including investments realised;

Amount of EU Contribution committed to financial intermediaries and the corresponding number of financial intermediaries;	EUR 553 million[76] 43 FIs
for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	N/A N/A
Amount of financing expected to be provided by financial intermediaries to eligible final recipients And expected number of eligible final recipients;	EUR 3 204 million 850 Eligible FR
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 984 million 371 Eligible FR
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 984 million

[76] Signed amounts between EIF and financial intermediaries. In addition, a further 2 million EUR (conditional amounts as at writing date) have been committed by the EU but not yet signed by the EIF, increasing the GIF net commitments up to 555 million EUR.

GIF Impact on employment

In addition, for the entire period as of 31 December 2014, GIF programme achievements[77] were as follows:

- Number of employees at final recipients (SMEs) at date of first investment (number of jobs created or maintained): 6 844
- GIF number of employees at the assessment date): 9 908

The estimated number of jobs created under GIF is over 3 000[78]; the number of employees in GIF-final recipients as at 31 December 2012 was 9 908[79].

Additional GIF operational information

For the period 2007-2013, EUR 1 275,1 million of commitment appropriations were made available for the CIP financial instruments, of which EUR 625,2 million for GIF. The appropriations were fully committed.

Out of the amount committed, EUR 358 million was paid for GIF to the fiduciary account, managed by the EIF on behalf of the Commission, for the implementation of the programme. Funds are drawn down from the fiduciary account when investments are being made into financial intermediaries.

By the end of 2014, 43 agreements had been signed by the EIF on behalf of the Commission with financial intermediaries (venture capital funds) for a total of EUR 553 million in net commitments from the Union budget. Given that the EIF is entitled to fees up to 6% of its net commitments to Financial Intermediaries, the maximum amount available for deals under GIF is of EUR 588,9 million over the period 2007-2013.

This implies that the GIF budget had an utilisation rate of 94,3% of commitments available for deals. Out of the fore-mentioned 43 funds, 18 funds have a multi-country focus and the remaining 25 funds target investments in specific countries. 12 venture capital funds are investing in eco-innovation, supported by signed EU investments for a total amount of EUR 200,8 million[80]. By the end of September 2014, 433[81] investees had received equity finance facilitated by financial support provided under GIF.[82]

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

More than 90% of EUR 19,5 million has been used for the venture capital transactions under the instrument.

[77] Employment Report as at 31/12/2012 (latest available)

[78] EIF-European Investment Fund (2014a), GIF-High Growth and Innovative SME Facility, Quarterly Report. 30 September 2014.

[79] Target Intermediary Size, as per EIF (2014a).

[80] Note: Investments in currencies other than EUR are valued at the exchange rate of the reporting date.

[81] This is the total number of Final Recipients supported through the programme. Out of those, 371 are Eligible Final Recipients.

[82] EIF-European Investment Fund (2014a), GIF-High Growth and Innovative SME Facility, Quarterly Report. 30 September 2014.

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2014 EUR 81 554 621

	In EUR
Balance on the fiduciary account (current account)	15 072 730
Term deposits/Bonds (if applicable)	66 481 891
Term deposits < 3 months	*66 481 891*
Term deposits > 3 month < 1 year	*N/A*
Term deposits > 1 year	*N/A*
Bonds current	*N/A*
Bonds non-current	*N/A*
Equity investment (see also point i)[83]	241 451 300
***Other assets* (if applicable)**	7 999
= Total assets	323 013 920

(h) Revenues and repayments;

Aggregate additional resources as at 31/12/2014 EUR 19 474 357

(i) The value of equity investments, with respect to previous years;

As at 31 December 2014 a total of EUR 248,8 million[84] of the GIF had been invested in final recipients, and that investment has a valuation of EUR 241,5 million. The difference between the two figures reflects Realized Investment Gains/Losses on Exits, Realized Investment Losses through Write-Offs, and Unrealized Investment Gains/Losses.

(j) The accumulated figures on impairments of assets of equity;

Impairment losses on shares and other variable-income securities as at 31/12/2014 EUR 2 775 308

(k) The target leverage[85] effect, and the achieved leverage[86] effect;

The aggregate budgetary commitments for 2007-2013 amounted to EUR 625,2 million. The expected leverage[87] effect on GIF is 5 which means that the impact of the aggregate budgetary commitments on the overall economy is expected to reach EUR 3 billion of funding to recipient SMEs.

[83] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) ‘the value of equity investments’.

[84] EIF-European Investment Fund (2014b), GIF-High Growth and Innovative SME Facility Annual Report, (Table 3). 30 September 2014.

[85] Target leverage is based on the amount of finance that the operations envisaged to be signed by the entrusted entity with financial intermediaries (or final recipients) are targeted to provide to eligible final recipients. This leverage is defined in the basic act, remaining constant throughout the duration of the financial instrument

[86] Achieved leverage is based on the amount of finance that the operations already signed by the entrusted entity with financial intermediaries (or final recipients) have provided to eligible final recipients.

[87] Expected leverage is based on the amount of finance that the operations already signed by the entrusted entity with financial intermediaries (or final recipients) are expected to provide to eligible final recipients

The achieved leverage effect for CIP GIF (Actual intermediary size= actual size of the VC funds / GIF net approved capital) is around 5,5.[88]

D -Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification[89];

As at the end of 2014, the GIF already contributed to provide nearly 1 billion (984 million) EUR of financing to 371 eligible Final Recipients (SMEs) and had thus an important impact on the real economy of the EU as described below.

The impact of the EU's Financial Instruments for SMEs
In 2014 the GIF component (providing venture capital) of the CIP programme again provided an essential contribution to SMEs' support in the eligible participating countries, as outlined above and confirmed by independent final evaluation results[90], summarised hereafter, concerning relevance, effectiveness, efficiency, utility, sustainability and European added value[91].
As regards *Relevance*, the EIP final evaluation concluded that the instrument met a clear need for finance on the part of the recipients and demonstrated that gaps in SME finance can be addressed. GIF recipients stated in 39% of cases that this financing scheme was the only option available for them; another 23% stated that without this instrument they would have been able to receive only part of the funding needed. In total, 62% of the GIF recipients indicated that the support was crucial to find the finance needed.

As regards *Effectiveness*, the overall evaluation conclusion was that the funds are getting through to the intended recipients and have the desired effects in terms of innovation, growth and employment. 77% of GIF recipients stated that receiving the equity financing made it easier to obtain additional financing. More than 90% of the GIF recipients indicated that the financial support had a positive or fairly positive impact on their long term growth prospects. 62% of GIF recipients expected an increase in turnover and in most of these cases, a growth of between 26% and 100% was expected. 83% of GIF recipients identified themselves as engaged in product or service innovation.

Apart from the financial means, GIF recipients also received other support (appointment of a non-executive director, advice on general business planning, access to a network, financial advice, special business advice or mentoring).

As regards *Efficiency*, the evaluation noted that general stakeholders have the impression that the instruments are administered efficiently and that money is not wasted.
As regards *Utility,* a large part of GIF recipients indicated that the financial support received was the only option for obtaining the funds needed.

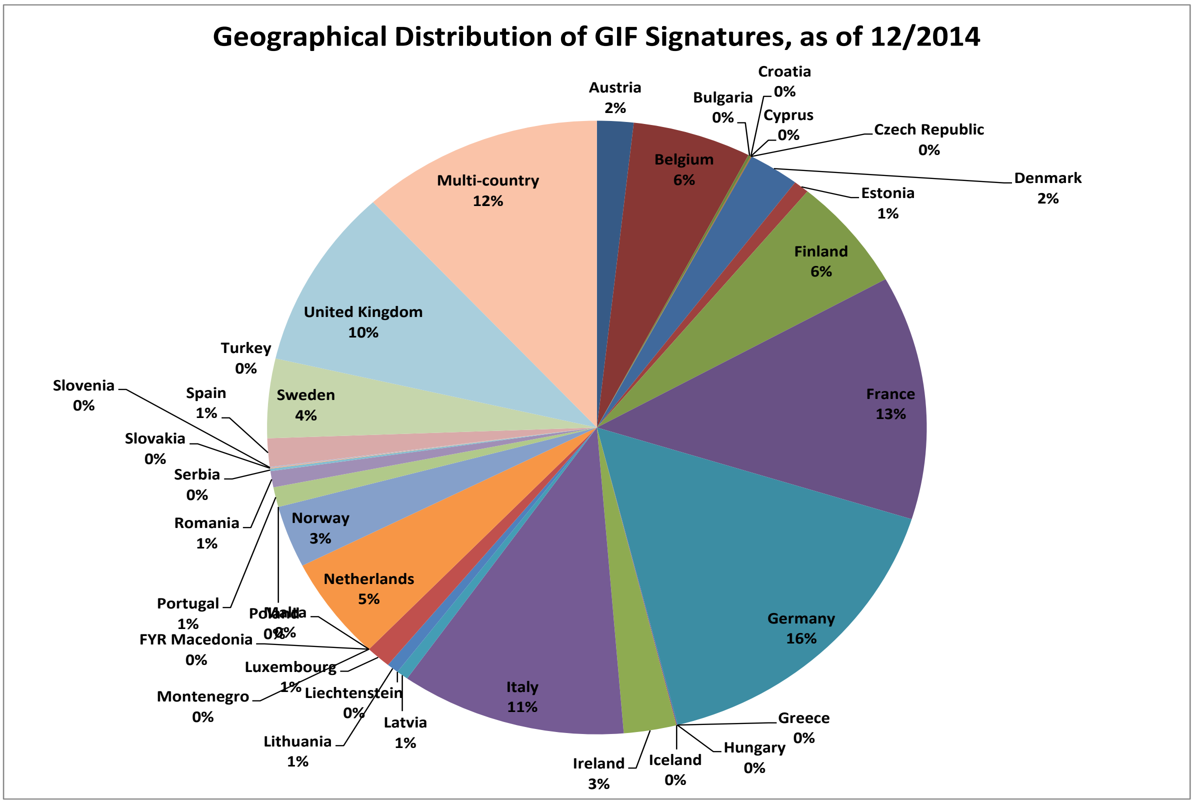
As regards *Sustainability,* the evaluators noted that possible improvements raised by EIPC[92] members and representatives of business organisations, related only to more general issues

[88] EIF-European Investment Fund (2014a), GIF-High Growth and Innovative SME Facility, Quarterly Report. 30 September 2014.
[89] Bain & Company, IIF (2013); Go4Venture Advisers (2013); IPSOS Mori (2013); Kraemer-Eis, Lang and Gvetadze (2013); Unquote" and SL Capital Partner (2013).
[90] CSES (2011), The EIP Final Evaluation, the last evaluation available at the programme level (EIP).
[91] Based on an extensive telephone survey sample, prepared in the context of the evaluation.

[92] Entrepreneurship and Innovation Programme Committee

and that no improvements were suggested relating to the details of the instruments. Finally, as regards *European value-added,* the evaluation report recognised the leverage effect achieved, the fact that 80% of GIF recipients operate on an international market and that venture capital funds i) have a broader geographical focus and ii) operate across boundaries Although the overall effect of EU programmes on SMEs' financing remains limited (by nature, EU intervention is limited to market gaps or sub-optimal market situations, meaning by far the largest part of financing is provided by banking and finance market players), the GIF components of CIP contributed very positively to the development and sustainability of EU SMEs throughout 2014.

Graph 2 : *Geographical distribution of signatures by the Designated Service under GIF*



Source: *ECFIN*

E -Other key points and issues

- **Main issues for implementation:**
  - European venture capital remains fragmented and dependant on a lifeline from public investors. The support via EU-level financial instruments is key in tackling this fragmentation, as truly multi-country funds often face difficulties in obtaining support from national programmes.
  - The programmes are also essential to maintain venture capital in Europe and support it until it becomes fully sustainable.

- **Main risks**: implementation under control, no specific risks identified.
  - The monitoring visits carried out for GIF during 2014 by the Commission allowed to confirm the eligibility of international financial intermediaries (IFI's) and final recipients, contractual compliance (transposal of the Commission's requirements into the contractual documentation), process compliance (observance of processes prescribed by the Commission) and performance (achievement of predefined

targets/objectives). Compliance reporting covering the situation did not indicate major deviations.

- *Audits and internal controls:*
  - as confirmed in ECFIN's AAR 2014, no issue is pending, and ECFIN received a positive DAS letter by ECA as at 31/3/2014.
  - In February 2012 IAS and ECFIN IAC finalised their audit on the implementation by the EIF of the High Growth and Innovative SME Facility. The audit resulted in 6 recommendations. All recommendations were implemented during 2013. No additional findings or recommendations were made in 2014.
  - During 2014, the Designated Service continued to follow-up the implementation of OLAF's recommendations in two cases (OF/2011/1176 and OF/2013/0107), where fraud was detected at the level of the fund manager and at the level of a final beneficiary. Corrective actions for both cases were progressing normally during 2014.
  - A declaration of assurance has been received from the EIF on 31/3/2015.
- *Efficiency:*
  - number of findings/minor observations (stemming from ECFIN L2's monitoring activities): for Equity: 0 (out of 0, 100% closed).
  - Number of OLAF inquiries: 2 inquiries (implementation of recommendations ongoing).
  - Number of IAC inquiries for Equity: NONE.
  - Number of open recommendations in action plans established following ECA, IAS, IAC or ex-post control recommendations: NONE.
  - Number of operations outside official procedures (2014) : NONE.
  - Number of erroneous operations (2014): NONE.
  - Return to Trust Account (2014) linked to errors : NONE.
  - Results on the checks on the balance of the TA (2014): no errors/discrepancies.

- **General outlook**:
  - demand for investments by venture capital funds is larger than the budgets of EU-funded programmes.
  - The EU programmes therefore need to focus specifically on areas, sectors and stages where the EU added value and policy impact can be maximised, and, if possible, increase the budgetary contributions to achieve a better critical mass.

1.2. Equity Facility for Growth under COSME

A - Summary

Policy DG in charge:	DG GROWTH
Implementing DG in charge:	DG GROWTH
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 662 million[93]
Current Overall Budget:	EUR 633 million[94]

The equity investments offered for funds investing into European SMEs at the growth- and expansion stage will be implemented by the EIF under the COSME Delegation Agreement signed in July 2014.

The overall value of risk capital investments, including venture capital and mezzanine finance, such as subordinated and participating loans, to be mobilised by the EU contribution will range from EUR 2,6 billion to EUR 3,9 billion.

According to relevant stakeholders, there is a significant shortage for growth capital and the EIF started screening a number of applications which are expected to result in the signature of fund agreements in the course of 2015.

B - Description

(a) Identification of the financial instrument and the basic act;

Equity Facility for Growth (EFG) under the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) – 2014 to 2020

Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 – 2020) and repealing Decision No 1639/2006/EC (O.J. L347 of 20 December 2013)

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The overall policy objective of COSME Financial Instruments is to improve access to finance for SMEs in the form of equity and debt. Actions shall aim to stimulate the take-up and

[93] The Basic Act provides that no less than 60% of the total financial envelope for the implementation of the COSME programme shall be allocated to the financial instruments. The split of the total amount allocated to the financial instrument is 52% for the Loan Guarantee Facility (LGF) and 48% for the Equity Facility for Growth (EFG), based on the distribution between the loan guaranteed and equity facility in the legislative financial statement.

[94] This amount, based on the assumptions that the distribution between the COSME financial instruments is 52% for LGF and 48% for EFG, is indicative and subject to change, in line with Article 17 of the Basic Act which stipulates that the allocation of funds to the loan guarantee and equity facilities shall take into account the demand from financial intermediaries.

supply of both equity and debt finance, which may include seed funding, angel funding and quasi-equity financing subject to market demand but excluding asset stripping.

In line with the above, the Equity Facility for Growth (EFG) provides enhanced access to risk capital for which significant market gaps exist in Europe and support the development of a pan-European risk capital market. The later will be achieved by focusing predominantly on those risk capital funds which invest cross-border.

Implementation arrangements

The EFG is implemented as a window of a single Union equity financial instrument supporting EU enterprises' growth and research and innovation from the early stage, including seed, up to the growth stage. It focuses on funds that provide venture capital and mezzanine finance, such as subordinated and participating loans, to expansion and growth-stage enterprises, in particular those operating across borders, while having the possibility to make investments in early stage enterprises in conjunction with the equity facility for Research, Development and Innovation (RDI) under Horizon 2020. Support is given in the form of direct investments made by the entrusted entity in financial intermediaries that provide equity or quasi-equity financing to SMEs.The Delegation Agreement signed with the EIF ensures that the EFG is accessible for a broad range of financial intermediaries provided that these are professionally and independently managed and display the capacity to successfully support SMEs in their growth and expansion phase. From a technical point of view, the EIF is instructed to invest on a pari-passu basis with other private and public investors. Target final recipients are SMEs of all sizes without a specific sector focus. The equity instrument is planned to last until 31 December 2034 (until last operations are wound down).

Added value

The added value for the Union of the Financial Instruments lies, inter alia, in strengthening the internal market for venture capital and in developing a pan-European SME finance market as well as in addressing market failures that cannot be addressed by Member States

(c) The financial institutions involved in implementation;

The implementation of the EFG has been entrusted to the EIF and the Delegation Agreement has been signed on 22 July 2014. The related continuous open call for expression of interest for financial intermediaries published by the EIF is available at http://www.eif.org/what_we_do/equity/single_eu_equity_instrument/cosme_efg/index.htm

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 51 657 588
Aggregate budgetary payments as at 31/12/2014	EUR 32 500 000

(e) The performance of the financial instrument, including investments realised;

Not yet applicable

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	1 100 078
Term deposits/Bonds (if applicable)	30 000 000
Term deposits < 3 months	*30 000 000*
Term deposits > 3 month < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[95]	
***Other assets* (if applicable)**	1 262
= Total assets	31 101 340

(h) Revenues and repayments;

EUR 0

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

EUR 0

(k) The target leverage effect, and the achieved leverage effect;

The target leverage effect indicated in the COSME legal base is in the 1 to 4 – 1 to 6 range for the equity instrument over the lifetime of the programme, with an overall value of venture capital investments mobilised by the EU contribution ranging from EUR 2,6 billion to EUR 3,9 billion.
These amounts have been computed on the basis of the initially allocated budget for the COSME financial instruments, which is 60% of the total amount allocated to the COSME programme as set out in the basic act (EUR 2 298 243 000).
It has been assumed (as documented in the legislative financial statement accompanying the basic act) that the split between the two financial instruments would be 52% for the Loan Guarantee Facility (LGF) and 48% for the Equity Facility for Growth (EFG).

The achieved leverage effect

As no operations have been signed in 2014 with financial intermediaries under the EFG, no achieved leverage effect can be computed for 2014.

[95] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

In line with the Europe 2020 strategy, the COSME programme is designed to create the conditions for European enterprises to flourish and to ensure that SMEs are able to take full advantage of the single market's enormous potential, as well as encouraging them to look beyond it. There needs to be a special effort to promote the development of SMEs, a major source of economic growth and job creation in the Union.

More specifically, it is recognised that many of the Union's competitiveness problems involve SME's difficulties in obtaining access to finance because they struggle to demonstrate their credit-worthiness and have difficulties in gaining access to risk capital. Those difficulties have a negative effect on the level and quality of the new enterprises created and on the growth and survival rate of enterprises, as well as on the readiness of new entrepreneurs to take over viable companies in the context of a transfer of business/succession.

Corresponding to the specific objective for the financial instruments under COSME which is to improve access to finance for SMEs in the form of equity and debt, the EFG has been set up to provide enhanced access to risk capital for which significant market gaps exist in Europe and to support the development of a pan-European risk capital market. The later will be achieved by focusing predominantly on those risk capital funds which invest cross-border.

The overall value of venture capital investments to be mobilised by the EU contribution will range from EUR 2,6 billion to EUR 3,9 billion, with a number of firms receiving venture capital investments ranging from 360 to 540.

The EFG was launched at the beginning of August 2014 through an open call for expression of interest published by the EIF. Since then, the EIF started screening a number of potential fund proposals for eligibility under the EFG and approved a first equity operation in March 2015. The signature of this first operation is expected to take place in the first half of 2015.

E - Other key points and issues

- ***Main issues for the implementation:***
    - compared to the due diligence required for the signature of guarantee agreements, the due diligence process for equity is much more complex, and necessitates more time (e.g. due to the fund-raising process involved from various investors).
- ***Main risks:***
    - while the EIF was screening in 2014 already a number of potential fund proposals for eligibility under the COSME EFG, no due diligence process was completed at the end of the year.
- ***General outlook:***
    - furthermore, even EIF Board approval does not necessarily translate into signed agreements as fund managers may fail to raise the required private capital in the existing adverse market conditions to reach the first closing of the fund. Industry statistics indicate that the fund-raising conditions remain very challenging.

1.3. InnovFin SME Venture Capital (Horizon 2020)[96]

A - Summary

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR million*
Expected Overall (2014-2020) Programme Budget:	EUR 430 million**

**See Section 8.1 on GIF*
***This amount includes EFTA appropriations for 2014 and is subject to the outcome of discussions on the budget profile.*

The InnovFin SME Venture Capital succeeds and refines the GIF-1 scheme under CIP[97], and is part of a single equity financial instrument supporting the growth of enterprises and their R&I activities. It is designed to improve access to risk finance by early-stage R&I-driven SMEs and small midcaps through supporting early-stage risk capital funds that invest, on a predominantly cross-border basis, in individual enterprises.

SMEs and small midcaps located in Member States or in Associated Countries will be eligible as final recipients. The COSME programme's Equity Facility for Growth complements this facility, which, supported by a set of accompanying measures, will support the achievement of Horizon 2020 policy objectives.

In terms of Union added value, the InnovFin SME Venture Capital will complement national and regional schemes that cannot cater for cross-border investments in R&I. The early-stage deals will also have a demonstration effect that can benefit public and private investors across Europe. For the growth phase, only at European level is it possible to achieve the necessary scale and the strong participation of private investors that are essential to the functioning of a self-sustaining venture capital market.

Current Overall (2014-2020) Programme Budget amounts to **EUR 430 million.**

B - Description[98]

(a) Identification of the financial instrument and the basic act;

Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC[99]

96 Note: This name for the successor to GIF-1 is a placeholder. A brand-name will be proposed soon. Please note that the information provided under this chapter complements the information provided under the GIF-1 scheme under CIP 2007-2013.
97 European Commission (2013c).
98 Note: All figures concerning the implementation of GIF-1 for the period 2007-2013 should be made available by the DGs responsible for the implementation at that time, DG ENTR and DG ECFIN. All following information given refers to the implementation of the successor scheme of GIF-1, the Horizon 2020 Equity Facility for R&I.
99 (OJ L 347/104, 20.12.2013)

Regulation (EU) No 1290/2013 of the European Parliament and of the Council of 11 December 2013 laying down the rules for participation and dissemination in "Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)" and repealing Regulation (EC) No 1906/2006[100]

Council Decision of 3 December 2013 establishing the specific programme implementing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decisions 2006/971/EC, 2006/972/EC, 2006/973/EC, 2006/974/EC and 2006/975/EC[101]

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

This facility succeeds and refines the GIF-1 scheme under CIP[102], and is part of a single equity financial instrument supporting the growth of enterprises and their R&I activities. It is designed to improve access to risk finance by early-stage R&I-driven SMEs and small midcaps through supporting early-stage risk capital funds that invest, on a predominantly cross-border basis, in individual enterprises. SMEs and small midcaps located in Member States or in Associated Countries will be eligible as final recipients. The COSME programme's Equity Facility for Growth (EFG) complements this facility.

Implementation arrangements

The European Investment Fund (EIF)103 will make and manage equity investments into risk-capital funds. EIF will be able to invest in a wide range of financial intermediaries, including those cooperating with business angels. The funds concerned will make VC and quasi-equity (including mezzanine capital) early-stage investments in enterprises, which are likely to be mainly SMEs. In the case of multistage funds (i.e., covering both early- and growth-stage investments), funding can be provided pro rata from this facility and COSME's growth-stage equity facility, EFG.

This is a demand-driven facility, with no prior allocations between sectors, countries, or regions. However, subject to the successful conclusion of negotiations, the Commission will incentivise EIF, via an appropriate performance indicator, to make a particular effort to ensure that a proportion of final recipients are eco-innovative SMEs and small midcaps. R&I-driven SMEs or small midcaps wishing to apply for an investment should contact one or more of the funds signing an agreement with EIF.

Added value

In terms of Union added value, the InnovFin SME Venture Capital will complement national and regional schemes that cannot cater for cross-border investments in R&I. The early-stage deals will also have a demonstration effect that can benefit public and private investors across Europe. For the growth phase, only at European level is it possible to achieve the necessary scale and the strong participation of private investors essential to the functioning of a self-sustaining venture capital market.

[100] (OJ L 347/81, 20.12.2013)
[101] (OJ L 347/965, 20.12.2013)
[102] European Commission (2013c).
[103] Note: Subject to the successful conclusion of negotiations of the Delegation Agreement.

(c) The financial institutions involved in implementation;

The implementation of the InnovFin SME Venture Capital will be made through an entrusted entity, EIF in Luxembourg, subject to the successful conclusion of a Delegation Agreement with the Commission.

The Delegation Agreement to be signed with the entrusted entity will ensure that the InnovFin SME Venture Capital is accessible for a broad range of venture capital funds and public and private funds-of-funds which are experienced in financial transactions with early-stage R&I-driven SMEs and small midcaps or which have the capacity to enter into financial transactions with early-stage R&I-driven SMEs and small midcaps.

Financial intermediaries, selected by entrusted entities for the implementation of financial instruments pursuant to Article 139(4) of Regulation (EU, Euratom) No 966/2012 on the basis of open, transparent, proportionate and non- discriminatory procedures, may include private financial institutions as well as governmental and semi-governmental financial institutions, national and regional public banks as well as national and regional investment banks.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

EUR 430 million indicatively foreseen for the period 2014-2020

(e) The performance of the financial instrument, including investments realised;

Not applicable

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable

(g) The balance of the fiduciary account;

Not applicable

(h) Revenues and repayments;

Not applicable

(i) The value of equity investments, with respect to previous years;

Not applicable

(j) The accumulated figures on impairments of assets of equity;

Not applicable

(k) The target leverage effect, and the achieved leverage effect;

The leverage of the Equity facility - defined as the total funding (i.e. Union funding plus contribution from other financial institutions) divided by the Union financial contribution - is expected to be around 6, depending on market specificities.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The Innovation Union Europe 2020 Flagship Initiative of 2010 contains the following commitment[104]:

On the basis of Commission proposals, the EU should **put in place financial instruments to attract a major increase in private finance** and close the market gaps in investing in research and innovation. Union contribution should create a major leverage effect and expand on the success of FP7 and CIP.

The Commission will work with the European Investment Bank Group, national financial intermediaries and private investors to develop proposals addressing the following critical gaps: (i) investment in knowledge transfer and start-ups; (ii) venture capital for fast growing firms expanding in EU and global markets; (iii) risk-sharing finance for investments in R&D and innovation projects; and (iv) loans for innovative fast growing SMEs and midcaps. The proposals will ensure a high leverage effect, efficient management and simple access for businesses.

In 2011, the Commission proposed[105] that Horizon 2020 and COSME, the programmes succeeding FP7 and CIP, should jointly support an equity and a debt financial instrument designed to foster the growth of SMEs and small midcaps and their ability to undertake R&I, with Horizon 2020 also providing debt finance for larger entities.

For equity, the Commission proposed that both programmes should make seed, early-stage and growth-stage investments, with Horizon 2020 mainly focusing on risk-capital funds investing in seed, start-up and early-stage R&I-driven SMEs and small midcaps, and COSME mainly focusing on venture capital, (VC), and mezzanine funds investing in SMEs in the expansion and growth phases.

The InnovFin SME Venture Capital , supported by a set of accompanying measures, will support the achievement of Horizon 2020 policy objectives. To this end, they will be dedicated to consolidating and raising the quality of Europe's science base; promoting research and innovation with a business-driven agenda; and addressing societal challenges, with a focus on activities such as piloting, demonstration, test-beds and market uptake. **The budget envelope of EUR 430 million is targeted to mobilize EUR 2,5 billion of new equity investments.**

E - Other key points and issues

- The Union-level InnovFin SME Venture Capital is needed to help improve the availability of equity finance for early and growth-stage investments and to boost the development of the Union venture capital market. During the technology transfer and start-up phase, new companies face a 'valley of death' where public research grants stop and it is not possible to attract private finance. Public support aiming to leverage private seed and start-up funds to fill this gap is currently too fragmented and intermittent, or its management lacks the necessary expertise. Furthermore, most venture capital funds in Europe are too small to

[104] European Commission (2010b).
[105] Note: For Horizon 2020, see European Commission (2011a) and European Commission (2011b). For COSME, see European Commission (2011c).

support the continued growth of innovative companies and do not have the critical mass to specialize and operate transnationally.

Specific support actions such as information and coaching activities for SMEs should be provided. Regional authorities, SMEs associations, chambers of commerce and relevant financial intermediaries may be consulted, where appropriate, in relation to the programming and implementation of these activities.

Given the generally pro-cyclical nature of the activities of equity investors, the health of the economy overall is very likely to dominate the evolution of both Europe's VC and BA industries, though some analysts advocate and predict a considerable downsizing of the VC sector in both Europe and the USA in order for a smaller number of funds to enjoy a reasonable level of return and profitability[106].

At EU level, EIF plays a crucial role: by end-2011, its total net equity commitments came to EUR 5,9 billion (with a record EUR 1,1 billion in 2011 alone), covering investments in over 370 funds and over 300 fund manager teams[107].

In the Member States, the lack of sufficient capital flows from private VC funds into, in particular, early-stage innovative firms has led to the creation of a large number of public-sector schemes, taking several forms[108], at the regional and country level. In France, for example, CDC Enterprises manages the EUR 2,2 billion France-Investissement programme, while in Germany there is the EUR 500 million ERP-EIF Dachfonds managed by EIF plus the EUR 272 million High-Tech Gründerfonds. In the UK, a series of government-backed investment funds have provided over EUR 1 billion of public money in support of VC[109].

In many Member States, however, with pressure mounting to reduce budget deficits, the relatively modest returns achieved by some VC operations backed with public funds, coupled with the significant management costs involved, may undermine support for future initiatives[110].

The implementation of the Horizon 2020 InnovFin SME Venture Capital should start towards the end of 2014, after the EIF FAFA and the Delegation Agreement for the Horizon 2020 Financial Instruments between the EU (represented by the Commissioner for Research and Innovation), EIB and EIF were signed.

- Potential risks regarding the implementation of the Horizon 2020 Equity Facility for early-stage investments may concern publication obligations of financial intermediaries for final recipients and full compliance of combined eligibility criteria for final recipients by multi-stage funds receiving funding from Horizon 2020 and COSME.

However, such potential risks should be mitigated through contractual arrangements between the Commission and the EIF and subsequently, through contractual agreements between the EIF and financial intermediaries (passing-on of eligibility, reporting and monitoring obligations throughout the delivery chain).

106 See, for example, Mina with Lahr (2011), and Ernst & Young (2011).
107 EIF (2012a).
108 For more examples, see European Parliament (2012).
109 Capital for Enterprise Ltd, (2012).
110 For example, see National Audit Office (2009).

2. Guarantee Instruments

2.1. The SME Guarantee Facility (SMEG07) under the Competitiveness and Innovation Framework Programme (CIP)

A - Summary

Policy DG in charge:	DG GROW, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 506* million
Current Overall (2007-2013) Programme Budget:**	EUR 637,8 million
Executed Budget since beginning until 31/12/2014*:**	Commitments: EUR 649,9 million**** Payments::EUR 336,2 million

**Initial voted commitments (SMEG07 506 million EUR).*
***Including increase in budget commitments from 2008 to 2013.*
****Including EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest.*
*****Including EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest generated on the trust accounts until 31/12/2012. Relevant interest generated on the trust accounts during 2013 was not recovered to the EU budget due to shortages in the balance of the trust account. Relevant interest generated on the trust accounts during 2014 was not yet calculated nor recovered on the fiduciary account at writing date.*

The **CIP** market-oriented instruments under GIF and **SMEG** have shown high efficiency and relevance to the current market conditions. SMEG07 acts as counter-cyclical measure, ensuring provision of finance to a vulnerable SME segment, which was one of the most hard hit market segments in the wake of the financial crisis. It is a cost-effective financial instrument which is demonstrated by the high leverage ratio. Compared to grants, where 1 EUR of budgetary resources provide 1 EUR of financing, the SMEG is expected to support 31,4 EUR of finance to SMEs for 1 EUR of the Union contribution.

Moreover, the instrument offers tailor-made solutions that are based on the common principles set out in the guarantee policy and operational guidelines of the programme. Due to the embedded flexibility of the programme, countries', and intermediaries' specific needs could be effectively addressed when considering an appropriate guarantee product.

In this regard, SMEG07 has a wide geographical coverage. The instrument involves 57 financial intermediaries, which have been providing finance to SMEs in 24 participating countries (The loans associated with that guaranteed amount account for EUR 18,6 billion)..

According to the 2011 ECA's Performance Audit, the Facility should be able to reach the number of 315 000 supported SME recipients as foreseen in the ex-ante assessment under CIP. This target has already been trespassed, as 356 589 SMEs were already supported by the end of September 2014.

B - Description

(a) Identification of the financial instrument and the basic act;

Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013)[111]

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
Financial instruments are part of the Entrepreneurship and Innovation Programme (EIP), one of the three specific programmes under the Competitiveness and Innovation Programme (CIP).

The overall objective of the financial instruments under the CIP is the improvement of access to finance for the start-up and growth of SMEs in order to support their investment in innovation activities, including eco-innovation. Under the SME Guarantee Facility, this is done by providing leverage to SME debt financing instruments to increase the supply of debt finance to SMEs.

Implementation arrangements
The SME Guarantee Facility (SMEG) is operated by the EIF on behalf of the Commission. It provides counter- or co-guarantees to guarantee schemes and direct guarantees to Financial Intermediaries operating in eligible countries with the aim of increasing lending volumes available to SMEs. The Facility is a demand-driven instrument, with only indicative country-based allocations, in order to ensure wide geographical coverage.

The initial Union budget for the CIP financial instruments for the whole period of 2007-2013 was foreseen at EUR 1,13 billion, with an original indicative split of EUR 506 million for the SME Guarantee Facility and EUR 623 million for the High Growth and Innovative SME Facility.

Until the end of budgetary commitment period in 2013, the Designated Service was actively involved in financial intermediary approval process. Each deal was to be approved by the EIF Board of Directors and the Commissions Designated Service. The Designated Service will continue its monitoring and reporting obligations until the wind-up of the facility (estimated 2026).

The EIF continues to implement this guarantee instrument, which is delivered by financial intermediaries (private banks, promotional banks, private and public guarantee institutions). The EIF provides a capped guarantee that covers potential losses against a commitment of the financial intermediary to provide more debt financing (loans, leases or guarantees that support loans and leases) to target SMEs. Financial intermediaries commit to providing more finance to SMEs in terms of increased volumes, providing finance to riskier SMEs (start-ups and young companies) or SMEs with less available collateral.

Value added
Thanks to the guarantee provided by the EIF, financial intermediaries provide more financing to SMEs or they are moving to more risky and previously not serviced segments of vulnerable SMEs, such as start-ups, young companies and companies lacking sufficient collateral.

[111] (OJ L 310/15, 9.11.2006, p.15)

Regarding the sustainability and European value-added,[112] the effectiveness of the instruments used has increased over time; notwithstanding the scope for further improvements, European value-added is evident in the development of facilities that are at the cutting-edge of provision for SMEs.

(c) The financial institutions involved in implementation;

The Commission empowered and mandated the EIF to provide EU Guarantees in its own name but on behalf of and at the risk of the Commission, under a Fiduciary and Management Agreement ('FMA', signed on 20/9/2007).

The EIF was responsible for identifying, evaluating, and selecting the Financial Intermediaries ('FIs') according to the Guarantee Policy, which is part of the FMA. The EIF examined, on a continuous basis, proposals collected based on a call for expression of interests.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 649 886 744
Aggregate budgetary payments as at 31/12/2014	EUR 336 154 006

(e) The performance of the financial instrument, including investments realised;

Amount of EU guarantee expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and the corresponding number of financial intermediaries;	*EUR 587,6 million*[113] *57FIs* [114]
Amount of financing expected to be provided by financial intermediaries to eligible final recipients, and expected number of eligible final recipients	*EUR 25 445,4 million*[115] 315.000 FRs[116]

[112] CSES, EIP Final Evaluation, 2011.
[113] Correspond to the overall SMEG 07 portfolio's guarantee cap amount underlying loan amount, as per EIF's Quarterly Report dated 30/09/2014.
[114] Source: EIF's Quarterly Report dated 30/09/2014.
[115] Correspond to the SMEG 07 overall portfolio's "estimated SME financing guaranteed " ,as per the latest data available, i.e. EIF's Quarterly Report dated 30/09/2014.
[116] According to CIP performance indicators (Annex to the Proposal for a Decision of the European Parliament and of the Council establishing a Competitiveness and Innovation Framework Programme (2007–2013), SEC(2005) 433) and as confirmed by the 2011 ECA's Performance Audit, the SMEG07 facility should reach the number of 315 000 supported final recipients. Please note that as at 30/9/2014 (see below) the number of benefitting final recipients already trespasses this target/expected number.

Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	*EUR 18 607,1 million*[117] *356 589 FRs*[118]
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	*EUR 27 327,8 million*[119]

Additional operational information

For the period 2007-2013**,** EUR 1 275,1 million of commitment appropriations were made available for the CIP financial instruments, of which EUR 649,9 million for SMEG. The appropriations were fully committed.

Regarding the payments appropriations for the period 2007-2014, out of the EUR 694,2 million made available for the CIP financial instruments, EUR 336,15 million were paid to the SMEG fiduciary account, managed by the EIF on behalf of the Commission. Funds are drawn down from the fiduciary account as and when defaults occur under SMEG.

By the end of September 2014 (latest available figures as at writing date), 73 guarantee agreements with 57 Financial Intermediaries from 24 countries had been approved by the Commission, with a total of EUR 587,6 million guarantee cap from the Union budget for direct and counter-guarantees. By the end of September 2014, 356 589 SMEs had received debt finance facilitated by financial support provided under SMEG[120], through nearly 431 561 loans.

As at September 2014, the EIF had signed agreements for a cumulative total amount guaranteed of EUR 13 193,3 million[121]. The loans associated with that guaranteed amount account for EUR 18,6 billion.

SMEG impact on employment

For the entire period as of 31 September 2014 (latest available figures as at writing date), SMEG achievements under CIP were as follows:

- number of employees at final recipients (supported SMEs) at inclusion date: 1 264 307;
- number of jobs created or maintained: 356 589[122].

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

For the period 2007-2014, the amount of EUR 12,1 million returned to the instrument (point (h)) has been more than 60% used for further transactions in line with the policy objectives of the Programme.

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[117] Correspond to the total loan volume received by the recipient SMEs as per the latest data available, i.e. EIF's Quarterly Report dated 30/09/2014.

[118] Source: 2014 3rd Quarterly report provided by the EIF.

[119] Source: 2014 3rd Quarterly report provided by the EIF.

[120] *Source: 2014 3rd Quarterly report and Annual Report for SMEG07, both provided by the EIF, and internal information.*

[121] Cumulated 'Actual Utilisation' of all agreements under the Facility (Source: EIF SMEG 2007 report as of 30/09/2014).

[122] Note: Estimate based on the methodology outlined in the Final Evaluation of the Entrepreneurship and Innovation Programme, Final Report, April 2011. No other recent information is available as at writing date.

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2014 EUR 150 799 792

	In EUR
Balance on the fiduciary account (current account)	10 835 272
Term deposits/Bonds (if applicable)	139 964 520
Term deposits < 3 months (cash equivalent)	*139 964 520*
Term deposits > 3 month < 1 year (current assets)	*N/A*
Term deposits > 1 year (non-current assets)	*N/A*
Bonds current	*N/A*
Bonds non-current	*N/A*
Other assets **(if applicable)**	326 531
= Total assets	151 126 323

(h) Revenues and repayments (Art.140. 6);

Aggregate additional resources as at 31/12/2014 EUR 12 089 883,9

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on called guarantees for guarantee instruments;

Called guarantees as at 31/12/2014 EUR 181 647 735

(k) The target leverage effect, and the achieved leverage effect;

The achieved leverage effect for CIP SMEG 07 at the level of entrusted entity (total loan volume received by the recipient SMEs / EU guarantee cap amount) is 31,6[123].

The expected CIP SMEG07 leverage effect for signed operations (calculated as maximum portfolio loan volume / EU guarantee cap amount) is estimated around 31,4[124] for the entire duration of the programme.

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

As at the end of 2014, the SMEG07 already contributed to provide nearly 18,6 billion EUR of financing to nearly 357 000 Final Recipients (SMEs) through more than 431 000 underlying loans, accounting for an estimated 27,3 billion EUR investment amount, and had thus an important impact on the real economy of the EU as described below.

[123] Source: 2014 3rd Quarterly report provided by the EIF; total loan volume received by the recipient SMEs = 18 607,1 m EUR / EU guarantee cap amount= 587,6 m EUR

[124] Source: 2014 3rd Quarterly report provided by the EIF; maximum portfolio volume = 18 463 mio EUR / EU guarantee cap amount = 587,6 m EUR

The latest evaluations related to GIF and SMEG financial instruments reiterated that the financial instruments appeared to be on track to achieve the targets set and confirmed that the effectiveness of the financial instruments has increased over time. In more detail, regarding:

a) Effectiveness and efficiency

The financial instruments appear to be on track to achieve the targets set and seem to be acquiring a certain momentum that may lead them to exceed expectations. [125]

In addition, there have been improvements in monitoring systems at the level of both EIF (entrusted entity) and financial intermediaries involved in implementation which contributed to tracking comprehensively performance of the instrument and thus more effectively pursuing the policy objectives of the instrument.

b) Relevance

The relevance of the instrument as assessed by the recipient SMEs is significant[126]:

- 46% stated that the EU financing scheme was the only option available for them to get financing,
- 18% stated that without the EU support they would have received only part of the funding needed, 42% stated that the EU support helped them to get additional finance and
- 64% stated that EU support was crucial to find the finance needed.

Moreover, the instrument offers tailor-made solutions that are based on the common principles set out in the guarantee policy and operational guidelines of the programme. Due to the embedded flexibility of the programme, countries', and intermediary's specific needs could be effectively addressed when considering an appropriate guarantee product.

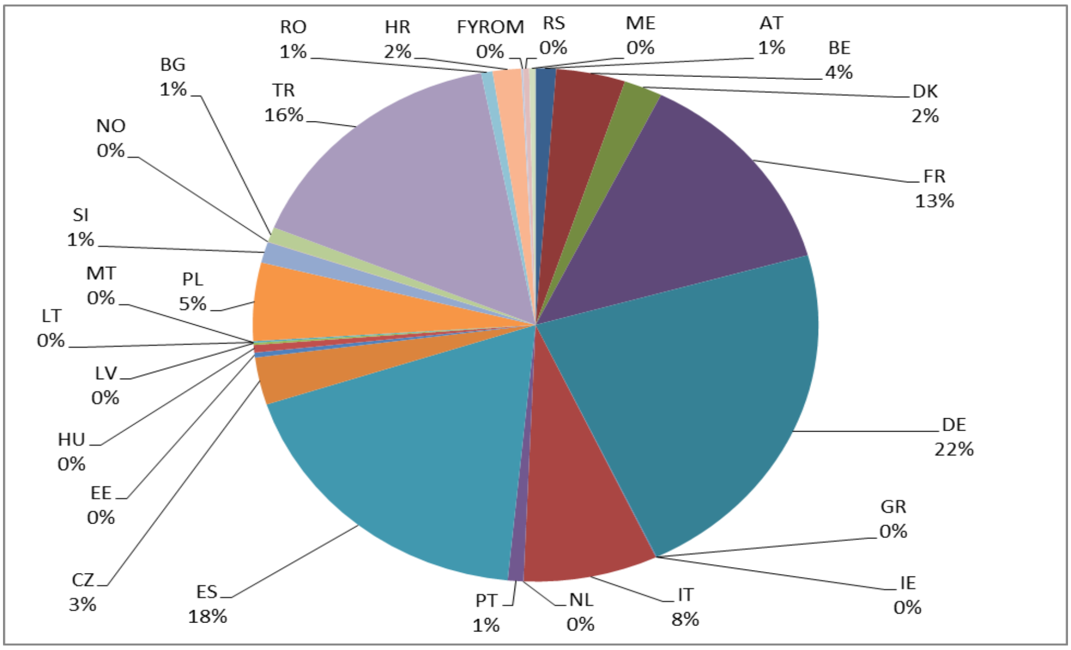
In this regard, the SMEG Facility has a wide geographical coverage. The instrument involves 57 financial intermediaries, which have been providing finance to SMEs in 24 participating countries.

Based on the financing volumes supported so far (see the relevant sections above), the CIP market-oriented instruments under both GIF and SMEG have shown high efficiency and relevance in addressing current market conditions, dominated in recent years by a tightening of credit conditions and more difficult access to finance for SMEs. The SMEG Facility is a counter-cyclical instrument and has helped final recipients to face difficulties arising from the economic conditions since the crisis, namely to obtain or maintain access to finance and to create or maintain jobs over the period.

In this respect, although the overall effect of EU programmes on SMEs' financing remains limited (by nature, EU intervention is limited to market gaps or sub-optimal market situations, meaning by far the largest part of financing is provided by banking and finance market players), the Facility did, however, make a very positive contribution to the development and sustainability of EU SMEs.

[125] CSES (2012).
[126] CSES (2011).

Graph 3: *Geographical distribution of SMEG Net Signatures, million EUR*



Source: ECFIN

E - <u>Other key points and issues</u>

- During the SMEG **implementation period**, the following presumptions have been identified as necessary:
  - a clear and complete target goal of the financial instrument so as there *is no ambiguity as to what needs to be achieved in terms of SME access to finance* (including keeping potential deadweight as small as possible);
  - a first class delivery mechanism, such as the EIF, that has proven expertise in working with *the SME loan and guarantee provision chain* at European level;
  - sufficient flexibility in the structure of the programme *to accommodate and sustain shifts in the SME credit market (including force majeure and crisis conditions);*
  - in line with suggestions from the European Court of Auditors, the new generation of guarantee financial instruments has been designed by considering, *inter alia*, the following:
    - improved definition of the target group (final recipients) and reduced deadweight of the instrument;
    - selection of the Financial Intermediaries performed on the basis of open, transparent, objective and non-discriminatory procedures.

The **monitoring visits** carried out by both the EIF and the Commission for SMEG during 2014 allowed to confirm the eligibility of financial intermediaries (FI's) and final recipients, contractual compliance (transposal of the Commission's requirements into the contractual documentation), process compliance (observance of processes prescribed by the Commission) and performance (achievement of predefined targets/objectives). The EIF monitoring report 2014 did not indicate major deviations.

- **Audits and internal controls:**
  - As stated in ECFIN L2's 2014 Annual Activity Report, no issue is pending.
  - A Declaration of Assurance letter was received by European Court of Auditors (ECA) as at 31/3/2015.

- In August 2012 DG ECFIN launched an ex-post control of the EIF guarantee calls paid under CIP. The provisional scope and objective of this ex-post control includes reviewing of the sample of guarantee calls initiated since 2007 to-date with the objective to examine their legality and regularity and to review related sound financial management aspects. CIP Financial Intermediaries (FI) have been sampled. The control report is still pending, but ECFIN has not been informed of any critical issues so far.
- DG ECFIN also accompanied the ECA to an audit visit to SEF (Slovenia), within the framework of the ECA's controls for the DAS 2014 (ECA's random selection process). The related report from ECA has not been communicated as at writing date. No finding has been communicated to DG ECFIN so far.
- Efficiency indicators regarding SMEG:
  - number of findings/minor observations (stemming from ECFIN's monitoring activities) : 2 (of which, 100% closed);
  - number of OLAF inquiries: none;
  - number of IAC inquiries: none;
  - number of open recommendations in action plans established following ECA, IAS, IAC or ex-post control recommendations: none;
  - number of operations outside official 2014 procedures: none;
  - number of erroneous operations in 2014: none;
  - return to fiduciary account in 2014 linked to errors: none;
  - results on the checks on the balance of the TA in 2014: no errors/discrepancies.

- Regarding the SMEG, which is a counter-cyclical instrument, there was a high demand for guarantees by financial intermediaries during the period 2007-2013; indeed, the share of the SMEG instrument in the total CIP budget (SMEG and GIF) was increased compared to the original split between the two Facilities, in line with the specific market needs.

  The commitment period for the SME Guarantee facility ended on 31 December 2013 but the instrument will exist until it is wound up after 2026.

  The successor of SMEG is the Loan Guarantee Facility (LGF) under COSME, further detailed in this document.

2.2. European Progress Microfinance Guarantee Facility (EPMF – G)

A - Summary

Policy DG in charge:	DG EMPL, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 25 million (appropriations as approved by the Budgetary Authority)
Current Overall (2007-2013) Programme Budget:	EUR 23,6 million (including any changes in the course of the programme)
Executed Budget since beginning until 31/12/2014:	Commitments: EUR 23,9 million Payments:EUR 18,5 million*

** including regularized interest of EUR 0,3 million.*

The EPMF Guarantee Facility has been implemented by the European Investment Fund in accordance with the Fiduciary and Management Agreement entered into on 1 July 2010 between the European Union, represented by the Commission and EIF. Under the Agreement, the Commission mandated EIF to provide direct guarantees and counter guarantees on micro credit loans in its own name, but on account and risk of the European Union.

In accordance with the Agreement, the Project Signing Period runs from July 1, 2010 until 31 December 2016, or any later date as notified in writing by the Commission to EIF.

The aim of the instrument is to increase access to and availability of microfinance. The instrument covers part of the losses incurred under the guarantees up to a pre-determined cap amount by setting maximum Guarantee rate of 75% and maximum Guarantee cap rate at 20% - hence requiring a minimum leverage effect of 6,67.

As of 30/09/2014, EIF has signed 35 guarantee agreements in 18 member states for a total cap amount of EUR 22,56 million, supporting EUR 279,03 million of aggregate volume of micro-loans. During the implementation of the Facility, 14 448 micro-borrowers and vulnerable persons have been supported and 21 939 jobs have been created.

As of 31 December 2014, the European Progress Microfinance Facility including both Guarantees and Funded instruments already provided 31 371 micro-loans to final recipients reaching the volume of EUR 291,7 million.

Currently the market demand exceeds the original budgetary allocation of EUR 23,9 million. Further budget is envisaged for the EaSI microfinance guarantee, the successor of the EPMF-G (section 2.3), will is also likely to be fully utilised.

B - Description

(a) Identification of the financial instrument and the basic act;

Decision No 283/2010/EU[127] of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion.[128]

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The aim of the European Progress Microfinance Guarantee Facility is to enhance access to microfinance by reducing microfinance providers' risk.

The EPMF Facility will provide Union resources to increase access to, and availability of, microfinance for:

1. persons who have lost or are at risk of losing their job, or who have difficulties entering or re-entering the labour market, as well as persons who are facing the threat of social exclusion or vulnerable persons who are in a disadvantaged position with regard to access to the conventional credit market and who want to start or further develop their own micro-enterprise, including self-employment,
2. micro-enterprises, especially in the social economy, as well as micro-enterprises which employ persons referred to in point (a).

Implementation arrangements

The EPMF Guarantee Facility provides capped guarantees up to 20% to portfolios, which include micro-credit loans granted by intermediaries to micro–enterprises, including self-employed persons. The micro-credit guarantee covers up to 75% of the individual micro-credit loans included in the respective portfolio.

Guarantees provided by the EIF in accordance with the Agreement shall be open to any intermediaries being public or private bodies established on national, regional and local levels in the Member States, which provide microfinance to persons and micro-enterprises in the Member States, such as financial institutions, microfinance institutions, guarantee institutions or any other institution authorised to provide microfinance instruments.

The EPMF Guarantee Facility is implemented via direct guarantees and counter-guarantees. The implementation foresees also support measures, such as communication activities, monitoring, control, audit and evaluation which are directly necessary for the effective and efficient implementation of the Decision No 283/2010/EU and for the achievement of its objectives.

EPMF Guarantee Facility is subject to the following requirements and restrictions that have to be respected by the participating Microfinance providers:

- Additionality
- Promotion and visibility
- Monitoring, control and audit
- Compliance with State aid rules
- Reporting

[127] European Progress Microfinance Facility includes both Guarantees (EPMF-G) and Funded instruments (FCP-FIS).

[128] (OJ L 87/1, 7.4.2010)

The Facility also seeks to promote a balanced geographic distribution and the set target is to cover at least 12 Member States until 31 December 2016. As of 30/09/2014, the Facility covers 18 Member States. The EPMF Guarantee Facility shall remain in full force and effect until 31 December 2020. However, as the budget of the EPMF Guarantee Facility has been fully utilised by Q2 2014, no new transactions with financial intermediaries are expected to take place.

Added value
This Facility allows microfinance providers to reach out to target groups, who could normally not be served; for instance, because persons from these groups could not provide sufficient collateral or because the interest rates, which they would have to pay in accordance to their actual risk, profile are too high.

(c) The financial institutions involved in implementation;

The Commission empowers and mandates the EIF to provide EU Guarantees in its own name but on behalf of and at the risk of the Commission, under a Financial management Agreement ('FMA', signed 01/07/2010).

The EIF is responsible for identifying, investigating, evaluating and selecting the Financial Intermediaries ('FI') by applying selection criteria and processes set out in Annex 1 of the FMA: Operational Guidelines. Under the FMA, the EIF examines, on a continuous basis, proposals collected based on a call for expression of interest.

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 23 873 348
Aggregate budgetary payments as at 31/12/2014	EUR 18 473 348

(e) The performance of the financial instrument, including investments realised (as of 30/09/2014[129]);

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	*EUR 279,03 million* *25 156 eligible FRs*
Amount committed to financial intermediaries	*EUR 22,56 million (total guarantee cap amount)*
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	*N/A*

[129] EPMF FMA - 2014 Annual Implementation Report

Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	*EUR 160,26 million* *14 448 eligible FRs*
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	*N/A*

Impact on employment

For the entire period as of 30 September 2014, EPMF achievements for the Guarantee Facility component of the programme were as follows:

- Number of micro-loans: 14 973
- Total amount of micro-loans: EUR 160,26 million
- Total number of employees (in the supported micro-enterprises): 21 939

Additional operational information

- As of 30/09/2014, 35 Guarantee Agreements have been signed in 18 Member States for a total guarantee cap amount of EUR 22,56 million, with a clear geographical balance between Eastern and Western Europe.
- Based on forecasts subject to variations a further EUR 137 million in microloans is expected to benefit from the Guarantee facility until September 2015.
- In 2015, the demand from microfinance providers will remain significant and the new EaSI Microfinance Guarantee should be ready to cover fast and effective the needs of the microfinance market. The envisaged EPMF-G successor is EaSI Microfinance Guarantee.

Additional information at the aggregate EPMF level, including both Guarantee facility and Funded instruments

- As of 31 December 2014, the European Progress Microfinance Facility including both Guarantees and Funded instruments already provided 31 371 micro-loans to final recipients reaching the volume of EUR 291,7 million, compared to the initial programme target of 46,000 micro-loans with the volume of EUR 500 million. The Facility is on track to reach the initial programme target, as new loan inclusions will take place until 2018.

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Given the high demand for additional commitments due to the success of the EPMF Guarantee facility all the proceeds (see point (h)) received of the fiduciary account were used for the purposes of the Facility (as foreseen in the FMA).

(g) The balance of the fiduciary account;

At the end of the financial year 31/12/2014 EUR 4 419 882

	In EUR
Balance on the fiduciary account (current account)	4 419 882
Term deposits/Bonds (if applicable)	9 000 409
Term deposits < 3 months (cash equivalent)	*9 000 409*
Term deposits > 3 month < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Other assets **(if applicable)**	1 805
= Total assets	13 422 096

(h) Revenues and repayments;

Aggregate additional resources as at 31/12/2014 EUR 273 348

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments on called guarantees for guarantee instruments;

Called[130] guarantees as at 31/12/2014 EUR 2 468 093

(k) The target leverage effect, and the achieved leverage effect;

As of 30/09/2014, based on the signed Guarantee agreements, the total guarantee cap amounts to EUR 22,56 million and the expected volumes of micro-loans to final recipients are estimated to EUR 279,03 million that brings the expected leverage effect to 12,37 which is much higher than the minimum target leverage estimated at 6,67.

As for achieved leverage until 30/09/2014, the total guarantee cap amount of EUR 22,56 million has supported so far EUR 160,26 million of new micro-loans, implying a leverage of 7,1.

[130] Note: no available figures of recoveries.

D - **Strategic importance/relevance**

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

See below some information on the impact of the EU's Financial Instruments for micro-entrepreneurs SMEs (The economic environment for micro-finance131).

At the aggregate EPMF Facility level (including both Guarantee and Funded Instruments[132]), the gender breakdown for the 30 473 natural persons benefitting from loans under the Facility show that considerable outreach to females was achieved (36,5% of the micro-borrowers guaranteed were women).

In addition, the majority of individual micro-borrowers who received support under the Facility so far, were either unemployed or inactive at the time they received their loan (61,2%). Further, a clear majority (75,4%) of micro-enterprises, which received financing under the Facility, were established no earlier than three years since the micro-loan inclusion date.

At Facility level, individuals which were final recipients of micro-loans were, by and large, educated at the secondary level (38,7%). Nevertheless, EPMF continues to be of importance in serving the financing needs of individuals with more substantial education beyond the secondary level (41,0%).

Regarding the age group, with respect to final recipients who are natural persons the outreach to individuals in disadvantaged age groups (younger and older people combined) remains at noteworthy levels (16,3%). As of 31 December 2014, the European Progress Microfinance Facility including both Guarantees and Funded instruments already provided 31 371 micro-loans to final recipients reaching the volume of EUR 291,7 million.

E - **Key points and issues**

- ***Main issues for the implementation & general outlook:***
  - in terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2014, which is also reflected by the guarantee activity under EPMF. The continuously decreasing bank lending, the limited capacity of national governments to support microfinance and the strong market demand for microfinance still suggest that there is a clear rationale for intervention at EU-level by providing risk-sharing solutions to Microfinance providers.
  - Room for improvement has been identified for accompanying mentoring and training for micro-entrepreneurs since it is considered as important factor for the sustainability of the micro-enterprises. The issue of Microfinance providers' institutional capacity concerning mainly small non-bank microfinance institutions is a bottleneck which hurdles the disbursement of the agreed micro-loans and affects negatively their prospects in the microfinance market.
  - The provision of regulatory capital relief under the Guarantee Agreements has been identified as important issue in attracting qualified microfinance providers. During the negotiations with EIF many Intermediaries, mainly banks, raised this issue

[131] Bendig, Unterberg and Sarpong (2012); Convergences (2013): Evers&Jung (2014); EMN (2012); Kraemer-Eis, Lang and Gvetadze (2013); UEAPME (2013).

[132] EPMF – Annual Implementation Report 2014 – Social Reporting Analysis

especially when EIF asked Intermediaries to pass the EPMF benefit to the final recipients through price reduction.

- Finally, critical is further budgetary allocation in the new EaSI Microfinance Guarantee Facility – the budgetary commitment of EUR 23,9 million for the current EPMF Facility was fully allocated to guarantee agreements by 2014 Q2 almost two years before the end of the Facility's signing period. For the programming period 2014-2020 on the basis of the current Facility's utilisation the market need for Guarantees is estimated approximately to EUR 56 million.

- ***Main risks and solutions in place to mitigate these***:
  - contractual and process compliance of the microfinance providers is ensured through contractual reporting and monitoring after the signature of the guarantee agreements in accordance with the EIF internal procedures.
  - In addition, Commission as Designated Service safeguards that the requirements included in the Facility's Fiduciary and Management Agreement are fully respected by both EIF and the microfinance providers.
  - In order to encourage utilisation by the microfinance provider, a commitment fee is charged if not at least specific percentage of the Agreed Portfolio is reached during a contractually defined Availability Period.
  - Furthermore, the observance of specific requirements set out in the Facility's Fiduciary and Management Agreement with regard to reporting, monitoring and auditing, data protection, promotion and visibility, protects the interests of the Union against any risks of contractual, processes and performance non-compliance.

2.3. EaSI Microfinance and Social Entrepreneurship

A - <u>Summary</u>

Policy DG in charge:	DG EMPL
Implementing DG in charge:	DG EMPL
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 190 million [133]
Expected Overall Budget:	EUR 190 million

As has been shown by ex-ante evaluations[134], it is essential to provide financial instruments for microfinance and social enterprises in order to successfully achieve the objectives of the EaSI programme. In line with the outcome of ex ante evaluations, debt finance, risk-sharing instruments, and equity investments are likely to be used.

[133] EUR 96 million are planned for the Guarantees part in the 2014-2020 period, and consist of: EUR 56 million for Microfinance, EUR 40 million for Social Entrepreneurship. The remaining amount will be used for funded instruments and capacity building instrument.

[134] See above 'Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument' and Spiess-Knafl, Wolfgang and Jansen, Stephan A.,'Imperfections in the social investment market and options on how to address them', on behalf of the European Commission, November 2013, as published on http://bookshop.europa.eu/en/imperfections-in-the-social-investment-market-and-options-on-how-toaddress-them-pbKE0214002/

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on a European Union Programme for Employment and Social Innovation ("EaSI") and amending Decision No 283/2010/EU establishing a European Progress Microfinance Facility for employment and social inclusion[135]

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

EaSI Microfinance and Social Entrepreneurship aims at fulfilling the following objectives:

- to increase access to, and the availability of, microfinance for vulnerable groups who want to set up or develop their business as well as for existing micro-enterprises,
- to build up the institutional capacity of microcredit providers,
- to support the development of social enterprises, in particular by facilitating access to finance.

The instruments will do so by providing support not directly to final recipients, but rather to relevant intermediaries, i.e. microfinance providers and social enterprise investors.

"Microfinance Instrument" will target:

- *Vulnerable people,* i.e. persons who are in a disadvantaged position with regard to access to the conventional credit market and who want to start or further develop their own micro-enterprise, including self-employment; (the Regulation gives special focus to young people as vulnerable group).
- *Micro-enterprises,* meaning an enterprise, including a self- employed person, that employs fewer than 10 people and whose annual turnover or annual balance sheet total does not exceed EUR 2 million, in accordance with Commission Recommendation 2003/361/EC (OJ L124/36, 20.05.2003).

"Social Entrepreneurship financial Instrument" will target:

- social enterprises, regardless of their legal form[136].

Implementation arrangements

The negotiation of the Delegation Agreement with the EIF started in 2014 in view to be operational from 2015 onwards.

Added value

The Delegation Agreement signed with the EIF will ensure that EaSI Microfinance and Social Entrepreneurship is accessible for a broad range of financial intermediaries

[135] (OJ L 347/238, 20.12.2013)

[136] Note: Social enterprise means an undertaking, which:

(a) in accordance with its Articles of Association, Statutes or with any other legal document by which it is established, has as its primary objective the achievement of measurable, positive social impacts rather than generating profit for its owners, members and shareholders, and which:

(i) provides services or goods which generate a social return and/or

(ii) employs a method of production of goods or services that embodies its social objective;

(b) uses its profits first and foremost to achieve its primary objective and has predefined procedures and rules covering any distribution of profits to shareholders and owners that ensure that such distribution does not undermine the primary objective; and

(c) is managed in an entrepreneurial, accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activities.

(microcredit providers, both banks and non-banks, and social enterprise investors) which are experienced in financial transactions with self-employed and micro-entreprises.
From a technical point of view, the EIF will be instructed to provide guarantees to the financial intermediaries to cover a portion of expected losses of a portfolio of newly generated self-employed and micro-entreprises transactions with a higher risk profile.

(c) The financial institutions involved in implementation;

The EIF, microcredit providers (both banks and non-banks) and social enterprise investors.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014 EUR 28 400 200 [137]

(e) The performance of the financial instrument, including investments realised;

Not yet applicable

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable for 2014 as no transactions were signed during this year. The financial instrument is not fully operational yet.

(g) The balance of the fiduciary account;

Not yet applicable

(h) Revenues and repayments;

Not yet applicable

(i) The value of equity investments, with respect to previous years;

Not yet applicable

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

Not yet applicable

(k) The target leverage effect, and the achieved leverage effect;

The leverage effect, agreed with the EIF in the Delegation agreement, is 5,5 over the lifetime of the financial instrument for the guarantees part (which with the Union contribution of EUR 96 million is intended to support about EUR 528 million of financing volumes) and not yet available for the funded instruments funds.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The ex-ante evaluation 'Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument' [138] has indicated that "The crisis in

[137] The Global Commitment No SI2. 697353 of EUR 28 400 200 was created for Microfinance and Social Entrepreneurship on 11/12/2014. Individual commitments are expected in 2015.

several EU Member States with high levels of youth unemployment calls for ongoing support of inclusive entrepreneurship as an option to (re-) enter the labour market. Microloan provision is an important tool for this."

In most European countries, a significant market gap in the provision of microloans to persons using self-employment as a way out of social and financial exclusion can be identified. Based on estimations the total gap in EU-28 member states and selected EFTA countries amounts to 2,7 billion EUR. Microfinance providers in Europe need additional external funding to be able to close this gap via an extension of their loan providing activity." In line with these findings, EaSI Microfinance should provide debt finance, risk-sharing instruments, and equity investments. The EaSI guarantee should contribute to supporting about 528 million of financing volumes. The EaSI financial instruments are intended to reach a target of 1 350 eligible FRs for Social Entrepreneurship and 41 000 for Microfinance.

The ex-ante evaluation 'Imperfections in the social investment market and options on how to address them' identified guarantees, direct investments and grants as necessary instruments in order to "Increase the capital base, through a signalling effect for other investors; facilitate lending for social enterprises; and reduce the risk for capital providers and provide capacity building in the social investment market".

Both studies have provided analysis of the geographical element within the EU.

E - <u>Other key points and issues</u>

- ***Main issues for the implementation:***
    - at this stage of preparation, the main issues are related to the design of the instruments and the selection of entrusted entity/DIV manager.
    - In order to successfully face these challenges the EC commissioned two studies (as indicated above) which have served as ex ante evaluations.
- ***Main risks:***
    - in comparison to the existing Progress Microfinance (EPMF-G), EaSI may provide a strengthened capacity-building element to help mitigate this risk.
    - The risks related to social enterprises are linked to the fact that that market has not yet developed and the EU financial instrument has to help building it. Given the level of its development and the changes in the socio-economic environment, the market also tends to change very rapidly. This might cause a situation where the instrument in question may not be fit anymore for future situations.
- ***General outlook:***
    - based on the experience with the Progress Microfinance and its current levels of implementation, we expect an initial slower take up in the area of social entrepreneurship followed by significantly higher levels of implementation in the next years.

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[138] Unterberg, Michael, Bendig, Mirko, and Sarpong, Benjamin, on behalf of the European Commission, 'Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument', January 2014, as published on http://ec.europa.eu/social/BlobServlet?docId=12485&langId=en

2.4. Loan Guarantee Facility under COSME

A - Summary

Policy DG in charge:	DG GROW
Implementing DG in charge:	DG GROW
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 717 million[139]
Current Overall Budget:	EUR 686 million[140]

The capped portfolio guarantees offered under the LGF and implemented by the EIF under the COSME Delegation Agreement signed in July 2014 have created strong market demand from financial intermediaries.

The first guarantee agreements which have been signed in late 2014 will make a significant contribution to providing financing for riskier SME transactions. It is expected that especially start-ups and smaller SMEs, which find it hardest to access finance, will benefit from the LGF and that about 13 000 SMEs will receive financing for a total financing value of almost EUR 851 million over the next two years.

B - Description

(a) Identification of the financial instrument and the basic act;

Loan Guarantee Facility (LGF) under the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) – 2014 to 2020 -Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 – 2020) and repealing Decision No 1639/2006/EC (O.J. L347 of 20 December 2013)

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The specific objective of COSME Financial Instruments is to improve access to finance for SMEs in the form of equity and debt. Actions shall aim to stimulate the take-up and supply of both equity and debt finance, which may include seed funding, angel funding and quasi-equity financing subject to market demand but excluding asset stripping.

[139] The Basic Act provides that no less than 60% of the total financial envelope for the implementation of the COSME programme shall be allocated to the financial instruments. The split of the total amount allocated to the financial instrument is 52% for the Loan Guarantee Facility (LGF) and 48% for the Equity Facility for Growth (EFG), based on the distribution between the loan guaranteed and equity facility in the legislative financial statement.

[140] This amount, based on the assumptions that the distribution between the COSME financial instruments is 52% for LGF and 48% for EFG, is indicative and subject to change, in line with Article 17 of the Basic Act which stipulates that the allocation of funds to the loan guarantee and equity facilities shall take into account the demand from financial intermediaries. It includes the contribution to the SME Initiative where applicable.

In line with the above, the Loan Guarantee Facility (LGF) provides:

- counter-guarantees and other risk sharing arrangements for guarantee schemes;
- direct guarantees and other risk sharing arrangements for any other financial intermediaries meeting the eligibility criteria.

The LGF consists of:

- guarantees for debt financing via loans, including subordinated and participating loans, or leasing, which shall reduce the particular difficulties that viable SMEs face in accessing finance either due to their perceived high risk or their lack of sufficient available collateral;
- securitisation of SME debt finance portfolios, which shall mobilise additional debt financing for SMEs under appropriate risk-sharing arrangements with the targeted institutions. Support for those transactions is conditional upon an undertaking by the originating institutions to use a significant part of the resulting liquidity or the mobilised capital for new SME lending within a reasonable period of time. The amount of this new debt financing will be calculated in relation to the amount of the guaranteed portfolio risk and will be negotiated, together with the period of time, individually with each originating institution.

The LGF covers, except for loans in the securitised portfolio, loans up to EUR 150 000 and with a minimum maturity of 12 months. The LGF may also cover loans above EUR 150 000 in cases where SMEs who meet the criteria to be eligible under the COSME programme do not meet the criteria to be eligible under the SME window in the Debt Facility of the Horizon 2020 programme (the InnovFin SME Guarantee Facility), and with a minimum maturity of 12 months. The LGF is designed in such a way that it will be possible to report on SMEs supported, both in terms of number and volume of loans.

Implementation arrangements

The Delegation Agreement signed with the EIF ensures that the LGF is accessible for a broad range of financial intermediaries (guarantee societies, national promotional institutes, commercial banks, cooperatives, etc.) which are experienced in financial transactions with SMEs or which have the capacity to enter into financial transactions with SMEs.

From a technical point of view, the EIF is instructed to provide to financial intermediaries capped portfolio guarantees which will cover a portion of expected losses of a portfolio of newly generated SME transactions which have a higher risk profile.

In as far as securitisation transactions are concerned, the EIF is instructed to provide guarantee coverage on a part of the mezzanine tranche of a securitised SME lending portfolio coupled with an undertaking by the financial intermediary to build up a new SME loan portfolio.

Target final recipients under the capped portfolio guarantees and the securitisation transactions are SMEs of all sizes without a specific sector focus. The range of financial products which can be supported through the capped guarantees is very broad so as to not discriminate amongst the SME population which has very differing financing needs depending on a company's stage of development and the sector/industry in which it operates.

The guarantee instrument is planned to last until 31 December 2034 (until last operations are wound down). Individual guarantee agreements to be signed by the entrusted entity will have a maximum duration of 10 years.

The LGF may also contribute to the financial instruments to be deployed under the SME initiative, a joint instrument combining EU funds available under COSME and/or Horizon 2020 and ESIF resources in cooperation with EIB/EIF with a view to generate additional lending to SMEs in specific Member States. This contribution may take the form of uncapped portfolio guarantees or securitisation operations and cover the mezzanine tranche of the portfolio.

Added value

The added value for the Union of the Financial Instruments lies, inter alia, in strengthening the internal market for venture capital and in developing a pan-European SME finance market as well as in addressing market failures that cannot be addressed by Member States.

More specifically, the EIF provides under the LGF (counter-)guarantees for a portfolio of newly generated SMEs transactions which have a higher risk profile than transactions offered by the financial intermediary under its normal business practice, thereby providing financing to SMEs who might otherwise not be able to obtain financing.

(c) The financial institutions involved in implementation;

The implementation of the LGF has been entrusted to the EIF and the Delegation Agreement has been signed on 22 July 2014. The related open call for expression of interest for financial intermediaries published by the EIF is available at

http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/index.htm

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 89 129 526
Aggregate budgetary payments as at 31/12/2014	EUR 41 744 830

(e) The performance of the financial instrument, including investments realised;

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 42,4 million 3 FIs
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , and expected number of eligible final recipients;	EUR 850,9 million 13 000 Eligible FRs
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 0 million 0 Eligible FRs
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	N/A

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

For Risk-sharing and Guarantee Instruments	***(in EUR)***
Balance on the fiduciary account (current account)	9 497 324
Term deposits/Bonds (if applicable)	29 824 496
Term deposits < 3 months (cash equivalent)	*29 824 496*
Term deposits > 3 month < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	1 083
= Total assets	39 322 903

(h) Revenues and repayments;

EUR 0

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

EUR 0

(k) The target leverage effect, and the achieved leverage effect;

The target leverage effect indicated in the COSME legal base is in the 1 to 20 – 1 to 30 range for the debt instrument over the lifetime of the programme, with an overall value of financing mobilised by the EU contribution ranging from EUR 14,3 billion to EUR 21,5 billion.

These amounts have been computed on the basis of the initially allocated budget for the COSME financial instruments, which is 60% of the total amount allocated to the COSME programme as set out in the basic act (EUR 2 298 243 000).

It has been assumed (as documented in the legislative financial statement accompanying the basic act) that the split between the two financial instruments would be 52% for the Loan Guarantee Facility (LGF) and 48% for the Equity Facility for Growth (EFG).

The achieved leverage effect

As the first operations with financial intermediaries under the LGF have only been signed in December 2014, and financial intermediaries have not yet disbursed loans to SMEs under the COSME guarantees, no achieved leverage effect can be computed for 2014.

The "Expected Leverage for Signed Operations"

For the three operations signed with financial intermediaries in 2014, the maximum financing available to SMEs amounts to almost EUR 851 million. Based on the overall 2014 budgetary commitments for the LGF (i.e. EUR 89 million), the expected leverage for the operations signed in 2014 is 1 to 10. This leverage is expected to increase significantly in 2015 as additional operations related to the 2014 LGF budgetary commitments will be signed throughout the year.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

In line with the Europe 2020 strategy, the COSME financial instruments are designed to address the market gaps in access to finance for SMEs in their start-up, growth and transfer phase and to support the creation of a pan-European finance market.

Under the LGF, this will be achieved by incentivising financial intermediaries to provide financing predominantly to those SMEs which the financial intermediary would under its normal business practices not finance due to the higher risks involved.

The market response for this facility, which was launched at the beginning of August 2014 through an open call for expression of interest, has been very positive. By the end of 2014, the EIF had concluded due-diligence and signed guarantee agreements with three financial intermediaries from three different participating countries for a total guarantee cap amount of EUR 42,4 million (which is the amount of EU budget allocated to the guarantee agreements signed).

In addition, the EIF had received a significant number of additional applications which were at different stages of the screening/due diligence process and which are expected to lead to signature of guarantee agreements in the course of 2015.

Under the three agreements signed, it is expected that about 13 000 SMEs will receive financing for a total financing value of almost EUR 851 million over the next two years thereby contributing to the achievement of the overall LGF target to finance between 220 000 and 330 000 SMEs with a total volume of financing ranging from EUR 14,3 to 21,5 billion over the lifetime of the COSME programme.

E - Other key points and issues

- ***Main issues for the implementation:***
  - as the EIF has only started at the end of 2014 signing guarantee agreements with financial intermediaries it is too early to judge whether technical issues will arise during the implementation phase of the programme. It appears that requirements for financial instruments stemming from the Financial Regulation have been accepted by the financial intermediaries (e.g. in relation to ex-post publication requirements), but these points will be carefully monitored.
  - The financial intermediaries have responded positively to the fact that under the COSME LGF they have the possibility to offer higher risk SME products which can be tailored towards the needs of the SMEs serviced by such intermediary.
- ***Main risks:***
  - in the course of 2014 no risks were identified with regard to eligibility of financial intermediaries and final recipients, contractual compliance process and performance.
- ***General outlook:***
  - despite the fact that leverage targets have not been met in 2014, the guarantee agreements concluded by the EIF with financial intermediaries have paved the way for the achievement of the leverage targets as well as other targets set (in terms of financing volume and number of SMEs financed).
  - After the launch of the call for expression of interest in August 2014, which spells out the detailed technical requirements of the Loan Guarantee Facility, the EIF as well as the Commission received positive feed-back from relevant stakeholders on the usefulness of the instrument. This has been further confirmed by the strong pipeline

presented by the EIF to the Commission. As of March 2015, the EIF had received 20 applications and expected another 20 to 25 applications to come through until summer 2015. If all of these applications were to materialise, the budget made available for the LGF in 2014 and 2015 would be insufficient to cover market demand.

2.5. RSI (Pilot guarantee facility for R&I-driven SMEs and Small Midcaps) under FP7

A - Summary

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 270 million
Current Overall Budget:	EUR 270 million

RSI (Risk-Sharing Instrument for SMEs and small midcaps, with maximum 499 employees) was launched to improve access loan finance for RDI investments. The RSI guarantee facility is part of the RSFF implementation and is carried out by the European Investment Fund (EIF). The EU budget coming from FP7 (plus additional EFTA and Third Country appropriations to FP7) for the period 2012/2013 amounted to EUR 270 million.

The Risk-Sharing Instrument has so far provided over EUR 1,59 billion in guarantees and counter-guarantees to 37 banks and guarantee societies: this has enabled them to support up to an estimated 3 000 innovative SMEs and small midcaps with the loan volume of EUR 3 301 million. In only two years' time, these financial intermediaries now cover 18 countries in the European Union and Associated Countries.

B - Description

(a) Identification of the financial instrument and the basic act;

Decision No 1982/2006/EC of the European Parliament and of the Council of 18 December 2006 concerning the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013) (OJ L 412, 30.12.2006, p. 1).

Council Decision 2006/971/EC of 19 December 2006 concerning the specific programme 'Cooperation' implementing the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007 to 2013) (OJ L 400, 30.12.2006, p. 86).

Council Decision 2006/974/EC of 19 December 2006 on the Specific Programme: 'Capacities' implementing the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007 to 2013) (OJ L 400, 30.12.2006, p. 299).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
The RSFF, co-developed by the European Commission and the EIB, was established in June 2007. In early 2012, within this programme a new pilot guarantee facility, RSI (Risk-

Sharing Instrument for SMEs and small midcaps, with maximum 499 employees) was launched to improve access loan finance for RDI investments.

Implementation arrangements
The RSI guarantee facility is part of the RSFF implementation (see the relevant section in this report) and is carried out by the European Investment Fund (EIF).

For this RSI pilot guarantee facility, the Union budget coming from FP7 for the period 2012/2013 amounted to EUR 270 million (plus additional EFTA and Third Country appropriations to FP7).

Added value
RSI is a dedicated guarantee facility for loan and lease finance addressing the finance gap for innovative SMEs and Small Midcaps (with up to 499 employees). Through risk-sharing via guarantees provided by the EIF to financial intermediaries, it made a significant contribution to support innovative smaller companies by improving their access to loan finance.

(c) The financial institutions involved in implementation;

European Investment Fund (EIF)

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 270 000 000
Aggregate budgetary payments as at 31/12/2014	EUR 270 000 000

(e) The performance of the financial instrument, including investments realised;

The instrument has so far provided over EUR 1,59 billion in guarantees and counter-guarantees to 37 banks and guarantee societies: this will enable them to support up to an estimated 3000 innovative SMEs and small midcaps via loans, financial leases, and loan guarantees.

The aggregate number of applications from financial intermediaries is 47, including four guarantee increases.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 3 301 million 3 000 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 6 000 million

Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 831 million 1 376 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 1 600 million

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	167 309
Term deposits/Bonds (if applicable)	269 534 215
Term deposits < 3 months (cash equivalent)	*80 972 650*
Term deposits > 3 month < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	*116 196 432*
Bonds non-current	*72 365 133*
***Other assets* (if applicable)**	12 638
= Total assets	269 714 162

(h) Revenues and repayments;

For the period 2012-2014, the following revenues and repayments were received by the EU on the EU RSI Account:

Total operating revenues: EUR 1 323 335
Repayments: none

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments of assets of equity;

Called guarantees as at 31/12/2014 EUR 1 646 715

(k) The target leverage effect, and the achieved leverage effect;

The achieved leverage effect is above 12 with an amount of financing expected to be provided by financial intermediaries of EUR 3 301 million and an EU contribution of EUR 270 million.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The Risk Sharing Instrument (RSI) under the 7th Framework Programme is a guarantee facility dedicated for loan and lease finance addressing the finance gap for innovative SMEs and Small Midcaps (enterprises with up to 499 employees). The Risk-Sharing Instrument has so far provided over EUR 1,59 billion in guarantees and counter-guarantees to 37 banks and guarantee societies: this has enabled them to support up to an estimated 3 000 innovative SMEs and small midcaps with the loan volume of EUR 3 301 million. In only two years' time, these financial intermediaries now cover 18 countries in the European Union and Associated Countries.

E - Other key points and issues

The Risk Sharing Instrument (RSI) has paved the way to the financial instrument SMEs & Small Midcaps R&I Loans Service under Horizon 2020 which is implemented on a larger scale as well in term of budget than geographical coverage or specific target groups.

2.6. SMEs & Small Midcaps R&I Loans Service under Horizon 2020

A - Summary

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 1 060 million
Current Overall Budget:	EUR 1 060 million *

**Please note that the total indicative budget for SME/ small midcap guarantee instruments is EUR 1,060 million that also includes the Horizon 2020 contribution to the SME Initiative. The minimum Horizon 2020 contribution to the SMEs and Small Midcaps Loan Service for R&I is EUR 880 million but might be increased depending on the actual size of the contribution from Horizon 2020 to the SME Initiative.*

This instrument addresses the financing gap for innovative SMEs and Small Midcaps (with up to 499 employees) for their investments in innovative products and processes containing significant technology or application risks

The EU and the EIF, as risk-sharing partners at EU level, support loan finance to such innovative SMEs and Small Midcaps through direct or indirect guarantees which the EIF will provide to financial intermediaries.

Due to the advantages the InnovFin SME Guarantee offers, notably in the form of risk-sharing and capital relief for banks, guarantee institutions and other financial intermediaries, this instrument is able to successfully address the financing gap for innovative small companies.

Based on the foreseen Union budget coming from Horizon 2020, the risk-sharing arrangements between the EU and EIF as well as between the EIF and its financial intermediaries, a significant loan and lease volume in support of innovative small companies and their investment can be expected. For the period 2014-2020, it is expected to mobilize a loan and lease volume of approximately EUR 9,5 billion in support of 3 000 innovative companies and their investments in RDI.

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU)No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) (OJ L 347/104, 20.12.2013)

Regulation(EU) No 1290/2013 of the European Parliament and of the Council of 11 December 2013 laying down the rules for participation and dissemination in "Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)" (OJ L 347/81, 20.12.2013)

Council Decision 2013/743/EU of 3 December 2013 establishing the specific programme implementing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) (OJ L 347/965, 20.12.2013).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
This guarantee facility succeeds and refines the RSI pilot under the RSFF in FP7, and is part of a single debt financial instrument supporting the growth of enterprises and their R&I activities. It targets R&I-driven SMEs and small midcaps (up to 499 employees) requiring loans of between EUR 25 000 and EUR 7,5 million. A loan of more than EUR 7,5 million will be considered on a case-by-case basis.

Implementation arrangements
The European Investment Fund (EIF) implements this facility by providing direct guarantees to financial intermediaries such as banks, who will extend the actual loans to final recipients. The guarantee covers up to 50% of intermediaries' potential losses. EIF also offers counter-guarantees to financial intermediaries (such as guarantee institutions) providing risk protection to banks extending loans to R&I-driven SMEs and small midcaps. This facility is available since 10 June 2014.

R&I-driven SMEs or small midcaps wishing to apply for a loan should contact one of the financial intermediaries signing an agreement (see Selection procedure) with EIF. This is a demand-driven facility, with no prior allocations between sectors, countries or regions. However, the Commission incentivises EIF to make a particular effort to ensure that a significant proportion of final recipients are eco-innovative SMEs and small midcaps.

Selection procedure:

a) For financial intermediaries: EIF issues calls for expression of interest, with eligibility and selection criteria defined as part of each call after consultation with DG Research & Innovation.
b) For loans: according to the internal processes of the intermediary bank or other financial institution that the SME or small midcap applies to, using normal commercial criteria.

Added value
Expected impact: R&I-driven SMEs and small midcaps able to carry out a greater amount of R&I. The indicators are the number of agreements signed with financial intermediaries and the number and volume of loans made.

(c) The financial institutions involved in implementation;

European Investment Fund (EIF)
The EIF implements this guarantee instrument, which will be delivered by financial intermediaries (such as banks). Financial intermediaries will be guaranteed against a

proportion of their potential losses by EIF, which will also offer counter-guarantees to guarantee institutions.

This is a demand-driven instrument, with no prior allocations between sectors, countries or regions, or types or sizes of firms or other entities.

Financial intermediaries selected by entrusted entities for the implementation of financial instruments pursuant to Article 139(4) of Regulation (EU, Euratom) No 966/2012 on the basis of open, transparent, proportionate and non- discriminatory procedures, may include private financial institutions as well as governmental and semi-governmental financial institutions, national and regional public banks as well as national and regional investment banks

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 168,6 million
Aggregate budgetary payments as at 31/12/2014	EUR 168,6 million

(e) The performance of the financial instrument, including investments realised;

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 475 million 900 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 900 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 11 million 21 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 22 million

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

(Note: the requirement applies only as from 2015 for 2014-2020 financial instruments)

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	41 625 725
Term deposits/Bonds (if applicable)	123 286 083
Term deposits < 3 months (cash equivalent)	*25 773 159*
Term deposits > 3 month < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	*918 334*
Bonds non-current	*96 594 590*
***Other assets* (if applicable)**	924
= Total assets	164 912 732

(h) Revenues and repayments;

Revenues: EUR 61 000

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

None

(k) The target leverage effect, and the achieved leverage effect;

The target leverage effect equals 9 with an amount of financing expected to be provided by financial intermediaries of EUR 9 500 million and an EU contribution of EUR 1060 million.

The expected leverage effect as at 31/12/2014 equals 2,82 with an amount of financing expected to be provided of EUR 475 million and an EU contribution of EUR 168,6 million.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The dedicated InnovFin SME Guarantee makes the following contribution to the objectives of Horizon 2020:

- increase in private finance and address the financing gap for innovative SMEs and Small Midcaps seeking loan finance for their riskier investments in RDI;
- support, via risk-sharing (guarantees and counter-guarantees), for innovative SMEs and Small Midcaps investing across Horizon 2020 Societal Challenges through better access to longer-term loan and lease finance, for loan amounts between EUR 25,000 and 7.5 million;

- allow, in combination with the COSME Loan Guarantee Facility which focuses on increasing the competitiveness of SMEs in general, improved access to finance for SMEs (and Small Midcaps) as part of a single EU debt financial instrument for SMEs.

In terms of incentivizing the implementation of the InnovFin SME Guarantee and its geographical coverage (EU Member States and Associated Countries), similar milestones and indicators are in place, as part of the Delegation Agreement with the EIF, to make sure that within the period 2014-2020, the instrument will be rolled out successfully and in an efficient manner.

The InnovFin SME Guarantee is a dedicated guarantee facility for loan and lease finance addressing the finance gap for innovative SMEs and Small Midcaps (with up to 499 employees). Through risk-sharing via guarantees provided by the EIF to financial intermediaries, it makes a significant contribution to the Horizon 2020 policy objective to support innovative smaller companies by improving their access to loan finance.

The InnovFin SME Guarantee focuses on the important target group of innovative smaller companies and complements the Loan Service for R&I instrument under Horizon 2020. With the EU contribution of EUR 1 060 million, the instrument is targeted to support the amount of financing of EUR 9 500 million, implying 3 000 final recipients.

E - Other key points and issues

- **Main issues for the implementation**:
  - it will be crucial for the implementation of the InnovFin SME Guarantee to attract a sufficient number of financial intermediaries (banks and guarantee institutions) as risk-sharing partners of the EIF and loan providers to final recipients.
  - In this context, the fees charged to financial intermediaries need to reflect the risk taken at EU level while, at the same time, offering risk-sharing and capital relief for financial intermediaries.
  - The contractual arrangements between the European Commission (represented by DG RTD) and EIF allow for flexibility as regards product development for the period 2014-2020.
- **Main risks** :
  - no particular risks
- **General outlook**:
  - based on the very successful implementation of the Pilot guarantee facility (RSI) during the period 2012-2013, it can be reasonably expected that the InnovFin SME Guarantee will successfully be taken up by the market.
  - Demand for longer-term (up to 10 years) loan finance in the range of EUR 25,000 to 7,5 million for the target group innovative SMEs/ Small Midcaps should remain high across EU Member States and Associated countries, due to the incentives built into the instrument (regulatory capital relief of the 50% uncapped guarantee per loan for financial intermediaries).
  - Provided that the InnovFin SME Guarantee instrument can be implemented as foreseen, it would be able to make a significant contribution to addressing the loan finance gap for innovative smaller companies.

2.7. The Cultural and Creative Sectors Guarantee Facility

A - Summary

Policy DG in charge:	DG CNECT and DG EAC
Implementing DG in charge:	DG CNECT
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 121 million[141]
Current Overall Budget:	EUR 121 million [142]

The Cultural and Creative Sectors Guarantee Facility is a facility under which the European Commission through the European Investment Fund (EIF) will provide guarantees and counter-guarantees on debt financing to Financial Intermediaries in order to improve access to finance to SMEs from cultural and creative sectors. Thanks to the CCS GF, Financial intermediaries selected by the EIF will be able to provide additional debt financing to SMEs in Participating Countries. In addition, the action will provide expertise/capacity building to the financial institutions wishing to build dedicated portfolios of loans targeting cultural and creative SMEs. This may result in an increase in the number of financial institutions which are willing to work with cultural and creative SMEs as well as maximising the European geographical diversification of targeted financial products for the sector.With a total budgetary appropriation for CCS GF of EUR 121million in the 2016-2020 period and a targeted leverage effect of 5,7 the financial instrument may leverage around EUR 690 million of additional funding or the cultural and creative industries.

B - Description

(a) Identification of the financial instrument and the basic act;

REGULATION (EU) No 1295/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 December 2013 establishing the Creative Europe Programme (2014 to 2020) and repealing Decisions No 1718/2006/EC, No 1855/2006/EC and No 1041/2009/EC.[143]

Thereof: Art 14 and Annex 1 on the Cultural and Creative Sectors Guarantee Facility specific political and operational objectives.

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The Cultural and Creative Sectors Guarantee Facility (CCS GF) is part of the Creative Europe programme. The general objective of the Cultural and Creative Sectors Guarantee Facility is in line with those of the Creative Europe Programme which is to foster the

[141] Note: this figure does not include circa EUR 2million in expected recoveries from the MEDIA Production Guarantee Fund

[142] Idem

[143] OJ L 347, 20.12.2013, p. 221–237

safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sectors, with a view to promoting smart, sustainable and inclusive growth, in line with the Europe 2020 strategy.

The Cultural and Creative Sectors (CCS) count for more than 1 million enterprises and represent nearly 4,5% of the total business economy in Europe. The sector employs over 3,2 million people, predominantly in very small enterprises, and provides work to many self-employed people. CCS grow quickly yet suffer from negative stereotypes when it comes to assessing their economic performance. Hence the operational objectives are:

- to provide guarantees to banks dealing with cultural and creative SMEs resulting in easier access to bank credits;
- to provide expertise/capacity building to the financial institutions;
- to increase the number of financial institutions which are willing to work with cultural and creative SMEs;
- to maximise the European geographical diversification of financial institutions willing to work with cultural and creative SMEs.

Implementation arrangements

The European Commission retains an overall responsibility for managing the CCS GF but day-to-day management will be entrusted to the European Investment Fund (EIF) under a Delegation Agreement.

Added value

The Guarantee Facility has been the subject of an impact assessment, in-depth analysis of the pre-existing market gap, market testing with a sample of financial institutions and a dedicated study on 'Access to finance for cultural and creative sectors'.[144]

CCS GF aims at strengthening the competitiveness of the cultural and creative sector, by providing guarantees or counter guarantees to financial institutions lending to cultural and creative SMEs in Participating Countries (i.e. EU 28 + Norway and Iceland). A capacity building scheme (technical assistance) will be an integral component of the CCS GF.

Hence the implementation of a Cultural and Creative Sector Guarantee Facility will improve access to finance for companies and organisations in the cultural and creative sectors, leading to the strengthening of their financial capacity and competitiveness.

(c) The financial institutions involved in implementation;

European Investment Fund

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Commitments:

- none for 2014.
- EUR 1 000 000 for year 2015 (indicative: this amount will come from recoveries from the preceding financial instrument, the MEDIA Production Guarantee Fund (MPGF).
- EUR 14 828 833 for year 2016.
- EUR121 million for 2016-20 (indicative)[145].

[144] http://ec.europa.eu/culture/library/studies/access-finance_en.pdf

[145] Note: this amount does not include a further EUR 1million expected recoveries from the preceding financial instrument the MPGF.

Payments:

- no payments made in 2014;
- EUR 1 000 000 for year 2015 (to be sourced from expected recovery from MPGF).
- EUR 14 077 550,58 for year 2016.

(e) The performance of the financial instrument, including investments realised;

NA

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

NA

(h) Revenues and repayments;

NA

(i) The value of equity investments, with respect to previous years;

NA (guarantee fund)

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

NA

(k) The target leverage effect, and the achieved leverage effect;

The targeted leverage is 5,7. With a total budgetary appropriation of EUR 121 million in the 2016-2020 period the financial instrument may leverage around EUR 690 million of additional funding for the cultural and creative industries.

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The use of a financial instrument may have a strong structuring effect on the CCS, thanks to the leverage effect on EU funds and to the expected progressive transition from grants to loan support for some types of supports and beneficiaries, such as: micro-loans for all types of individual cultural project development; funding for independent game developers; funding for publishers of books or sound recordings; loans to exhibitors for the digitisation of cinema theatres; working capital loans to distributors to cover distribution costs (print, marketing, advertising, dubbing and subtitling) etc.

Additionally, companies will be able to build closer relationships with the financial sector, both thanks to the capacity-building arm of the scheme addressed to the financial intermediaries and the training programmes for operators of the sector that will be provided under the Creative Europe Programme.

The contribution of the CCS GF to the achievement of the objectives of the Creative Europe programme will be measured by the indicators established in the legal basis:

i) the volume of loans guaranteed in the framework of the Guarantee Facility, categorised by national origin, size and sectors of SMEs and micro, small and medium- sized organisations;

ii) the volume of loans granted by participating financial intermediaries, categorised by national origin;
iii) the number and geographical spread of participating financial intermediaries;
iv) the number of SMEs and micro, small and medium- sized organisations benefiting from the Guarantee Facility, categorised by national origin, size and sectors;
v) the average default rate of loans;
vi) the achieved leverage effect of guaranteed loans in relation to the indicative leverage effect (1 to 5,7).

E - Other key points and issues

- ***Main issues for the implementation:***
  - timely agreement and adoption of Delegation Agreement with the EIF.
  - A sufficient critical mass of Financial Intermediaries to ensure a successful start to the programme.
- ***Main risks:***
  - no specific risk identified.
- ***General outlook:***
  - based on market testing carried out by the EIF and direct contacts and an info session with potential Financial Intermediaries, there is a positive forecast demand for the guarantees.
  - The scheme itself will start in earnest after a signature of Delegation Agreement between the European Commission and the EIF, expected in Q4 of year 2015.

2.8. Student Loan Guarantee Facility - ERASMUS+

A - Summary

Policy DG in charge:	DG EAC
Implementing DG in charge:	DG EAC
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 517 million
Current Overall Budget:	EUR 517 million

The Erasmus+ Master Student Loan seeks to make EUR 0,5 billion (EUR 33 million in 2015) of guarantees to support mobility, equity and study excellence via guarantees to financial institutions which agree to offer loans for Master's studies in other Erasmus+ Programme countries on favorable terms for mobile students, (regardless of their social background) with an expected leverage of 5,7, unlocking EUR 3 billion in student loans. The main priority in 2015 is to ensure a rapid implementation so that students will be able to access loans supported through the facility in 2015.

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU) No 1288/2013 of the European Parliament and of the Council of 11 December 2013 establishing 'Erasmus+': the Union programme for education, training, youth and sport and repealing Decisions No 1719/2006/EC, No 1720/2006/EC and No 1298/2008/EC.

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
The objective of Erasmus + Master Student Loan (a guarantee facility under the Erasmus+ programme), is to incentivise commercial/retail banks, promotional banks, student loan bodies and other financial intermediaries ("Intermediaries") to extend loans (up to a maximum of EUR 12 000 for one-year, up to EUR 18 000 for a two-year programme) to mobile students pursuing a full higher education degree (Masters' programme) in a country which is neither their country of residence nor the country in which they obtained their qualification giving them access to Master's studies.

Implementation arrangements
The Facility aims at granting students access to Master's programmes through loans provided by financial institutions, at favourable conditions because of effective portfolio credit risk transfer (via a guarantee or a counter-guarantee) by the EIF on behalf of the Commission.

Added value
The Facility was created to support Master students, who will make an increasingly important contribution to innovation and entrepreneurship in Europe but who also face difficulties in accessing finance, especially for transnational student mobility where a market gap has been identified.

(c) The financial institutions involved in implementation;

European Investment Fund

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Commitments:

- EUR 28,35 million made in 2014
- EUR 33 million foreseen in 2015
- EUR 456 million for 2015-20 (indicative)

Payments:

- No payments made in 2014
- EUR 25,6 million foreseen for 2015
- EUR 31,1 million for 2016-17 (indicative)

(e) The performance of the financial instrument, including investments realised;

As the Delegation Agreement was signed in December 2014, no investments were made during 2014.

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

As at 31/12/2014, no transfer to the fiduciary account had yet been made made (10 million foreseen).

(h) Revenues and repayments;

NA

(i) The value of equity investments, with respect to previous years;

NA (guarantee fund)

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

NA

(k) The target leverage effect, and the achieved leverage effect;

The targeted leverage is 5,7.

EU contribution of 517 million € is targeted to unlock about EUR 3 billion in student loans.

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

To support mobility, equity and study excellence, the Student Loan Guarantee Facility (EU contribution of EUR 517 million unlocking EUR 3 billion in student loans) will enable up to 200 000 students, regardless of their social background; to take their Master degree in another Erasmus+ Programme country.

The Student Loan Guarantee Facility will be available to financial institutions, which agree to offer loans on favourable terms to such mobile students. This additional and innovative tool for learning mobility will neither replace any current, nor impede the development of any future grant or loan system supporting student mobility at local, national, or Union level.

E - <u>Other key points and issues</u>

- ***Three main issues for the implementation:***
  - a sufficient critical mass of Financial Intermediaries to ensure a successful start to the programme.
  - The build-up towards an adequate geographical spread of Financial Intermediaries, so as to ensure wide availability of the student loans across the 33 Erasmus+ Programme Countries.
  - The number of loans supported through the instrument are sufficient to meet student demand.
- ***Main risks:***
  - no specific risk identified.

- ***General outlook:***
  - based on market testing carried out by the EIF and direct contacts at information events for potential Financial Intermediaries, there is a positive forecast demand for the guarantees.
  - However, a rapid turnaround of the contracting process will be necessary to ensure loans can be made available for the academic year 2015-16.

2.9. Private Finance for Energy Efficiency Instruments (PF4EE)

A - Summary

Policy DG in charge:	DG CLIMA
Implementing DG in charge:	DG CLIMA
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 80 million[146]
Current Overall Budget:	EUR 80 million *(2014-2017)*[147]

The PF4EE is a guarantee instrument providing access to finance for energy efficiency (EE) investments which implement National Energy Efficiency Action Plans (NEEAP) of Participating Countries, or other programmes in line with EU Directives relating to Energy Efficiency. The final recipients include private individuals, home-owner associations, SMEs, corporates and/or public institutions/bodies.

It is implemented under indirect management by the European Investment Bank. The delegation agreement (DA) was signed on 8 December 2014.

The instrument aims to increase lending activity and to improve financing conditions for final recipients through, among others, lower pricing, longer maturities and lighter securities requirements.

The target leverage effect as indicated in the Delegation Agreement is 8. The EU budget allocation foreseen for the programming period (2014-2017) amounts to EUR 80 million (including EUR 3,2 million for the Expert Support Facility). It is estimated that the total amount of investments/loans supported would be EUR 540 million, at least EUR 430 million made by the EIB, to which the possible investments of about 110 million made by financial intermediaries have to be added.

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU) N° 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) Article 17[148].

[146] The overall budget envelope of the PF4EE is defined in the Commission Implementing Decision C(2014)1709 of 19 March 2014 on the adoption of the LIFE multiannual work programme for 2014-2017 and it is referred to the period 2014-2017.
[147] Including EUR 3,2 million for the Expert Support Facility.
[148] OJ L 116/1, 17.04.2014

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The PF4EE is a guarantee instrument which is implemented under indirect management by the European Investment Bank. The delegation agreement (DA) was signed on 8 December 2014.

The PF4EE is conceived as a pilot initiative in the years 2014-2017 to provide access to adequate and affordable commercial financing for eligible energy efficiency (EE) investments targeted by schemes developed by Participating Countries to implement their National Energy Efficiency Action Plans (NEEAP) or other programmes in line with EU Directives relating to Energy Efficiency.

Implementation arrangements

The PF4EE instrument provides to financial intermediaries (FIs):

- a portfolio-based credit risk protection (Risk Sharing Facility or RSF), combined with
- expert support services for the FIs in order to support the implementation of the PF4EE instrument and
- long-term financing.

The RSF is designed to mitigate the credit risk faced by FIs when lending to final recipients undertaking eligible EE investments. By means of collateral deposited on the collateral account, the RSF will cover losses at the collateral rate incurred under EE loans included in the portfolio to be built by the FIs for the financing of EE investments.

The size of the EE loans provided to beneficiaries range from EUR 40 000, which can be reduced to accommodate small investments within the residential sector, to EUR 5 million and in exceptional cases up to EUR 15 million.

EU added value

The RSF aims to increase lending activity and to improve financing conditions for final recipients through, among others, lower pricing, longer maturities and lighter securities requirements. The EIB loan for EE to the FIs may complement the RSF. Such EIB loans for EE will be provided by the EIB at competitive rates and with long-maturities.

The final recipients include private individuals, home-owner associations, SMEs, corporates and/or public institutions/bodies, undertaking EE investments in line with the NEEAP of each Member States.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 30 000 000
Aggregate budgetary payments as at 31/12/2014	EUR 6 000 000

(e) The performance of the financial instrument, including investments realised;

The PF4EE delegation agreement was signed on 8 December 2014. No operations started by 31/12/2014

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

EUR 6 000 000

	In EUR
Balance on the fiduciary account (current account)	6 000 000
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 month < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Other assets **(if applicable)**	0
= Total assets	6 000 000

(h) Revenues and repayments;

EUR 0

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

EUR 0

(k) The target leverage effect, and the achieved leverage effect;

- *The target leverage effect*

The EU budget allocation foreseen in the LIFE regulation for the programming period 2014-2017 amounts to EUR 80 million (4% of which will finance the Expert Support Facility and are not considered in the calculation of the leverage).

The total amount of loan financing by the EIB is expected to reach up to approximately EUR 430 million. Additional debt financing is expected from other financial intermediaries. The total investment in EE over this period could be at around EUR 540 million.

Hence the target leverage effect (defined also as Target Investment Leverage) as indicated in the Delegation Agreement is 8 (EUR 540 million divided by EUR 76,8 million of Union contribution).

- *The achieved leverage effect*

The Delegation Agreement (DA) having been signed in December 2014, no operation started in 2014. The calculation will follow the same rationale as outlined for the target leverage factor.

- *The "Expected Leverage for Signed Operations"*

The Delegation Agreement (DA) having been signed in December 2014, no operation started in 2014.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The Delegation Agreement having been signed on December 2014, no operation started in 2014.

E - Other key points and issues

- **Three main issues for the implementation**:
    - the PF4EE instrument will provide valuable piloting experience for possible up scaling. This piloting phase will allow in particular to test the most appropriate level of protection (i.e. minimise) to be provided to financial intermediaries in about 10 banks in different Member States for different categories of beneficiaries.
    - Since its structure is fully decentralized (i.e. the risk protection is provided by the Commission by means of collateral deposited on collateral accounts, set for each financial intermediaries and managed by the EIB) the PF4EE is designed to allow for scalable levels of finance using structural funds. In this respect Managing Authorities of Member States can replicate (or provide financial contributions to) this instrument which ensures that the impact of the contribution provided remain within the relevant geographical area, building on the existing ex-ante assessment[149] and benefiting from the basic legal structure of the PF4EE instrument as described in the Delegation Agreement.
    - The EIB is committed under the Delegation Agreement art. 17 to carry out by 2017 a specific evaluation of the cash collateral approach to assess the effectiveness of the cash collateral approach, including through a comparison with alternative unfunded approaches, such as financial guarantees provided by the Union through entrusted entities or directly to Financial Intermediaries.
- **Main risks identified:**
    - considering that lending is implemented through financial intermediaries, the assessment of compliance of final recipient and eligible investments and impact indicators with the provisions set in the Delegation Agreement is challenging. EIB's monitoring and reporting on these critical aspects will need to be scrutinized by the PF4EE Board.
    - Accordingly with the provision of the Delegation Agreement Annex 1, section 7.2 the assessment of eligibility of Final Recipient will need to be performed against specific requirements and financing should only support Eligible Energy Efficiency Investment.
    - As mentioned in the Delegation Agreement Annex 5a, Section III, operations will be chosen having regard to the fields of intervention of the PF4EE and carefully

[149] "Ex-ante evaluation of a new Financial Instrument to foster investment in EE by private financial institutions (PF4EE)", Annex 2 to the LIFE multiannual work programme 2014-2020 - Commission Implementing Decision C(2014)1709.

monitored and evaluated to assess the impact on energy efficiency and GHG saving and other impact indicators.

- **General outlook:**
  - after the publication of the "Request for proposals in order to become a financial intermediary under the PF4EE" in January 2015, the EIB reported that so far 10 banks has manifested an interest to implement the PF4EE. The EIB is currently exploring an agreement with 3 banks in different Member States which expects to sign by Q3 2015. To be fully on track with the target set to obtain the performance fees the EIB would need to sign a fourth extra agreement by year end.

3. Risk Sharing Instruments

3.1. Risk-Sharing Finance Facility under the FP7 (RSFF)

A - Summary

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 960,73 million
Current Overall Budget:	EUR 960,73 million

The RSFF, officially launched in July 2007, was one of the new, innovative funding mechanisms of FP7. It is a debt finance instrument, jointly developed by the Commission and the European Investment Bank (EIB). The RSFF facilitated access to finance by providing loans and guarantees to a wide range of beneficiaries — including SMEs, mid-sized enterprises, larger companies, research institutions, universities and research infrastructures —investing in RDI.

The RSFF has reached and easily exceeded almost all its operational and intermediate objectives. Three evaluative assessments clearly demonstrate that RSFF is well on its way to realising longer-term objectives and wider achievements.

Loan agreements have been signed with 114 R&I promoters, with a total loan volume (active loans) of EUR 11,31 billion and the instrument had been implemented in 25 countries.

B - Description

(a) Identification of the financial instrument and the basic act;

Decision No 1982/2006/EC of the European Parliament and of the Council of 18 December 2006 concerning the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007-2013) (OJ L 412, 30.12.2006, p. 1).

Council Decision 2006/971/EC of 19 December 2006 concerning the specific programme ‘Cooperation’ implementing the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007 to 2013) (OJ L 400, 30.12.2006, p. 86).

Council Decision 2006/974/EC of 19 December 2006 on the Specific Programme: 'Capacities' implementing the Seventh Framework Programme of the European Community for research, technological development and demonstration activities (2007 to 2013) (OJ L 400, 30.12.2006, p. 299).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
The RSFF, co-developed by the European Commission and the EIB, was established in June 2007. The RSFF facilitates access to finance by providing loans and guarantees to a wide range of beneficiaries — including SMEs, mid-sized enterprises, larger companies, research institutions, universities and research infrastructures —investing in RDI.

Implementation arrangements
The EU and the EIB are risk-sharing partners for loans provided by the EIB directly or indirectly to beneficiaries. The European Union, through FP7 budget resources, and the EIB have set aside a total amount of up to EUR 2 billion (up to EUR 1 billion each) for the period 2007-2013 to cover losses if RSFF loans are not repaid.

Added value
Through these EU/EIB contributions for risk-sharing and loss coverage, the EIB is able to extend a loan volume of EUR 10 billion to companies and the research community for their investments in R&D and Innovation.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 960,73 million
Aggregate budgetary payments as at 31/12/2014	EUR 960,73 million

(e) The performance of the financial instrument, including investments realised;

The results of the RSFF under FP7 covering from 2007 until 2013 showed a total number of 114 RDI operations, which were signed, and loan volume of EUR 11 313 million, and 98 disbursed operations (EUR 9 556 million).[150]

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	*EUR 11 313 million* *114 eligible FRs*
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	*EUR 22 000 million*

[150] European Investment Bank (2014).

Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	*EUR disbursed 9 556 million* *98 eligible FRs*
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	*EUR 19 000 million*

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA for 2014.

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	267 000
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	*61 867 000*
Term deposits > 3 month < 1 year (current assets)	*46 499 000*
Term deposits > 1 year (non-current assets)	
Bonds current	*330 806 000*
Bonds non-current	*510 839 000*
Other assets **(if applicable)**	
= *Total assets*	950 278 000

Please note that the figures provided includes RSI figures whose asset management is carried out in RSFF by the EIB.

(h) Revenues and repayments;

For the period 2007-2014, the following revenues and repayments were received by the EU on the EU RSFF Account:

Total operating revenues:	EUR 136,11 million
Of which expected loss recovery:	EUR 12,11 million

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments of assets of equity;

By 31/12/2014, an "Available for sale" reserve of EUR 5,02 million was included in the Balance Sheet.

(k) The target leverage effect, and the achieved leverage effect;

The target leverage of the Debt facility - defined as the total funding (i.e. Union funding plus contribution from other financial institutions) divided by the Union financial contribution -

is expected to range from an average of 5 to 6,5, depending on the type of operations involved (level of risk, target recipients, and the particular debt financial instrument facility concerned).

Together with the EIB window of the Facility, the achieved leverage effect is close to 12 with an amount of financing expected to be provided to final beneficiaries of EUR 11 313 million (the reached loan volume) and an EU contribution of EUR 960,73 million.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The RSFF, officially launched in July 2007, was one of the new, innovative funding mechanisms of FP7. It is a debt finance instrument, jointly developed by the Commission and the European Investment Bank (EIB).

Demand for RSFF loan finance has been high since the launch of the facility in mid-2007: in its first phase (2007-2010), its take-up exceeded initial expectations by more than 50 % in terms of active loan approvals (EUR 7,6 billion versus a forecast EUR 5 billion).

The RSFF has reached and easily exceeded almost all its operational and intermediate objectives. Three evaluative assessments clearly demonstrate that RSFF is well on its way to realising longer-term objectives and wider achievements.

The first interim evaluation[151] concluded that the RSFF had been successfully introduced into the EU's research funding scheme within FP7, was a model example of an EU financial instrument, and should be further developed and strengthened. Recommendations included the need to better target SMEs and research infrastructures. The second interim evaluation[152] concluded that the RSFF had proved to be attractive to RDI companies and had met or exceeded its loan volume targets and enabled EIB to increase the bank's capacity to make riskier loans.

By the end of 2013, 127 RSFF operations had been approved by the EIB, with a total loan volume of EUR 16,2 billion, and the Bank had signed loan agreements with 114 R&I promoters, with a total loan volume (active loans) of EUR 11,31 billion. The sector diversification was broad, and the instrument had been implemented in 25 countries.

E - Other key points and issues

At the end of 2014, reflows of EUR 375 million had been reallocated to the 'Loans Service for R&I' successor debt instrument in Horizon 2020.

[151] For the report by a group of independent experts on the first interim evaluation of the RSFF, see Mann et al.(2010).
[152] For the report by a group of independent experts on the second interim evaluation of the RSFF, see http://ec.europa.eu/research/evaluations/pdf/archive/other_reports_studies_and_documents/interim_evaluation_report_rsff.pdf

3.2. Horizon 2020 Loan Services for R&I Facility

A - Summary

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 1 060 million
Current Overall Budget:	EUR 1 060 million

The InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee aim is to improve access to risk finance for R&I projects carried out by a variety of promoters notably including medium and large midcaps, larger companies, universities and research institutes, R&I infrastructures and special-purpose vehicles located in Member States or in Associated Countries.

This instrument helps addressing riskier projects or sub-investment grade promoters carrying out RDI investments across all Horizon 2020's Societal Challenges. A particular approach is foreseen to address the financing needs of midcap companies (with employees between 500 and 3 000 employees).

The InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee instruments offers better access to risk finance in an open, demand-driven way through direct loans or hybrid/mezzanine investments made available by the EIB as well as through risk-sharing (guarantees) involving other banks and financial intermediaries.

The InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee cover a broad spectrum of final recipients with a flexible loan financing approach, and are complemented by a dedicated guarantee facility for loans and leases for innovative SMEs and Small Midcaps. For 2014-2020, the EU contribution of EUR 1 060 million is targeted to mobilise an amount of financing of EUR 13 250 million for the target final recipients.

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) (OJ L 347/104, 20.12.2013)

Regulation (EU) No 1290/2013 of the European Parliament and of the Council of 11 December 2013 laying down the rules for participation and dissemination in "Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)" (OJ L 347/81, 20.12.2013)

Council Decision 2013/743/EU of 3 December 2013 establishing the specific programme implementing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) (OJ L 347/965, 20.12.2013).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The goal is to improve access to debt financing — loans, guarantees, counter-guarantees and other forms of debt and risk finance — for public and private entities and public-private partnerships engaged in research and innovation activities requiring risky investments in order to come to fruition. The focus is on supporting research and innovation with a high potential for excellence.

The target final recipients are potentially legal entities of all sizes that can borrow and repay money and, in particular, SMEs with the potential to carry out innovation and grow rapidly; mid-caps and large firms; universities and research institutes; research infrastructures and innovation infrastructures; public-private partnerships; and special-purpose vehicles or projects.

Implementation arrangements

The Loan and Guarantee Service for Research and Innovation is implemented towards a platform approach offering several products specifically designed to address particular needs. The key partner as entrusted entity for the implementation of the Loan and Guarantee Service for Research and Innovation will be the European Investment Bank (EIB).

The funding of the Loan and Guarantee Service for Research and Innovation has two main components:

- demand-driven, providing loans and guarantees on a first-come, first-served basis, with specific support for beneficiaries such as SMEs and mid-caps. This component shall respond to the steady and continuing growth seen in the volume of RSFF lending, which is demand-led. This demand-driven component will be supported by the budget of the Horizon 2020 Access to Risk Finance programme.
- Targeted, focusing on policies and key sectors crucial for tackling societal challenges, enhancing competitiveness, supporting sustainable, low-carbon, inclusive growth, and providing environmental and other public goods. This component helps the Union address research and innovation aspects of sectorial policy objectives and will be supported by other parts of Horizon 2020, other frameworks, programmes and budget lines in the Union budget, particular regions and Member States that wish to contribute with their own resources (including through Structural Funds) and/or specific entities (such as Joint Technology Initiatives) or initiatives.

The expiry date of the instrument is expected to be in 2027-2030.

Added value

This financial instrument aims to improve access to risk finance for R&I projects emanating from large firms and medium and large midcaps, universities and research institutes, R&I infrastructures (including innovation-enabling infrastructures), public-private partnerships, and special-purpose vehicles or projects (including those promoting first-of-a-kind, commercial-scale industrial demonstration projects). Firms and other entities located in Member States or in Associated Countries are eligible as final recipients.

This instrument will help address sub-optimal investment situations stemming from poor prospects within firms or other entities for the creation or commercialisation of products or services of societal importance (in the sense of Horizon 2020's Societal Challenges) or that constitute a public good. Overall, it will improve access to risk finance.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

The EIB implements this instrument, which will be delivered both directly by EIB and also by financial intermediaries (such as banks). Financial intermediaries will be guaranteed against a proportion of potential losses by EIB, which will also offer counter-guarantees to guarantee institutions. This is a demand-driven instrument, with no prior allocations between sectors, countries or regions, or types or sizes of firm or other entities.

The Delegation Agreement signed with the entrusted entity ensures that the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee are accessible for large firms and medium and large midcaps, universities and research institutes, R&I infrastructures, public-private partnerships, and special-purpose vehicles or projects.

Regarding the indirect delivery, financial intermediaries selected by entrusted entities for the implementation of financial instruments pursuant to Article 139(4) of Regulation (EU, Euratom) No 966/2012 on the basis of open, transparent, proportionate and non-discriminatory procedures may include private financial institutions as well as governmental and semi-governmental financial institutions, national and regional public banks as well as national and regional investment banks.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014 EUR 483 million[153]
Aggregate budgetary payments as at 31/12/2014 EUR 483 million

(e) The performance of the financial instrument, including investments realised;

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 2 446,4 million 30 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 6 627 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 1 157,2 million 15 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 3 150 million

[153] including the transfer from RSFF to H2020 as indicated under 'additional information' of point h)

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

(Note: the requirement applies only from 2015 and for 2014-2020 financial instruments)

None

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	266 000
Term deposits/Bonds (if applicable)	478 402 000
Term deposits < 3 months (cash equivalent)	*38 301 000*
Term deposits > 3 month < 1 year (current assets)	*22 999 000*
Term deposits > 1 year (non-current assets)	
Bonds current	*4 139 000*
Bonds non-current	*412 697 000*
***Other assets* (if applicable)**	
= Total assets	478 402 000

(h) Revenues and repayments;

Aggregate additional resources as at 31/12/2014 EUR 0

Additional information

It should be noted that EUR 375 million have been paid back by the EIB further to the signature of the 8th amendment to the RSFF cooperation agreement. In accordance with Article 52.3 of the Horizon 2020 Rules for Participation, this amount has been transferred to its successor debt instrument under Horizon 2020 (Horizon 2020 Loan Services for R&I Facility)

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

No impairment of assets as at 31/12/14

(k) The target leverage effect, and the achieved leverage effect;

The target leverage effect equals 12,5 with an amount of financing expected to be provided by financial intermediaries of EUR 13 250 million and an EU contribution of EUR 1 060 million.

The achieved leverage effect as at 31/12/2014 is close to 2,4 with an amount of financing provided of EUR 1 157,2 million and an EU contribution of EUR 483 million.

The expected leverage effect as at 31/12/2014 is above 5 with an amount of financing signed provided of EUR 2 446,4 million and an EU contribution of EUR 483 million.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The successor financial instrument (2014-2020) continues and refines the Risk-Sharing Finance Facility (RSFF) under FP7, and offers loans and hybrid or mezzanine finance.

It aims to improve access to risk finance for R&I projects emanating from a variety of different recipients such as large firms and medium and large midcaps, universities and research institutes, R&I infrastructures (including innovation-enabling infrastructures), public-private partnerships, and special-purpose vehicles or projects (including those promoting first-of-a-kind, commercial-scale industrial demonstration projects). Firms and other entities located in Member States or in Associated Countries will be eligible as final recipients.

For medium and large midcaps, the EIB offers loans and hybrid or mezzanine finance between EUR 7,5 million and EUR 25 million. Loans to a medium or large midcaps of more than EUR 25 million will be considered on a case-by-case basis. For large firms, loans of between EUR 25 million and EUR 300 million are available. Any loan to a large firm of less than EUR 25 million will be considered on a case-by-case basis. For the other entities mentioned above, loans from EUR 7,5 million up to EUR 300 million are available.

The EIB implements this instrument, which is delivered both directly by EIB and by financial intermediaries (such as banks). Financial intermediaries may obtain, on a portfolio basis, a guarantee from the EIB for loans provided to final recipients, for a proportion of their potential losses.

InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee, like their predecessor scheme (RSFF), are demand-driven instruments, with no prior allocations between sectors, countries or regions, or types or sizes of firm or other entities.

As regards expected impact, this instrument helps addressing sub-optimal investment situations stemming from poor prospects within firms or other entities for the creation or commercialisation of products or services of societal importance (in the sense of Horizon 2020's Societal Challenges) or that constitute a public good. Overall, it improves access to risk finance. For direct loans or hybrid/mezzanine investments, the indicators are the number and volume of loans or investments made. For intermediated loans, the indicators are the number of agreements signed with financial intermediaries and the number and volume of loans made. Targets and milestones (performance indicators) are set for EIB to incentivize implementation and to reach envisaged volumes of lending, target groups as well as satisfactory geographical coverage.

InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee contribute to achieving the policy objectives of Horizon 2020 by improving access to loan finance for a range of target groups such as innovative companies, research institutions, public-private-partnerships and research infrastructures investing in research and innovation across the societal challenges of Horizon 2020.

This debt financial instrument building on its successful FP7 predecessor helps addressing financing gaps in the market through risk sharing and mobilize additional financing, notably from private sources.

For 2014-2020, the EU contribution of EUR 1 060 million is targeted to mobilise an amount of financing of EUR 13 250 million for the target final recipients.

E - Other key point and issues

- **Main issues for implementation**:
  - critical for the implementation of the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee will be attractiveness of the instrument, its stronger focus on midcap companies (with up to 3 000 employees) and the possibility to develop new financing approaches, if necessary, to respond to financing needs coming from the various Societal Challenges of Horizon 2020.
  - However, the contractual arrangements between the EU and the EIB foresee sufficient flexibility to develop such new financing approaches and also to create policy-driven sub-facilities which could address specific needs (provided that additional budget resources become available).
- **Main risks**:
  - no risks identified.
- **General outlook:**
  - based on the very satisfactory implementation of the preceding loan instrument supported by FP7, (the RSFF), on-going demand for loans to finance riskier RDI investments, first indications for a robust project pipeline for the next 12 months, and a stronger focus on the midcap target group, the outlook for the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee is generally positive.
  - It can be reasonably expected that across Horizon 2020 Societal Challenges (i.e. Energy, Bio-economy, Transport, Health), companies will seek EIB loan finance or risk sharing (via guarantees) to support medium and longer-term RDI investments. Target volumes for the Loan Service for R&I instrument with Horizon 2020 budget envisage lending of at least EUR 5 to 6,5 billion for the entire period 2014-2020.
  - In addition, under EIB's own complementary window for RDI investments, which will be part of the overall loan finance approach for RDI investments, a similar lending volume, i.e. a further EUR 5 to 6,5 billion (EUR 13 billion in total) can be expected.

3.3. Loan Guarantee Instrument (LGTT)

A - Summary

Policy DG in charge:	DG Mobility and Transport
Implementing DG in charge:	DG Mobility and Transport
Implementing Body in charge:	European Investment Bank
Initial Overall Budget Envelope:	EUR 500 million
Current Overall Budget	EUR 250 million

*Note:*As at 31-12-2014, EUR 250 million was committed via annual budgets adopted by the budget authority, further EUR 6,8 million were committed from generated revenues. An additional amount of EUR 0,66 million resulting from net LGTT income generated in 2013 will be made available for the current overall budget of the LGTT instruments in the coming months.*

LGTT is a guarantee scheme set up in 2007/2008 and is a risk sharing facility for revenue based projects. As of 31-12-2014, 7 projects have been signed using over EUR 500 million of guarantees and attracting EUR 12 billion of public and private financing.

Due to changing market conditions and the financial crisis, demand-based revenue projects have declined in Europe since 2009. Based on the forecast of projects provided by the Bank and the discussions with the Member States, the LGTT can be still adapted to some traffic based projects in Europe.

The recommendation of the ex-post evaluation points to more proactive dissemination and awareness raising on the applicability of LGTT amongst the procuring authorities and project promoters, as well as on more transparent presentation of the pricing by the EIB.

The Commission is expecting to merge the portfolio of LGTT with the CEF Debt Instrument in 2015, which would maximize the number of projects that can be supported by the EU funds.

B - <u>Description</u>

(a) Identification of the financial instrument and the basic act;

Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks,[154] as amended by Regulation (EU) No 670/2012 of the European Parliament and of the Council of 11 July 2012:[155]

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The LGTT is a loan guarantee instrument for facilitate finance for transport infrastructure projects. The legal basis establishes that the EU contribution is to be used for the provisioning and capital allocation for guarantees to be issued by the European Investment Bank (EIB) on its own resources under the loan guarantee instrument Risk-sharing in this context means that both partners, the EU represented by the Commission and the EIB, share financial risk, to accelerate and implement TEN-T infrastructure projects.

The main terms, conditions and procedures of the LGTT are laid down in the annex of Regulation (EC) 680/2007 as amended by Regulation (EU) No 670/2012. The practical implementation is done on the basis of a cooperation agreement between the Commission and the EIB that was originally signed on 11 January 2008 and subsequently amended in 2013 following the adoption of Regulation (EU) 670/2012.

Implementation arrangements

Technically, the guarantee facilities provided by the EIB under LGTT to the private sector (project sponsors/ promoters) serve to enhance the credit rating of the senior debt issued to finance the project by reducing traffic risk. The EIB provides a guarantee in the form of a contingent credit line, which may be drawn upon by the project promoter during the first 5 to 7 years of operation, if the revenues generated by a project are not sufficient to ensure repayment of the senior debt, in case the actual revenues from the project fall below the forecasted level;

The initial overall budget foreseen in Regulation (EC) 680/2007 for the LGTT instrument was EUR 500 million. The EIB was required to provide an equal amount.

Regulation (EU) No 670/2012 reduced the overall budget re-deploying EUR 200 million from the funds dedicated to the LGTT to the pilot phase of the Project Bonds Instrument.

[154] (OJ L 162/1, 22.6.2007)
[155] (OJ L 204/1, 31.7.2012)

Subsequently, after agreement with the EIB, EUR 50 million was re-deployed into the TEN-T Programme for grant funding. Therefore, the total amount of the EU contribution currently available to support LGTT projects is EUR 250 million.

LGTT was available for transactions approved by the EIB of Directors by the end of 2014 with the financial close until end of 2016. Guarantees can be called for the first 5 to 7 years operation, the latest draw down date of a project in the current portfolio is end of 2021.

Added value
LGTT brought value added to the projects by covering traffic risk during ramp-up and thus improving the ability of borrowers to service senior debt. LGTT has clearly facilitated financial close in a difficult market situation of the financial crisis in all transactions which used it.

(c) The financial institutions involved in implementation;

The European Investment Bank (EIB)

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31-12-2014 (voted appropriations by the budget authority)	EUR 250 000 000
Additional budgetary commitments as at 31-12-2014 (generated revenues)	EUR 6 881 251*
Aggregate budgetary payments as at 31-12-2014	EUR 211 881 251

*Note: * an additional amount of EUR 0,61 million resulting from net LGTT interest revenues generated in 2013will be made available for the current overall budget of the LGTT instruments in coming months.*

(e) The performance of the financial instrument, including investments realised;

During the period 2008-2014, the LGTT has supported five motorway projects (of which one was cancelled meaning that only four are currently in the LGTT portfolio), one port infrastructure project and one high speed rail project. The total amount of LGTT guarantees signed as of 31-12-2014 is EUR 517 million. The outstanding total amount[156] of signed LGTT guarantees towards the six transactions in the portfolio as of 31-12-2014 (i.e. excluding the cancelled transaction) is EUR 497 million. This is illustrated in the table below:

[156] As at 31-12-2014 the LGTT instrument provides a guarantee to six projects. The total amount of guarantee provided to the projects is EUR 497 million. In other terms the outstanding total exposure as at 31-12-2014 is EUR 497 million. Going forward, as the guarantee period of the underlying transactions will come to an end and as the transaction come to their term, the outstanding amount of exposure of the instrument will decrease.

In million EUR

Project	Financial close	Type	LGTT guarantee	Project cost (sum of equity, debt, grants)
Baxio Alentejo PPP	Jan 2009	road	25	543
A5	Mar 2009	road	25	633
Eix Transversal C25	Jul 2010	road	70	815
A8	May 2011	road	60	562
LGV SEA	Jun 2011	rail	200	7 846
London Gateway	Dec 2011	port	117	1 698
TOTAL			**497**	**12 097**

Source: *LGTT Operating report to the Commission prepared by the EIB as at 31-12-2014*

Overall, the instrument is expected to provide at least the EUR 497 million of guarantee to projects as at 31-12-2014. In addition, one further project could potentially receive the LGTT guarantee assuming it reaches financial close by December 2016.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	As at 31-12-2014 the EU committed EUR 250 million towards the LGTT instrument (annual budgetary procedure) and committed EUR 7 million from generated revenues, i.e. a total of EUR 257 million. There is a single financial intermediary – the EIB.
Total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	As at 31-12-2014 the EU has paid in EUR 212 million to the EIB for the purpose of the portfolio first-loss piece risk-sharing arrangement supporting the LGTT portfolio. There is a single financial intermediary – the EIB.
Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	As at 31-12-2014, the outstanding guarantee provided to the current portfolio of six projects (final recipients) is for a total of EUR 497 million[157]. One further project could potentially receive the LGTT guarantee assuming it reaches financial close by December 2016. Overall the instrument is expected to provide at least the EUR 497 million of guarantee to projects as at 31-12-2014.

[157] As at 31-12-2014, the LGTT instrument provided an aggregate guarantee of EUR 517 million to seven signed projects (final recipients) (one of the signed projects was cancelled and is no longer covered by LGTT and is no longer part of the guarantee portfolio).

Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	The amount of investments expected to be made by the six projects (final recipients) under the current portfolio guarantee is EUR 12 097 million (equity, debt and grants).[158] This amount would increase if one further potential project is covered by the LGTT guarantee by reaching financial close before December 2016.
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	As at 31-12-2014, the outstanding guarantee provided to the current portfolio of six projects (final recipients) is for a total of EUR 497million.[159]
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	The amount of investments expected to be made by the six projects (final recipients) under the current portfolio guarantee is EUR 12 097 million (equity, debt and grants).[160]

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

In 2013 the net interest income (net revenues less costs) covering the years 2008-2012 stood at EUR 6,88 million. The amount was returned to the Commission and recommitted and paid back into the instrument and included in the First Loss Piece, in line with the legal basis.

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account) – cash and cash equivalents	28 437 208
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 month < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current (AFS current)	67 398 609
Bonds non-current (AFS non-current)	118 557 438
***Other assets* (if applicable) (LT receivables)**	20 605 845
= Total assets	**234 999 100**

[158] The figure reflects the amount of finance mobilized based on signed commitments relative to the six projects in the portfolio (for the projects under construction, not all of the finance mobilized was invested as of 31-12-2014)
[159] As at 31-12-2014, the LGTT instrument provided an aggregate guarantee of EUR 517 million to seven signed projects (final recipients). (one of the signed projects was cancelled and is no longer covered by LGTT and is no longer part of the guarantee portfolio)
[160] The figure reflects the amount of finance mobilized based on signed commitments relative to the six projects in the portfolio (for the projects under construction, not all of the finance mobilized was invested as of 31-12-2014)

(h) Revenues and repayments (Art.140. 6);

In cumulative terms from the launch of the instrument until 31-12-2014 the total revenues amount to EUR 35,4 million. The revenues fall under two categories: first loss piece remuneration and financial revenues.

(i) The value of equity investments, with respect to previous years;

Not applicable

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

No impairments registered at 31.12.2014

(k) The target leverage effect, and the achieved leverage effect;

The specific basic act, as amended, does not define the target leverage effect.
The achieved leverage effect.
The current LGTT portfolio is composed of 6 TEN-T projects, representing a total amount of finance (investment) attracted of EUR 12,1 billion (debt, equity and grants). The EU budget contribution paid into the instrument is EUR 212 million as at 31-12-2014 (EUR 205 million of payments from annual budgetary procedure plus EUR 7 million of recommitted net revenues). This leads to a leverage of 57,1.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

In 2014, the Commission conducted an ex-post evaluation of the LGTT instrument.[161] The overarching conclusion of that evaluation is that the LGTT has had a positive impact where it has been applied, but not sufficient effect to achieve its broader objectives. A key circumstance has been that LGTT instrument was designed in 2008, prior to the global financial and public debt crisis. In the period of application of the LGTT, both public authorities (project promoters) and private investors postponed or abandoned investment decisions and fewer (especially PPP) projects were developed. Since then, revenue based projects have become less common due to the reluctance of the private sector to take on traffic demand risk, making the market for the LGTT even smaller.

E - Other key points and issues

The critical issues for the implementation of the LGTT instrument, including aspects relevant for future design and development of new instruments have been examined in the ex-post Evaluation carried out by the Commission in 2014.[162]

[161] http://ec.europa.eu/transport/themes/infrastructure/studies/doc/2014_ex-post_evaluation_of_the_loan_guarantee_instrument_for_ten-t_projects.pdf
[162] http://ec.europa.eu/transport/themes/infrastructure/studies/doc/2014_ex-post_evaluation_of_the_loan_guarantee_instrument_for_ten-t_projects.pdf

The ex-post evaluation and pointed out the following issues:

- the LGTT instrument had a fairly narrow scope of application limited to projects on the TEN-T network whose revenues were generated from the traffic (this excluded all availability-payment based PPPs).
- The instrument was not flexible enough to be successfully adapted to a drastically changed market environment (near-disappearance of revenue-risk PPPs in TEN-T transport).
- A pilot phase for LGTT could have helped to trial the product before rolling-out the mature product at a later stage.
- More proactive dissemination and awareness raising on the applicability of LGTT amongst the procuring authorities and project promoters was needed, as well as on more transparent presentation of the pricing by the EIB.
- Overall, before adapting the LGTT further or designing new financial instruments in this area, the obstacles to realizing transport infrastructure projects as a result of affordability problems should be further investigated and better understood. The initial focus should be to stimulate the pipeline of projects.

These lessons learned were reflected in the design of the Connecting Europe Facility Debt Instrument (CEF DI): the instrument was devised in a flexible way so as to allow for changes in market gaps and needs. Also, the instrument will not focus on a single type of transactions linked to a unique risk category (i.e. focus on only revenue-risk PPPs).

The Pilot Phase of the Project Bond Initiative that started in 2012 is the trial for the full roll-out of the Project Bond Credit Enhancement product under the CEF DI.

Technical Assistance focused on transport projects financed with private sector participation will be delivered both under the CEF DI, as well as under the Investment Plan (the European Investment Advisory Hub – EIAH).

As of 1 January 2015, the LGTT Portfolio shall be merged with the new Financial Instrument under the Connecting Europe Facility, as foreseen in article 14.3 of Regulation (EU) 1316/2013.

The book value of the LGTT, as presented in the LGTT audited Financial Statements as of 31 December 2014 (prepared under the LGTT Agreement) shall be the starting book value of the CEF assets, liabilities and contributors resources as at 1 January 2015.

Assets, liabilities and contributors' resources allocated to the LGTT Fiduciary Account established under the LGTT Agreement as shown in the LGTT audited Financial Statements as of 31 December 2014 shall be transferred to the account corresponding to CEF projects in the sector of transport.

3.4. Project Bond Initiative

A - Summary

Policy DG in charge:	DG Mobility and Transport, DG Energy, DG Communications Networks, Content and Technology
Implementing DG in charge:	DG Mobility and Transport, DG Energy, DG Communications Networks, Content and Technology
Operating Body in charge:	European Investment Bank
Initial Overall Budget Envelope:	EUR 230 million
Current Overall Budget: TEN-T sub-account TEN-E sub-account ICT sub-account	**EUR 230 million** EUR 200 million EUR 10 million EUR 20 million

The Project Bond Initiative is a financial instrument developed, set up, and supported jointly by the Commission and the EIB. It was launched in 2012 with the aim of stimulating capital market financing for infrastructure projects in the areas of Trans-European networks in transport and energy as well as broadband networks. The Project Bond Initiative provides credit enhancement to bond issues which is attractive inter alia to institutional investors such as insurance companies and pension funds.

As at 31-12-2014 the Project Bond Initiative supported five transactions in all three sectors and five Member States. These five projects represent a capital cost of EUR 3,9 billion a total bond issuance of EUR 3,0 billion supported by credit enhancement of EUR 493 million. Four projects were supported by the EU budget representing a capital cost of EUR 2,1 billion, bonds of EUR 1,5 billion and credit enhancement of EUR 293 million.

The PBI has served as a catalyst to attract debt capital market investment to targeted infrastructure projects and opening up new financing sources for infrastructure projects as alternatives to bank financing.

The Project Bond Initiative will be continued under the Connecting Europe Facility, with some adjustments necessary for the implementation of the instrument, in particular for the maximization of the portfolio effect among the three sectors. The possibility of extending project bond solutions to the financing of other infrastructure sectors, including sustainable transport, renewable generation and smart grid assets, as well as possible contributions under ESIF, will be examined by the Commission in 2015.

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU) No 670/2012 of the European Parliament and of the Council of 11 July 2012 amending Decision No 1639/2006/EC, establishing a Competitiveness and Innovation Framework Programme (2007-2013)[163], and Regulation (EC) No 680/2007 laying down

[163] (OJ L 204/1, 31.7.2012)

general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks[164]

Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility[165]

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope: Pilot phase of the Project Bonds Initiative

The Project Bond Initiative is a financial instrument developed, set up, and supported jointly by the Commission and the EIB.

It aims at stimulating capital market financing for infrastructure projects in the areas of Trans-European networks in transport and energy as well as broadband networks by improving the credit quality of the senior debt such that it can be financed by a bond issue which is attractive *inter alia* to institutional investors such as insurance companies and pension funds.

In addition to financing provided for the benefit of individual projects, the objective is to pave the way for the creation of a new asset class for EU infrastructure, in which institutional investors could invest. This way, the Project Bond Initiative intends to open up new sources for infrastructure financing in the context of constrained public budgets and restricted bank lending to infrastructure projects with long-term maturities.

Implementation arrangements

The instrument can finance projects or part of projects eligible under the guidelines for TEN-T, TEN-E, and the criteria for broadband projects defined in the amended Competitiveness and Innovation Framework Programme. Projects are usually structured as a Special Purpose Vehicle (SPV) established to build, finance, and operate an infrastructure project. The PBI facility provides a subordinated debt tranche to the financial structure of the project company.

This facility may take the form of a contingent credit line ("unfunded facility") or a subordinated loan ("funded facility") and is capped at a maximum of 20% of the total amount of senior debt. In case the unfunded facility is called upon, the EIB becomes a creditor to the project company and amounts due under the PBI would rank junior to the service of senior debt and senior to equity. The maximum available amount for credit enhancement under PBI is 20% of the nominal of the senior debt.

The risk-sharing mechanism between the Commission and EIB operates on the basis of a First Loss Piece principle: the risk for the Union budget and the EIB is divided into two tranches, a Portfolio First Loss Piece (PFLP), which is called upon first in the event of impairments on PBI operations, and a Residual Risk Tranche (RRT), which is only used if PFLP has been exhausted.

The EU and EIB contribute 95% and 5% to PFLP, respectively. The residual risk tranche is covered entirely by the EIB.

Individual PBI Operations can be approved by the EIB Board of Directors no later than end of 2014 and their financial close must take place no later than end of 2016. The instrument will wind up when there is no more contingent exposure under any PBI operations (or where such exposure has been declared by the EIB as unrecoverable).

[164] (OJ L 162/1, 22.5.2007)
[165] (OJ L 348, 20.12.2013)

The pilot phase has a total financial envelope of EUR 230 million: EUR 200 million from the TEN-T budget line, EUR 10 million from the TEN-E budget line and EUR 20 million from the CIP ICT line.

The financial instrument is carried out in indirect management mode. The entrusted entity is the EIB. The governance structure is established in the cooperation agreement and includes the establishment of a Steering Committee to supervise the implementation of the instrument.

Three trust accounts have been set up to hold the Union contribution under the three respective budget lines (TEN-T, ICT and TEN-E).

Debt instrument under CEF, including successor to the pilot phase of the PBI
In 2015, the PBI will be merged with the debt instrument under the CEF, as foreseen in Article 14(3) of Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility.

Added value
This new merged portfolio will be supported by a portfolio first loss piece of which the EU will hold 95% of the risk. This merged portfolio and portfolio first loss piece will allow for an improved risk diversification allowing for a better use of the EU funds committed to the merged instrument. This will in return increase the leverage and allow for a more wide deployment of the instrument.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

C - <u>Implementation of the financial instrument</u>

(d) The aggregate budgetary commitments and payments from the budget;

In million EUR

	2012	2013	2014	Total (2014)
TEN-T sub-account				
Commitment	100	100	-	**200**
Payments	50	-	66	**116***
TEN-E sub-account				
Commitment	-	10	-	**10**
Payments	-	10	-	**10**
ICT sub-account				
Commitment	-	20	-	**20**
Payments	-	7	13	**20**
Aggregate PBI	**2012**	**2013**	**2014**	**Total (2014)**
Commitment	100	130	-	**230**
Payments	50	17	79	**146***

**Note: a payment of EUR 84 million was made in early 2015 in connection with the A7 PBI transaction signed in the transport sector in 2014 (the payment was normally due to be made in 2014).*

(e) The performance of the financial instrument, including investments realised;

The EIB has been working on transactions in the three sectors. Five projects have been signed in 5 Member States as of 31.12.2014, out of which one (Castor project) has been entirely signed on the EIB own resources:

- Two energy projects, i.e.:
  i) the Castor project for the construction and the operation of an underground gas storage in Spain, which was credit enhanced only by the EIB in July 2013 without Union contribution[166].
  ii) The Greater Gabbard offshore transmission project (OFTO) was signed in November 2013. The size of the project bond-credit enhancement (PBCE) for this transaction is EUR 54,9 million for a project size of EUR 421 million (including debt and equity). The Union contribution under TEN-E is EUR 10 million.

- Two transports projects signed in 2014:
  - the construction of A11 Motorway in Belgium. Total project cost of EUR 657,5 million was financed by a EUR 577,9 million project bond and EUR 79,6 million of equity; the total PBCE provided amounts to EUR 115 580 000;
  - the construction of the A7 Motorway in Germany. The total project cost of EUR 772,6 million was partly financed by a EUR 429,1 million Project Bond; the total amount of PBCE amounts to EUR 85 827 400;
  - the EU contribution of EUR 200 million to transport projects covers the above two projects and will also cover additional projects to be concluded at the latest by the end of 2016;
  - one broadband project signed in 2014, Axione Infrastructures, where credit enhancement of ca. EUR 38 million under the PBI supported a EUR 189 million bond issue by a French provider of wholesale ,broadband network services. The total project cost is circa EUR 257 million. The amount of Union contribution to this project is EUR 20 million.

The Project Bond Initiative was subject to an interim independent evaluation commissioned by the Commission and finalised in June 2014[167]. The evaluation has outlined that, despite the small number of projects signed to end 2013, the initiative had a positive impact on infrastructure financing, raising the interest of institutional investors in European infrastructure investment. Initial investor feedback suggests that the project bond solution is a valuable complement to bank lending solutions and may help to narrow the infrastructure-financing gap.

The Project Bond facility is particularly suitable for projects that struggle to reach investment grade because of sovereign ratings constraints or specific project features (innovative construction technique or high demand risk for instance). The evaluation underlined the need to maintain the interest of investors by building a pipeline of mature projects over the long term.

The pilot phase of the initiative has demonstrated early success when measured against the objectives set initially and an expectation of 5-10 transactions to be closed. The EIB has identified a strong pipeline of projects for 2015 and beyond. The project pipeline includes in particular motorways eligible under the TEN-transport Regulation and a total EIB financing of EUR 270 million is estimated to be provided in support of a total bond issue of approx.

[166] As a result of seismic activity in the area the Spanish Authorities decided to halt the project and relinquish the concession.
[167] Dhondt, Tristan, Anton Krawchenko, and Franz Traxler(2014), "Ad-hoc audit of the pilot phase of the Europe 2020 Project Bond Initiative".*Reliance* (2014).

EUR 1,1 billion for the financing of these projects. The next signature is expected to take place in H1 2015.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	Overall, the pilot phase **is expected to cover** up to 10 transactions (eligible final recipients) with circa **EUR 840 million of credit enhancement provided by the EIB** (up to c.EUR 570 million backed by EU funds and up to c.EUR 270 million on own EIB risk). From these 10 transactions, up to 7 will be covered using the EUR 230 million contribution to the First Loss Piece, while the rest will be covered fully by the EIB.
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	The 10 transactions (eligible final recipients) are **expected to mobilize** circa EUR 6,6 billion of debt and equity (of which circa **EUR 4,3 billion** by the up to 7 projects backed by the EU budget).
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	As of 31-12-2014, the Pilot Phase of the **Project Bond Initiative has provided a credit enhancement of EUR 493 million** to five projects: EUR 293 million of credit enhancement to the four projects supported by the EU budget and EUR 200 million to the single project carried out by the EIB on its own risk.
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	As of 31-12-2014 the Pilot Phase has mobilised circa EUR 3,9 billion of capital cost for the five projects supported. The four projects with EU budget support **mobilised EUR 2,1 billion of capital cost.**

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Pilot phase of the Project Bonds Initiative

As of 31-12-2014 no revenues were recovered to the EU budget, committed and reused by the instrument.

However, in 2014, financial revenues earned on PBI sub-accounts amounted to EUR 323 000, as per the PBI audited financial statements at 31 December 2014. Such amount is used by EIB to cover various fees related to PBI.

(g) The balance of the fiduciary account;

The balance on the fiduciary accounts amount overall to EUR 453 000 as per the audited financial statements of the Project Bond Initiative at 31.12.2014. However, this figure does not include a late payment of EUR 192 745.93 which was made on 31 December 2014 under the PBI TEN-T account in connection with a PBI TEN-T project closed in 2014, and which the EIB recorded on 2 January 2015. Consequently, the balance on the fiduciary accounts amounts to a total of EUR 646 thousand. The total assets (adjusted to account for the above mentioned payment made in December) are broken down as follows:

For Risk-sharing and Guarantee Instruments	***in thousand EUR('000)***
Balance on the fiduciary account (current account)	646
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	14 505
Term deposits > 3 month < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current (AFS current)	15 882
Bonds non-current (AFS non-current)	109 767
Other assets **(if applicable) (other receivables)**	8 514
= Total assets	149 314

(h) Revenues and repayments (Art.140. 6);

Pilot phase of the Project Bonds Initiative
Article 1.8 of the Cooperation Agreement with the EIB states that the risk related revenues for each Portfolio will be shared between the Commission and the EIB at the end of the investment period.

- *Revenues*

Total operating revenues as of 31.12.2014: EUR 6 715 000
Total financial operations revenues: EUR 323 000[168]

- *Repayments*

No repayments took place so far.

(i) The value of equity investments, with respect to previous years;

Not applicable

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

No impairments registered at 31.12.2014

(k) The target leverage effect, and the achieved leverage effect;

For 2007-2013 instruments: Pilot phase of the PBI
As at the end of 2014, the PBI has supported financing for five projects for a total amount of EUR 3,9 billion project capital costs (out of which EUR 2,1 billion capital costs of projects which received Union budget support). A total PBCE of EUR 494 million (out of which EUR 293 million provided with Union support) was provided to support the issue of EUR 3 billion senior bonds by these five projects (out of which EUR 1,5 billion bonds supported by PBCE provided with Union budget support). The EU contribution to the instrument is EUR 230 million. Hence, the overall leverage effect of the Union contribution to the financing of EUR

[168] The PBI audited Financial Statements as at December 2014 show Financial Revenues amounting to EUR 323 thousand. However, following the sale of the EIB Unitary Fund, in 2014 the Commission recorded realised gains amounting to EUR 6 119.13, i.e. an amount which the EIB had classified as Net Gain on EIB Unitary Fund Investments in 2013. Consequently, total Financial Revenues as recorded by the Commission in 2014 amount to EUR 329 thousand, i.e. the cumulative figure of EUR 323 thousand and EUR 6.1 thousand.

2,1 billion of project capital cost of PBI projects across the three sectors is approximately 9 (2,1 billion of capital cost / 0,23 billion of EU contribution).

D - Strategic importance/relevance of the financial instrument

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

Pilot phase of the Project Bonds Initiative

The objective of the pilot phase of the PBI was two-fold: to mobilize investment in priority projects with a EU added value in the transport, ICT and energy sectors, and to increase private sector involvement in the capital market financing of projects in the afore-mentioned sectors.

The pilot phase of the PBI aimed at creating state-of-the-art interconnected networks across Europe. Such investments in infrastructure are also instrumental in enabling the EU to meet its sustainable growth objectives outlined in the Europe 2020 Strategy and the EU's "20-20-20" objectives in the area of energy policy and climate action.

The aim of the pilot phase is to test the instrument to prepare its full rollout under the Connecting Europe Facility and to increase debt capital market financing of eligible infrastructure projects. The following indicators have to be applied as per the legal base:

- o The number of TEN-T, TEN-E and broadband projects having received EIB financing under the initiative: 5 projects have benefited of the instrument at the end of 2014, 2 energy projects (of which 1 project without Union budget support), 2 transport projects and 1 telecom project.
- o The achieved multiplier effect, cumulative and per sector:

As at end 2014, the cumulative multiplier effect of the Union contribution to the financing of PBI projects across the three sectors (measured as total capital cost of PBI projects per total EU contribution to the instrument) is approximately 9. A more robust indication of the achieved leverage can only be reported after the conclusion of other operations, in particular after the PBCE projects approved by the EIB Board of Directors at end 2014 reach financial close.

The five PBI operations concluded until end 2014 show that the instrument is raising the interest of institutional investors in infrastructure projects and is seen as a valuable complement to bank lending solutions. The Commission's Interim Report as at December 2013[169] and the external evaluation of the PBI concluded in June 2014 confirmed that the Initiative is viewed positively by a majority of stakeholders. In particular, stakeholders hinted at the increasing importance of bonds as opposed to bank financing for infrastructure projects, which is also supported by the significant increase in bond-financed infrastructure deals that occurred in 2013 and 2014. According to stakeholders, the instrument is well-structured, suits the market needs and has been well-executed in transactions. Furthermore, EIB participation brings additional credibility and reassurance to investors. The Union contribution is important to cover the EIB’s risk from engaging in riskier-than-normal transactions and stakeholders view the instrument as an excellent use of EU funds.

As demonstrated by the five bond issuances supported by Project Bond Credit Enhancement (PBCE) to end 2014, the instrument has been successful in both bringing debt investors to perceived risky projects and expanding the pool of capital to more solid projects. Overall, as

[169] http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1431074029283&uri=CELEX:52013DC0929

at 31-12-2014 the EU budget supported four transactions worth EUR 2,1 billion of capital cost. These transactions issued EUR 1,5 billion of project bonds supported by EUR 293 million of credit enhancement provided by the EIB with EU budgetary support. For these transactions the obtained pricing and the other terms of the debt financing compared favourably with the alternative financing options.

Debt instrument under CEF, including successor to the pilot phase of the PBI

The Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 provides a detailed description of the debt instrument under the CEF in Annex 1, Part III. The overall objective of the financial instruments under the CEF is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage.

The financial instruments shall help finance projects of common interest with a clear European added value, and facilitate greater private sector involvement in the long-term financing of such projects in the transport, telecommunications and energy sectors, including broadband. In particular, the CEF Regulation envisages a debt instrument involving loans, guarantees and credit enhancement mechanisms to project bonds, underpinned by a risk sharing mechanism with the relevant entrusted entity.

In 2014, the Commission carried out the ex-ante assessment required by the CEF Regulation for setting up the CEF financial instruments. The conclusions of the ex-ante assessment recommended the merger of the PBI with the new CEF Debt Instrument.

The modalities of implementation of the CEF Debt instrument and the practical arrangements for merger of the PBI with the new instrument are detailed in the delegation agreement to be signed with the EIB.

The Project Bond Initiative has been subject to an interim independent evaluation commissioned by the European Commission. The evaluation has outlined that, despite the small number of projects signed to the evaluation date (i.e. December 2013), the instrument had a positive impact on infrastructure financing, raising the interest of institutional investors in European infrastructure investment. The five projects supported covered these three eligible sectors and were carried out in five different countries. Initial investor feedback suggests that the project bond solution is a valuable complement to bank lending solutions and may help to narrow the infrastructure financing gap.

As indicated by various stakeholders, the Project Bond credit enhancement is particularly suitable for projects that struggle to reach investment grade because of sovereign ratings constraints or specific project features (innovative construction technique or high demand risk for instance). The evaluation underlined the need to maintain the interest of investors by building a pipeline of mature projects over the long term.

The EIB and the European Commission have made considerable efforts to promote the initiative and to outreach towards wider public via various bilateral meetings with the Member States, international events, conferences and workshops. However, as the market showed clear signs of evolution towards more competitive processes and pricing since the launch of the Pilot Phase, it became evident that the instrument design needs to be refined. To increase the uptake of the initiative and building on the recommendation highlighted in the external evaluation report, a step change would be necessary to expand the application of PBI to new countries and sectors and to increase its focus on greenfield and brownfield operations away from refinancing. In areas where procurement by the public sector plays a crucial role, further awareness raising and practical guidance to the public sector will be a necessary step in the success of the Project Bonds.

The full stage of the initiative, which will be deployed under the CEF and EFSI, will take account of these market evolutions and deploy a product with improved design characteristics in order to maximize its scope and applicability.

E - Key points and issues

Implementation of the pilot phase of the Project Bond Initiative started at the end of 2012. It should come to an end in 2015, with the merger of the existing transactions under the new CEF Debt Instrument established by Regulation (EU) No 1316/2013. The PBI pilot phase had several constraints limiting its potential, notably the limited budget available, the clear separation between the portfolios of the three sectors and the limitation of the size of the subordinated tranche.

Despite these constraints, the PBCE was used in five projects in this limited time-frame, in line with the targeted number of projects to be supported by the instrument. In addition, the PBI has served as a catalyst to attract debt capital market investment to targeted infrastructure projects and open up new financing sources for infrastructure projects as alternatives to bank financing. Overall, as at 31-12-2014 the EU budget supported four transactions worth EUR 2,1 billion of capital cost.

The Project Bond Initiative will be continued under the Connecting Europe Facility, with some adjustments necessary for the implementation of the instrument, in particular for the maximization of the portfolio effect among the three sectors. The deployment of project bond solutions to less mature markets (i.e. southern Europe, new Member States of Central and Eastern Europe) or sectors (innovative transport solutions, energy interconnectors developed on a project finance basis, etc.) will be examined by the Commission in 2015. Practical arrangements for possible contributions under the new European Fund for Strategic Investments (EFSI, expected to come into operation in 2015) will also be examined.

3.5. Risk sharing debt instrument under the Connecting Europe Facility (CEF DI)

A - Summary

Policy DG in charge:	DG Mobility and Transport DG Energy DG CNECT
Implementing DG in charge:	DGs ECFIN, MOVE, ENER and CNECT
Operating Body in charge:	European Investment Bank Other possible entrusted entities
Initial Overall Budget Envelope:	Up to 10% of the funds from the CEF Regulation (EU) 1316/2013
Current Overall Budget:	N.A.: the legal agreement between the Commission and the EIB is expected to be signed in the first half of 2015

The Debt Financial instrument under the CEF will tackle one of the key failures identified in the market, i.e. the insufficient involvement of private investors in infrastructure financing throughout the Union, particularly on cross-border and riskier projects. The objective of the Debt Instrument under the CEF is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage. The financial instrument shall help finance projects of common interest with a clear European added value, and facilitate greater private sector involvement in the long-term financing of such projects in the transport, energy and broadband sectors. At the same time, the design of the instruments should also support the development of a sustainable financial environment – both capital markets and banks - enabling in the longer term an enhanced private financing of infrastructure projects.

The instrument will build on the existing Project Bond Initiative and the Loan Guarantee for TEN-Transport. However, given that not all CEF eligible projects where market failures have been identified can be financed by capital markets or on a project financing basis and to face efficiently a changing market environment, the intention is to make use of all the toolbox available of debt instruments available under the CEF Regulation, including senior and subordinated funded and unfunded instruments.

All operations under the Debt Instrument will be supported by a risk sharing mechanism with the EIB where the EU budget takes the first loss piece of the portfolio of such operations. The first loss provisioning provided by the EU budget will be shared among all projects in the three sectors covered by the CEF. This will allow for higher diversification and hence maximise the number of projects that can be supported by the CEF Debt Instrument. Also, the portfolios and first-loss pieces of the existing Project Bond Initiative and of the Loan Guarantee for TEN-T transport will be merged together with the CEF Debt Instrument.

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/210[170].

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The goal of the CEF Debt Instrument is to contribute to overcoming deficiencies of the European debt capital markets by offering risk-sharing for debt financing. Debt financing shall be provided by entrusted entities or dedicated investment vehicles in the form of senior and subordinated debt or guarantees.

The Debt Instrument will consist of a risk-sharing instrument for loans and guarantees as well as for Project Bonds. The project promoters may, in addition, seek equity financing under the Equity Instrument (not yet developed).[171]

Implementation arrangements

<u>Risk-sharing instrument for loans and guarantees</u>

The risk-sharing instrument for loans and guarantees is designed to create additional risk capacity in the entrusted entities. This shall allow the entrusted entities to provide funded and unfunded subordinated and senior debt to projects and corporates in order to facilitate promoters' access to bank financing. If the debt financing is subordinated, it shall rank behind the senior debt but ahead of equity and related financing related to equity.

[170] (OJ L 348, 20.12.2013)

[171] European Commission (2014b), *Ex-Ante Assessment on the Potential Use of Financial Instruments within the Connecting Europe Facility*, March 2014.

The unfunded subordinated debt financing will not exceed 30 % of the total amount of the senior debt issued.

The senior debt financing provided under the Debt Instrument will not exceed 50 % of the total amount of the overall senior debt financing provided by the entrusted entity or the dedicated investment vehicle.

Project Bonds

The risk-sharing instrument for project bonds is designed as a subordinated debt financing in order to facilitate financing for project companies raising senior debt in the form of bonds. This credit enhancement instrument shall aim at helping the senior debt to achieve an investment grade credit rating. It shall rank behind the senior debt but ahead of equity and financing related to equity.

The subordinated debt financing will not exceed 30 % of the total amount of the senior debt issued.

Combination with other sources of funding

Funding from the Debt Instrument may be combined with other budgetary contributions listed below, subject to the rules laid down in Regulation (EU, Euratom) No 966/2012 and the relevant legal base:

- other parts of the CEF;
- other instruments, programmes and budget lines in the Union budget;
- Member States, including regional and local authorities, that wish to contribute own resources or resources available from the funds under the cohesion policy without changing the nature of the instrument.

Duration of the Debt Instrument

The last tranche of the Union contribution to the Debt Instrument shall be committed by the Commission by 31 December 2020. The actual approval of debt financing by the entrusted entities or the dedicated investment vehicles shall be finalized by 31 December 2022.

Expiry

The Union contribution allocated to the Debt Instrument shall be reimbursed to the relevant fiduciary account as debt financing expires or is repaid. The fiduciary account shall maintain sufficient funding to cover fees or risks related to the Debt Instrument until its expiry.

EU added value

This CEF Debt Instrument merged portfolio will be supported by a portfolio first loss piece of which the EU will hold 95% of the risk. This merged portfolio and portfolio first loss piece will allow for an improved risk diversification allowing for a better use of the EU funds committed to the merged instrument. This will in return increase the leverage and allow for a more wide deployment of the instrument bringing affordable financial support to projects targeted under CEF.

(c) The financial institutions involved in implementation;

The European Investment Bank (EIB)

Other Entrusted entities (not yet designated at this stage; entities to be selected in accordance with Regulation (EU, Euratom) No 966/2012

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Not applicable: the legal agreement between the EC and the EIB is expected to be concluded in the first half of 2015

(e) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(f) The balance of the fiduciary account;

NA

(g) Revenues and repayments;

NA

(h) The value of equity investments, with respect to previous years;

NA

(i) The accumulated figures on impairments[172] of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

NA

(j) The target leverage effect, and the achieved leverage effect;

The target (expected) leverage of the Debt Instrument — defined as the total funding (i.e. Union contribution plus contributions from other financial sources) divided by the Union contribution — is expected to range from 6 to 15, depending on the type of operations involved (level of risk, target beneficiaries, and the debt financing concerned). Assuming the full possible budgetary allocation of EUR 3 billion is made available to the instrument, total funding of EUR 18 billion to EUR 45 billion could be attracted thanks to the Union contribution.

D - Strategic importance/relevance

(k) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The financial instruments to be deployed under the CEF (Debt Instrument and possibly Equity Instrument) will tackle one of the key failures identified in the market, i.e. the insufficient involvement of private investors in infrastructure financing throughout the Union, particularly on cross-border and riskier projects. The objective of the financial instruments under the CEF is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage. The CEF financial instruments shall support the financing of projects of common interest with a clear European added value, and facilitate greater private sector involvement in the long-term financing of such projects in the transport, energy and broadband sectors. At the same time, CEF financial instruments shall be designed such as to enhance the development of a sustainable financial environment – both capital markets and banks.

CEF Debt Instrument 2015-2020

Given the market failures currently identified and the need to start operations in 2015, it is proposed to initially set up and launch the Debt Instrument in cooperation with the EIB.

[172] Note: 'Impairment of Assets' seeks to ensure that an entity's assets are not carried at more than their recoverable amount (IAS36).

Other entrusted entities may be considered for the implementation of the instrument in the future. The instrument will build on the existing Project Bond Initiative and the Loan Guarantee for TEN-Transport. However, given that not all CEF eligible projects where market failures have been identified can be financed by capital markets or on a project financing basis and to face efficiently a changing market environment, the intention is to make use of all the toolbox available of debt instruments available under the CEF Regulation, including senior and subordinated funded and unfunded instruments. All operations under the Debt Instrument will be supported by a risk sharing mechanism with the EIB where the EU budget takes the first loss piece of the portfolio of such operations. The first loss provisioning provided by the EU budget will be shared among all projects in the three sectors covered by the CEF. This will allow for higher diversification and hence maximise the number of projects that can be supported by the CEF Debt Instrument. Finally, the structuring of the Debt Instrument will cater for potential future contributions of European Structural and Investment Funds.

Following the conclusions of the Interim Report on the Project Bond Initiative concluded in 2013, the CEF Debt Instrument may merge with the existing risk-sharing financial instruments (i.e. LGTT/PBI), thus opening up the possibility of having a single multi-sector instrument.

E - Other key points and issues

Not applicable as the instrument has not been launched yet

3.6. Natural Capital Financing Facility (NCFF)

A - Summary

Policy DG in charge:	DG ENV and DG CLIMA
Implementing DG in charge:	DG ENV
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 60 million[173]
Current Overall Budget:	EUR 60 million *(2014-2017)*

NCFF provides direct and indirect financing for natural capital investment projects. The financing may consist in loans or equity. It finances revenue-generating or cost-saving projects which promote the conservation, restoration, management and enhancement of natural capital that contribute to the Union's objectives for biodiversity and climate change adaptation, e.g. through ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste.

The NCFF is a risk sharing financial instrument which is implemented under indirect management by the European Investment Bank. The delegation agreement was signed on 17th and 18th December 2014.

The target leverage effect as indicated in the Delegation Agreement is 2-4 by 31st December 2019. The EU budget allocation foreseen (but not fixed yet) for the programming period

[173] The overall budget envelope of the NCFF is defined in the Commission Implementing Decision C(2014)1709 of 19 March 2014 on the adoption of the LIFE multiannual work programme for 2014-2017 and it is referred to the period 2014-2017.

(2014-2017) amounts to EUR 60 million (including EUR 10 million for the Technical Support Facility). On this basis, the EIB intends to provide finance of € 100-125 million by 2019. The NCFF will finance up to 75% of total project cost for direct investments. When investing in equity funds, the maximum share is 33%..

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU) N° 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) Article 17[174].

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

NCFF provides direct and indirect financing for natural capital investment projects. The financing may consist in loans or equity. It finances upfront investment and operating costs for revenue-generating or cost-saving projects which promote the conservation, restoration, management and enhancement of natural capital that contribute to the Union's objectives for biodiversity and climate change adaptation, e.g. through ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste.

Projects will fall into four broad categories:

- Payments for Ecosystem services (PES): projects involving payments for the flows of benefits resulting from natural capital, usually a small scale bilateral transaction with a well identified buyer and seller of an ecosystem service. They are based on the beneficiary pays principle, whereby payments take place to secure critical ecosystem services.
- Green Infrastructure (GI): GI is a strategically planned network of natural or semi-natural areas with other environmental features designed and managed to deliver a wide range of ecosystem services. It incorporates green spaces (or blue if aquatic ecosystems are concerned) and other physical features in terrestrial (including coastal) and marine areas. On land, GI is present in rural and urban settings. GI projects have the potential to generate revenues or save costs based on the provision of goods and services e.g. water management, air quality, forestry, recreation, flood/erosion/fire control, pollination, increased resilience to the consequences of climate change.
- Biodiversity offsets: these are conservation actions intended to compensate for the residual, unavoidable harm to biodiversity caused by development projects. They are based on the polluter pays principle, whereby offsets are undertaken for compliance or to mitigate reputational risks. Projects aimed at compensating damages done to Natura 2000 sites according to Article 6.4. of the Habitats Directive are not eligible for financing under the NCFF.
- Innovative pro biodiversity and adaptation investments: these are projects involving the supply of goods and services, mostly by SMEs, which aim to protect biodiversity or increase the resilience of communities and other business sectors.

[174] OJ L116/1, 17.04.2014

Implementation arrangements
The NCFF is a risk sharing financial instrument which is implemented under indirect management by the European Investment Bank. The delegation agreement was signed on 18th December 2014.

The NCFF is currently implemented in a pilot phase, which will allow testing different financing options to focus on the most suitable approaches in a potential second phase. The EIB has the possibility to invest the available funds up to the end of 2019. The overall EU budget contribution foreseen for this period is EUR 60 million including EUR 10 million for the Technical Support Facility.

Added value
The added value of the NCFF is to address current market gaps and barriers to the private financing of projects in the field of biodiversity and climate change adaptation. The aim is to establish a pipeline of replicable, bankable investments that will serve as a "proof of concept" and that demonstrate to private investors the attractiveness of such investments for the longer term. A further aim is to leverage funding from private investors for this pipeline of investments.

The NCFF will support projects that the EIB normally does not invest in, because they are too small, the time to ensure an investment return is too long or because of the perceived high credit risk of biodiversity and climate change adaptation investments. To this end the EIB and the Commission agreed on a risk sharing mechanism whereby the EU funds will absorb first losses in case of project failure, thereby reducing the credit risk faced by the EIB.

When assessing the EU added value of potential projects, the EIB will investigate not only the contribution to the nature, biodiversity and climate change adaptation objectives, but also the potential for demonstration effect, replicability, transferability and the ability of the investment to leverage additional funding. The aim is invest in some 9 to 12 operations. A the broad geographical coverage is to enhance the effectiveness of the pilot phase.

A technical support facility is provided for capacity building measures to help the development of successful projects. This support will be provided to operations expected to be eligible for receiving finance from the NCFF and will develop competences in preparatory, management, monitoring, evaluation, audit and control activities.

(c) Financial institutions involved in implementation;

European Investment Bank (EIB)

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 10 000 000
Aggregate budgetary payments as at 31/12/2014	EUR 3 250 000[175]

(e) The performance of the financial instrument, including investments realised;

The Delegation Agreement having been signed in December 2014, no operation started in 2014.

[175] The payment of 3 250 000 EUR was made on the 29 December 2014 and arrived on the fiduciary account on the 6th of January 2015.

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable

(g) The balance of the fiduciary account;

The payment of 3 250 000 EUR was made on the 29 December 2014 and arrived on the fiduciary account only on the 6th of January 2015.

(h) Revenues and repayments (Art.140. 6);

Not applicable

(i) The value of equity investments, with respect to previous years;

Not applicable

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

Not applicable

(k) The target leverage effect, and the achieved leverage effect;

- **The target leverage effect**.

The EU budget allocation foreseen in the LIFE regulation for the programming period 2014-2017 amounts to EUR 60 million. This amount includes EUR 50 million for the Investment Facility and EUR 10 million for the Technical Support Facility, which is not to be considered in the calculation of the leverage effect.

The total amount of investments/loans made by the EIB is expected to reach EUR 100-125 million. An amount of EUR 200 million is the expected aggregate amount of finance available to eligible final recipients supported by the Financial Instrument. For the avoidance of doubt, this amount does not include the financing that eligible final recipients make available from their own resources.

Hence the target leverage effect as indicated in the Delegation Agreement is 2-4 (EUR 100-200 million divided by EUR 50 million of Union contribution) over the lifetime of the financial instrument (31st December 2019).

- **The achieved leverage effect**: NA for 2014

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The Delegation Agreement having been signed in December 2014, no operation started in 2014.

E - Other key points and issues

- **Three main issues for the implementation**:

although the implementation of the NCFF started only very recently and no financing has yet been awarded to any operation, the key implementation issues to meet the aims and requirements of the facility are:

i) to identify and develop financially viable projects which have a positive impact on biodiversity and climate adaptation;

ii) to ensure sufficient uptake in a broad range of sectors, in view of future replicability;
iii) to ensure a good geographical spread among Member States, in particular in smaller Member States or where financing constraints are more acute.

- **Main risks identified:**
  i) when implementing the NCFF, it will be taken into account that the EIB, financial intermediaries and final recipients may have limited experience with the nature and biodiversity aspects of investments projects, including the proper monitoring and reporting. This is inherent to the innovative and pilot character of the instrument. The Support Facility may be used to address such issues.
  ii) Projects will be closely monitored to ensure that biodiversity and climate adaptation objectives are achieved, in line with LIFE Regulation.
  iii) Taking into account the targeted sectors, low uptake is a risk. Publicity and communication, and the support facility will be important in this context.

- **General outlook:**
  the most recent EIB pipeline received in summer 2015 lists seven potential operations: two indirect loans, three direct loans and two investments in equity funds. Most potential operations cover more than one project category, in particular projects using payments for ecosystem services, Green Infrastructure and Pro Biodiversity and Adaptation businesses. The entities proposing the potential operations come from six different MS but the investments would involve a larger number of MS. This is in line with the aim to have a balanced geographical spread.

3.7. EU SME Initiative

A - **Summary**

Policy DG in charge:	DGs ECFIN, RTD, GROW and REGIO
Implementing DG in charge:	DGs RTD, GROW and REGIO
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 8 500 million (aggregate ceiling for ERDF and EAFRD according to Art. 39 CPR) EUR 175 million (ceiling for contributions from each COSME and Horizon 2020)
Current Overall Budget:	EUR 815 million (ERDF)

SME support is a main focus of the European Structural and Investment Funds (ESIF), and financial instruments play an increasingly important role. Within the financial instruments "family", the SME Initiative is a real novelty, in that it combines different EU funding resources in one financial instrument, thereby increasing the leverage of (both public and private) additional resources to be mobilised for SME support. Its overall aim is to enhance access to finance for SMEs, to stimulate economic growth and entrepreneurship. Access to finance is a real issue in the economy of at least several Member States in Southern and Eastern Europe: the problem is not so much the lack of liquidity in the market, but the missing transmission of that liquidity into the real economy, so that SMEs have adequate access to finance at reasonable conditions, which enables them to invest, develop their competiveness and grow. Often, a lack of collateral on the SME side is the main reason why banks are not willing to lend. There are several crucial elements of the SME Initiative which ensure its contribution to the objectives of better SME access to finance and, thereby, enhanced SME competitiveness, innovativeness and growth – e.g. its unique and targeted products, the enhanced leverage, the early deployment and frontloading of payments, but also the streamlined and comparatively light documentation necessary to implement it. The aspect of geographical diversification in the sense of Cohesion Policy, i.e. the fact that the policy focuses explicitly on less developed regions, is also fully taken into account: the single dedicated national programme (SDNP), although being a national Operational Programme, can have regional compartments so that the regional allocations to the SME Initiative remain clearly visible.

The target volume of new loans to be generated for all Spanish regions is EUR 5 723 million, out of which EUR 2 976 million are guaranteed by the ESIF contribution.

B - <u>Description</u>

(a) Identification of the financial instrument and the basic act;

The EU SME Initiative may receive funding from the following four programmes.

COSME:
Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 - 2020) and repealing Decision No 1639/2006/EC (OJ L 347/33 of 20 December 2013). The European Commission has established financial instruments that aim to facilitate and improve access to finance for SMEs in their start-up, growth and transfer phases, complementary to the Member States' use of financial instruments for SMEs at national and regional level.

H2020:
Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC (OJ L 347/104 of 20 December 2013) and pursuant to the Decision No 2013/743/EU of the Council of 3 December 2013 establishing the Specific Programme implementing Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020), the European Commission has established financial instruments that aim to ease access to the risk financing for final recipients carrying out research and innovation projects.

ERDF and EAFRD (Article of the 39 CPR):
On 17 December 2013, Regulation (EU) No 1303/2013 of the European Parliament and the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347/320 of 20 December 2013) was adopted.

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
The SME Initiative has been presented on 27-28 June 2013 in the Commission's and EIB's joint report to the European Council, to complement and utilise synergies between existing

SME support programmes at national and EU level. More specifically, the SME Initiative is a joint instrument, combining EU funds available under COSME and Horizon 2020 and ERDF-EAFRD resources in cooperation with EIB/EIF in view of generating additional lending to SMEs.

Implementation arrangements

Three financial instruments could be implemented under the SME Initiative, and they boil down in substance to two alternative ways of operating, namely:

(*) uncapped guarantees providing capital relief to financial intermediaries for new portfolio of debt finance to SMEs and

(**) securitisation instruments (with two possibilities, i.e. option n°2 securitisation instrument with MS contribution used exclusively for the participating MS and option n°3 securitisation instrument with several MS contributions pooled and used to provide protection on the aggregate exposure, particularly to the mezzanine tranches guaranteed by EIF).

The period of time during which the participating Member State may commit some funds to the EIF shall expire on 31 December 2016. As it will be defined in the funding agreement that shall be signed between the EIB and the participating MS, the selected financial intermediary will originate new debt finance no later than the end of the eligibility period (i.e. 31/12/2023).

In terms of budget, the Common Provision Regulation foresees a global ceiling (for all Member States) of EUR 8,5 billion of aggregate ERDF-EAFRD to be committed under the SME Initiative, and a ceiling by Member State of 7 % of their allocation from the ERDF and EAFRD. In that scenario, the corresponding maximum COSME and Horizon 2020 contributions would amount to EUR 175 million each over the 2014-2016 period.

As of end-2014, two Member States confirmed their participation and signed the relevant Inter-Creditor Agreements with the EIF: Spain (ERDF contribution of EUR 800 million) and Malta (ERDF contribution of EUR 15 million). Estimated budget allocation foreseen for the total programming period amounts to approximately EUR 815 million (ERDF) for Spain and Malta.

Added value

As indicated in the legal base, the added value of the EU contribution results in a minimum leverage effect of 4 over the lifetime of the financial instrument for the ERDF contribution in Spain and Malta. Based on the minimum leverage of the instrument agreed in the Single Dedicated National Programme, it is estimated that the total amount of investments/loan volumes mobilised would be around EUR 6 billion for Spain and Malta (based (based on all available funds, i.e. ERDF, H2020, EIB/EIF and private (bank) funds).

A portion of the new Debt Finance portfolio equal to at least 20 times the contribution under the COSME Regulation and/or H2020 Regulation should fulfil respectively the COSME and/or H2020 eligibility criteria. Therefore, the table under point i) is summarising the overall leverage that should be reached for each option. The new debt finance originated by the selected financial intermediary should also include an amount equal to 20 times the COSME and/or H2020 contribution.

(c) The financial institutions involved in implementation;

The EIB is the entrusted entity for the implementation of this initiative, practical aspects of implementation such as selection of financial intermediaries and management of payment flows are managed by the EIF.

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

No commitment and payment as of end-2014.

(e) The performance of the financial instrument, including investments realised;

Not applicable as of end-2014.

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable as of end-2014.

(g) The balance of the fiduciary account;

Not applicable as of end-2014.

(h) Revenues and repayments;

Not applicable as of end-2014.

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

Not applicable as of end-2014.

(k) The target leverage effect;

The target leverage effect
The following table illustrates the calculation of the target leverage for the SME Initiative in Spain, in accordance with the agreed approach for such calculation. The figures represent the different risk covers/risk takers as defined in the Intercreditor Agreement: in absolute and percentage terms, the loan portfolio will have a senior tranche/risk cover accounting for 69% of its size, an upper mezzanine (4,5%), middle mezzanine (0,5%) and lower mezzanine (3,0%) part as well as a junior tranche (23%). Summing these amounts up, the part of the portfolio that is backed by the guarantee is obtained: EUR 2 862 million.

Since for the SME Initiative in Spain a guarantee rate of 50% was agreed, the originating banks will retain 50% of the risk, and the overall portfolio is thus double the amount above, i.e. EUR 5 723 million. These are loans to SMEs Dividing this aggregate amount of EUR 5 723 million by the aggregate support provided through ERDF and Horizon 2020, EUR 816,8 million, provides the leverage targeted, namely 7,0.

Calculation of target leverage for the SME Initiative in Spain

SIUGI Risk Cover	Risk taker	Maximum Risk Cover Size (EUR)	Target Rating (at least)
Senior Risk Cover	EIB	1.974.461.53846	Aa3
Upper Mezzanine Risk Cover	EIF	128.769.230,77	Baa3
Middle Mezzanine Risk Cover	Horizon 2020	14.307.692,31	Ba1
Lower Mezzanine Risk Cover	ESIF	85.846.153,85	Ba2
Junior Risk Cover	ESIF	658.153.846,15	Not Rated
Guaranteed Portfolio without originator *(corresponds to 50% because of a 50% guarantee rate)*		*2.861.538.461,54*	
Originator's risk (bank own risk)		*50%*	
Total amount of the guaranteed loan portfolio (100%)		*5.723.076.923,08*	
Total ERDF/COSME/Horizon2020		*816.800.000,00**	
Leverage in relation to ERDF (but based on ERDF, H2020, EIB and EIF funds)		**7,0**	

* EU contribution including management costs and fees

The achieved leverage effect

Not applicable as of end-2014.

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

SME support is a main focus of the European Structural and Investment Funds (ESIF). This is reflected by the CPR[176]'s thematic objective 3 "Enhancing the competitiveness of SMEs", under which in 2014-2020 according to preliminary figures about EUR 59 billion will be devoted to supporting SMEs (EUR 32,4 billion by the ERDF and EUR 26,6 billion by the

[176] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006

EAFRD). The investment priorities as laid down in the ERDF Regulation (No 1301/2013) illustrate the objectives of the ESIF programmes: promoting entrepreneurship, developing new business models for SMEs, supporting SMEs' growth and innovation capacities.

While much of this support is still provided through grants, financial instruments play an increasingly important role. Within the financial instruments "family", the SME Initiative is a real novelty, in that it combines different EU funding resources in one financial instrument, thereby increasing the leverage of (both public and private) additional resources to be mobilised for SME support. Its overall aim is to enhance access to finance for SMEs, to stimulate economic growth and entrepreneurship. Alongside the ESIF resources contributed by the Member States, the SME Initiative is co-funded by the EU through COSME and/or Horizon 2020 resources and EIB Group resources.

In the Single Dedicated National Programmes (SDNPs)_ that Member State have to establish to devote ESIF resources to the SME Initiative, the progress in implementing the SME Initiative is measured against output indicators (e.g. the number of SMEs receiving support, the ERDF amount committed to cover the New Debt Finance portfolio (for the uncapped guarantee option) and the ERDF amount used to cover the existing portfolios of debt finance to SMEs (for the securitisation option)) as well as against result indicators (e.g. reduction in the market failure for debt finance/improvement of SMEs' access to finance).

There are several crucial elements of the SME Initiative which ensure its contribution to the objectives of better SME access to finance and, thereby, enhanced SME competitiveness, innovativeness and growth – e.g. its unique and targeted products, the enhanced leverage, the early deployment and frontloading of payments, but also the streamlined and comparatively light documentation necessary to implement it.

The aspect of geographical diversification in the sense of Cohesion Policy, i.e. the fact that the policy focuses explicitly on less developed regions, is also fully taken into account: the SDNP, although being a national Operational Programme, can have regional compartments so that the regional allocations to the SME Initiative remain clearly visible and traceable. The target volume of new loans to be generated for all Spanish regions is EUR 5 723 million, out of which EUR 2 976 million are guaranteed by the ESIF contribution.

E - <u>Other key points and issues</u>

- ***Main issues, for the implementation:***
  - the firm political will and commitment to implement the SME Initiative with all its novel elements (e.g. the various funds it brings together) is a *conditio sine qua non* for implementing it. This also means that the different services involved within the Government (even more so if national and regional players come in) have to cooperate very effectively and efficiently.
  - Moreover, a continuous reality check and reassessment will be carried out regarding the two options/financial products – are they really the ones best placed to improve SME access to finance? Are they adequately designed to meet the needs of SMEs (and financial intermediaries)? Is the financial volume dedicated to them appropriate? The SME Initiative has to ensure it complements – through its particular set-up and its specific products – existing financial instruments and provides synergies with them.
- ***Main risks:***
  - not applicable as of end-2014
- ***General outlook:***
  - as of end-2014 it remains difficult to envisage the general development of the SME Initiative, as it was not implemented yet in any Member State, although negotiations to

reach the underlying agreements were already well advanced between the EIB Group and the Commission with both Spain and Malta.

- The central problem of the economy of at least several Member States in Southern and Eastern Europe is not the lack of liquidity in the market, but the missing transmission of that liquidity into the real economy, so that SMEs have adequate access to finance at reasonable conditions, which enables them to invest, develop their competiveness and grow. Often, a lack of collateral on the SME side is the main reason why banks are not willing to lend. In such a context, products offered by the SME Initiative such as the uncapped guarantee instrument are very well-suited to tackle the main obstacles for SMEs to get appropriate access to finance.

4. Dedicated Investment Vehicles

4.1. The European Progress Microfinance FCP-FIS (PMF FCP-FIS)

A - Summary

Policy DG in charge:	DG EMPL, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 78 million*
Current Overall (2007-2013) Programme Budget:**	EUR 80 million
Executed Budget since beginning until 31/12/2014:	Commitments: EUR 80 million Payments: EUR 63,4 million

**Initial voted commitments out of which EUR 75 million from DG EMPL and EUR 3 million from EPPA (DG REGIO).*
*** According to information available as at 3 March 2014, including increase in budget commitments from 2008 to 2013.*

The FCP-FIS is managed by the Management Company (EIF) which is vested with the broadest powers to administer and manage the Fund and the sub-fund(s) in accordance with the Management Regulations and Luxembourg laws and regulations and, in the exclusive interest of the Unit-holders, to exercise all of the rights attaching directly or indirectly to the assets of the Fund.

The EIF has the exclusive authority with regard to any decisions in respect of the Fund or any sub-fund(s), and shall act with the diligence of a professional management company and in good faith in the exclusive interests of the Unit-holders.

The specific investment objective of the Fund is to increase access to, and availability of a range of financial products and services in the area of microfinance for:

- Persons starting their own enterprise, including self-employment;
- Enterprises, especially microenterprises;
- Capacity building, professionalization and quality management of microfinance institutions and of organisations active in the area of microfinance;
- Local and regional employment and economic development initiatives.

- The Fund provides mainly debt products priced below market for the final benefit of the eligible final recipients.

As of 30/12/2014, EIF had signed 41 loan agreements in 14 member states including a Commission contribution of EUR 63,4 million. As of 30/09/2014, 16 025 micro-enterprises and vulnerable persons had been supported under the Facility for a total microloans volume of EUR 113,7 million and they had created 25 347 jobs[177].

As at 31/12/2014, the entire programme provided 31 371micro-loans to final recipients, reaching the volume of EUR 291,7 million.

B - Description

(a) Identification of the financial instrument and the basic act;

Decision No 283/2010/EU[178] of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion.[179]

EU Microfinance Platform MICROFINANCE PLATFORM (the "Fund") is structured as a Luxembourg "*fonds commun de placement – fonds d'investissement spécialisé"* (FCP - FIS) governed by the law of 13 February 2007 relating to specialised investment funds (the "2007 Law") and launched on 22 November 2010.

It is established as an umbrella fund, which may have several sub-funds. The Fund has been launched with an unlimited duration provided that the Fund will however be automatically put into liquidation upon the termination of a sub-fund if no further sub-fund is active at that time. At 31 December 2013, the Fund has had a single sub-fund - the European Progress Microfinance Fund (the "Sub-fund") - created with a limited duration ending on 30 April 2020.

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The Fund is an unincorporated co-ownership of securities and other eligible assets. The Fund does not have legal personality. The Fund is therefore managed in the exclusive interests of the Unit-holders (the European Union, represented by the Commission, and the EIB) by the Management Company (EIF) in accordance with Luxembourg laws and the Management Regulations.

The specific investment objective of the Fund is to increase access to, and availability of a range of financial products and services in the area of microfinance for the following target groups (see also the objectives under the EPMF-Guarantee Facility above):

- persons starting their own enterprise, including self-employment;
- enterprises, especially microenterprises;
- capacity building, professionalization, and quality management of microfinance institutions and of organisations active in the area of microfinance;
- local and regional employment and economic development initiatives.

[177] EPMF FCP – 2014 Annual Implementation Report

[178] European Progress Microfinance Facility includes both Guarantees (EPMF-G) and Funded instruments (FCP-FIS).

[179] (OJ L 87/1, 7.4.2010)

Implementation arrangements

The Fund issues unit classes, which are redeemable at the option of the Management Company on a pro rata basis among existing investors in accordance with the provisions of the management regulations and the commitment agreements.

Unit classes are issued and redeemed at the option of the Management Company at prices based on the Fund's net asset value per Unit of the related redeemable Unit classes at the time of issue or redemption.

The following classes of Units are available for subscription under the single sub-fund of the Fund:

- Junior Units

Junior Units are subordinated to the Senior Units and shall bear the first net losses in the Sub-Fund's assets. Junior Units are reserved for the European Commission.

- Senior Units

Senior Units are senior to Junior Units and shall only suffer a net loss in the Sub-fund's assets if the cumulated Net Asset Value of all Junior Units together has been reduced to zero.

The financial contribution from the Union budget to the EPMF Fonds Commun de Placement – Fonds d'Investissement Spécialisé (EPMF FCP-FIS) for the period from 1 January 2010 to 31 December 2014 amounts to EUR 80 million. In addition, the European Investment Bank has matched the overall Union contribution into the EPMF. Consequently, the Commission is a founding investor in the Specialised Investment Fund, contributing with 44% (80 million EUR) of the total funding. The EIB is the other investor with a contribution of 100 million EUR. The Commission has subscribed for junior units, thus bearing the first loss.

In accordance with the EPMF FCP-FIS's Management Regulations, the Investment Period ends on 7 April, 2016. However, the Management Company may decide to extend the Investment Period subject to the unanimous approval of the Sub-Fund's Meeting of Investors.

The Facility is implemented via debt and equity instruments (FCP-FIS); the implementation foresees also support measures, such as communication activities, monitoring, control, audit and evaluation which are directly necessary for the effective and efficient implementation of the Decision No 283/2010/EU and for the achievement of its objectives.

The EIF shall evaluate and select the Financial Intermediaries ('FI') by applying selection criteria and processes set out in the Special Section of the Management Regulations. The approvals are in the remit of the European Investment Fund as a Management Company. The Management Company has full discretion in the review and assessment of projects. The investors are not involved in the day-to-day management of the Fund, or in the decision-making on specific projects. The final approval is given by the EIF Board of Directors.

Added Value

The Fund constitutes one of the EU core measures to mitigate the consequences of the economic crisis. By providing debt, equity and funded risk sharing instrument to MFIs located within the EU, it aims to increase the access to, and availability of, microfinance for the most vulnerable. The microenterprise segment is the cornerstone of the EU economy: more than 90% of EU businesses and almost all start-ups are microenterprises. Some 66% of business start-ups are made by unemployed people. The Fund enables economic independence for micro-entrepreneurs who might otherwise have difficulties in accessing funds for business start-ups, in the current context of reduced credit supply. It provides concrete support for economic growth, employment creation and social inclusion.

(c) The financial institutions involved in implementation;

The Fund is managed by the EIF as a Management Company. The Management Company has to comply with the requirements of the investors as set out in the legal documentation (Management Regulations and Prospectus) and with the obligations arising from the governing law of Luxembourg.

EIF is vested with the broadest powers to administer and manage the Fund and the sub-fund(s) with the diligence of a professional management company and in good faith in the exclusive interests of the Unit-holders.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 80 000 000
Aggregate budgetary payments as at 31/12/2014	EUR 63 428 857

(e) The performance of the financial instrument, including investments realised (as of 30/09/2014);

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 292,1 million 41 060 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 114 million 16 025 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	N/A

Note: No further budgetary commitments have been made by the Commission since the end of the commitment period on 31/12/2013.

Additional operational information

As of 31/12/2014 the total contributions of the shareholders (Commission and EIB) to the EPMF FCP amounted to EUR 148 million (Commission contribution = EUR 63,4 million to FLP and EIB contribution to second loss piece = EUR 84,6 million) therefore any investment of the Fund (mainly senior loans) was made in accordance to the ratio 1:1,33 between the Commission and EIB.

As of 31/12/2014, 41 Agreements have been signed in 14 Member States including a Union contribution of EUR 63,4 million, with a clear geographical balance between Eastern and Western Europe.

On 31/12/2014, the signed agreements between EIF and the Intermediaries amounted to some EUR 149,2 million (Commission contribution = EUR 64 million and EIB contribution = EUR 85,2 million) and aimed at leveraging an additional contribution from the intermediaries of

EUR 143,1 million, in order to have a total of EUR 292,1 million (expected volume) in micro-loans to final recipients.

Impact on employment
For the entire period as of 30 September 2014 (latest data available as at writing date), EPMF achievements for the FCP-FIS component of the programme were as follows:

- Total amount of micro-loans: EUR 114 million
- Total number of employees (in the supported micro-enterprises): 25 347 [180]

Information at the aggregate EPMF level, including both Guarantee facility and Funded instruments
As of 31 December 2014, the European Progress Microfinance Facility including both Guarantees and Funded instruments already provided 31 371 micro-loans to final recipients reaching the volume of EUR 291,7 million, compared to the initial programme target of 46,000 micro-loans with the volume of EUR 500 million. The Facility is on track to reach the initial programme target, as new loan inclusions will take place until 2018.

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

NA

(h) Revenues and repayments;

Revenues:	EUR 8,7 million
Repayments:	EUR 13,4 million

(i) The value of equity investments, with respect to previous years;

EUR 59,9 million[181]

(j) The accumulated figures on impairments of assets of equity and on called guarantees;

Not available

(k) The target leverage effect, and the achieved leverage effect;

As of 30/09/2014, based on the signed loan agreements the total target volumes of micro-loans to final recipients are estimated to EUR 292,1 million, bringing the expected leverage effect to 4,6 (the expected volumes of microloans divided by EUR 63,4 million of Commission's contribution); this is much higher than the minimum target leverage of 2,33.

As for achieved leverage until 30/09/2014, the Commission's contribution paid of EUR 63,4 million has supported so far EUR 114 million of new micro-loans, implying a leverage of 1,8.

[180] EPMF FCP-FIS Annual Implementation Report – 2014, data as of 30th September , 2014.
[181] NAV, source : 2014 audited accounts EPMF FCP-FIS

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

(See part C above under European Progress Micro-finance Facility – Guarantee under section 11.2.)

E - <u>Other key points and issues</u>

- ***Main issues for the implementation:***
  - in terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2014, which is also reflected by the increased lending activity under EPMF FCP. The Microfinance Institutions' demand for stable access to funding clearly remains as inter-bank lending and other sources of funding have not yet picked up again.
  - The continuously decreasing bank lending, the limited capacity and priority of national governments to support microfinance, and the strong market demand for microfinance suggest that there is a clear rationale for intervention at EU-level.
  - Despite its positive effects in the area of employment and social inclusion, without access to stable funding and without the necessary capacity building component, the growth and sustainability prospects of the sector, particularly for non-bank MFIs which are focused on social inclusion lending, remain limited.
- ***Main risks :***
  - risk is inherent in the Fund's activities but is managed through a process of on-going risk identification and measurement, monitoring of the benefited MFIs and other controls regarding the observance of specific portfolio limits and restrictions in order to ensure that the investments are diversified to an extent that an adequate spread of the investment risk is warranted.
  - The EIF as Management Company is responsible for the overall risk management approach and for approving the risk strategies and principles.
  - ✓ The Management Company monitors these investments on an on-going basis by analysing regular reports (i.e. quarterly financial covenants compliance, quarterly financial statements and key performance indicators such as portfolio, liquidity, capitalisation and profitability) and through direct contact with each financial intermediary and site visits.
  - The Management Company has in place monitoring process to identify potential deterioration of counterpart creditworthiness and anticipate potential impairments on the portfolio and/or review of the counterpart internal rating.
- ***General outlook:***
  - based on forecasts subject to variations, a further EUR 63,25 million is envisaged in new commitments.

4.2. The 2020 European Fund for Energy, Climate Change and Infrastructure – (Marguerite)

A - Summary

Policy DG in charge:	DG MOVE
Implementing DG in charge:	DG ECFIN
Operating Body in charge:	Marguerite Adviser (the Fund Manager)
Initial Overall Budget Envelope:	EUR 80 million
Current Overall Budget:	EUR 80 million from the TEN-T budget (06 03 03 — Financial support for projects of common interest in the trans-European transport network (in 2013 budget nomenclature))

The Marguerite Fund is a Pan-European equity fund developed in the context of the financial crisis and in recognition of the need for successful long-term infrastructure investment in Europe. It supports infrastructure investment within the transport (TEN-T), energy (TEN-E) and renewables sectors in Member States and invests primarily in Greenfield Projects.

The core sponsors include public long-term investors from France (CDC), Italy (CdP), Germany (KfW), Spain (ICO) and Poland (PKO) as well as the EIB and a key investor, the European Commission. In total, the fund raised EUR 710 million of available capital for equity investments (final close reached in December 2012). The Commission aggregate budgetary commitment is EUR 80 million and sourced through the TEN-T budget.

An estimate of the generated leverage effect with regards to the Union contribution shows the following: each euro invested in the Marguerite fund by the European Union supports a total capital investment of circa 125 euros in infrastructure and renewable energy projects across the EU.

As of December 2014 the Marguerite fund has invested in ten projects from different Member States of the European Union. The projects originate from different economic sectors including renewable energy as well as air and road transport infrastructure with a total committed equity investment volume by the fund of EUR 295 million to ten projects representing EUR 4,9 billion of mobilized finance (equity and debt). More projects are currently being developed and the investment pipeline for 2015 is expected to translate into further signings and closings over the course of the year 2015.

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans- European transport and energy networks (OJ L 162, 22.6.2007, p.1). [182]

Commission Decision C(2010) 941 of 25 February 2010 on European Union participation in the 2020 European Fund for Energy, Climate Change and Infrastructure (the Marguerite Fund).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The Marguerite Fund is a Pan-European equity fund developed in the context of the financial crisis and in recognition of the need for successful long-term infrastructure investment in Europe. It supports infrastructure investment within the transport (TEN-T), energy (TEN-E) and renewables sectors in Member States and primarily invests in Greenfield Projects

Expected results:

- at least 3,5 times the EC commitment to be invested into TEN-T eligible projects (at least EUR 280 million),
- 30 to 40 % of the total commitments invested in the Transport sector (TEN-T network),
- 25 to 35 % invested in the Energy sector,
- 35 to 45 % invested in the Renewables Energies sector.

The investment period ends in December 2016 (with a possible extension of two more years) while the end-date/maturity of the fund has been set at a maximum term of 20 years from the start of the initial closing (December 2009) but may be extended for up to two additional one-year periods (up to December 2031).

Implementation arrangements

The Commission directly manages its investment in the Marguerite Fund; there is no delegation or sub-delegation agreement to any entrusted entity. The cash contributions are paid directly by the EU hence no trust account is established. The Commission is a pari-passu investor alongside its co-investors, sharing equally with other co-investors both costs and returns.

The Investment Adviser "Marguerite Adviser S.A." employs the Advisory Team and provides investment advisory services to the Fund under an Advisory agreement. As such, it is responsible for the day-to-day management and on-going activity of the Fund. The Advisory Team is in charge of origination, due diligence (appraisal), structuring and execution of the investments as well as of monitoring and asset management.

Added value of the Union contribution

There is significant added value of the Union contribution to the Marguerite fund both directly and indirectly.

[182] (OJ L 162/1, 22.6.2007)

Directly, the Union contribution has enabled other equity providers to be attracted in to form a pool of equity aimed at projects with trans-European dimension and/or contributing to the delivery of the EU2020 objectives. This funding pool crowded in other sponsors' equity invested in ten projects as of December 2014 as well as crowding in debt investment from project finance banks. This funding is then made available for investment in TEN-T projects and other policy-driven projects and contributes to filling missing links, reducing fragmentation and creating positive spill-overs in the region in which each project is implemented.

Indirectly, the Union Contribution to the Fund delivered EU added value by creating synergies with other EU, national and regional policy objectives, internalising externalities and reducing coordination costs.

Concretely, the Marguerite Fund has demonstrated that six public financial institutions, along with the EU, can co-invest in an equity fund that operates on market terms and is considered as a credible investor by other players in the market. Furthermore, this cooperation between public financial institutions in launching a single pan-European fund reduces the likelihood of financial instrument duplication.

Also, this experience has increased the EC's in-house capacity to engage with direct investment in equity funds. Finally, the Fund's focus on investing in greenfield projects with a policy dimension has allowed it to close deals in less mature infrastructure markets, like those in Croatia, Poland and Romania. This paves the way for an increase of delivery of infrastructure projects via Project Finance structures in these regions.

(c) The financial institutions involved in implementation;

The Marguerite Fund was established as a Luxembourg SICAV-FIS structure in the legal form of a corporation (Société Anonyme). The management and administration of the Fund is under the responsibility of the Management Board, which is composed of one representative of each core sponsors, two representatives of the Advisory Team and three independent experts.

The core sponsors include public long term investors from France (CDC), Italy (CdP), Germany (KfW), Spain (ICO) and Poland (PKO) as well as the EIB and a key investor, the European Commission.

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 80 000 000
Aggregate budgetary payments as at 31/12/2014	EUR 31 320 000

(e) The performance of the financial instrument, including investments realised;

As of 31 December 2014 the Marguerite Fund has committed to invest in ten projects: three projects in TEN-T transport and seven in the renewable energy sector. This represents a total equity commitment by the Fund of EUR 295 million supporting a total project cost of EUR 4 922 million.[183]

[183] The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-

Out of the EUR 295 million, the Fund committed EUR 66,8 million of equity to the three TEN-T transport projects (23%). The Fund, is thus progressing towards the target of EUR 280 million equity investment to TEN-T projects (i.e. 3,5x the EUR 80 million committed by the EU) by the end of the investment period. The other EUR 228,2 million (77%) were committed to the seven projects in the renewable sector. The table below shows the detailed list of the projects.

Projects in fund portfolio (as at 31-12-2014), in EUR million[(1)]		
Project name (Country) – year	**Sector**	**Totals**
C-Power (Belgium) – 2011	Renewables	
Toul (France) – 2011	Renewables	
Massangis (France) – 2012	Renewables	
Aeolus (Poland) - 2012	Renewables	
Chirnogeni (Romania) – 2012	Renewables	
Autovia Arlanzon (A1) (Spain) - 2012	TEN-T	
Poznan Waste-to-Energy (Poland) – 2013	Renewables	
Butendiek (Germany)[(3)] - 2013	Renewables	
Zagreb Airport (Croatia) - 2013	TEN-T	
N17 – N18 motorway (Ireland) - 2014	TEN-T	
TOTAL EQUITY COMMITMENT[(2)]		**295**
TOTAL AMOUNT OF MOBILIZED FINANCE[(3)]		**4 922**

Source: *Services calculations based on fund reports as at 31-12-2014*

Notes:

(1) The EC has a 11,27% share in the fund

(2) Includes contingent equity commitment, from the fund i.e. representing 100% of the fund. Net of divestment of 1/3 stake to CDC Infrastructure that occurred in December 2013. (3) The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-plots of a larger project, the project total was estimated on the basis of the share of megawatts owned. For the projects still under construction, not all of the finance mobilized was invested as of 31-12-2014.

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plots of a larger project, the project total was estimated on the basis of the share of megawatts owned. For the projects still under construction, not all of the finance mobilized was invested as of 31-12-2014.

The ten projects in the portfolio are at various stages of development: some are already fully constructed and operating, some are under construction. In the course of 2014, the fund received distributions from several projects well in excess of EUR 10 million. This allowed the fund to cover its operating costs without drawing on investors' capital calls to fund them. However, no cash was distributed by the Fund to investors.

The Marguerite Fund has a strong pipeline of projects and is expected to close sign several new projects in 2015.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 80 million of commitment to a single financial intermediary, the Marguerite Fund (EUR 31,3 million paid into the Fund as at 31 December 2014)
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , and expected number of eligible final recipients;	Overall, the Fund is expected to invest in full the EUR 710 million into the equity of circa 20 to 30 projects (eligible final recipients). The total amount of finance mobilized across these 20 to 30 projects (Marguerite equity of 710 million, co-investor equity and debt) by the Marguerite equity investment is expected to represent some EUR 10 billion.
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 295 million of equity committed by the Fund to 10 projects (final recipients), which mobilized EUR 4,9 billion of finance in total (Marguerite equity, co-investor equity and debt). [184]
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 4 922 million of finance mobilized[185]

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable

(g) The balance of the fiduciary account;

Not applicable, there is no fiduciary account: the Commission makes direct payments to the Fund on the basis of Capital Calls issued by the Fund.

[184] The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-plots of a larger project, the project total was estimated on the basis of the share of megawatts owned. For the projects still under construction, not all of the finance mobilized was invested as of 31.12.2014.

[185] See detailed definition in the previous footnote

(h) Revenues and repayments (Art.140. 6);

In the case of the Marguerite Fund, the revenues and repayments consist on the distribution of dividends or redemption of shares (net distributable cash).

Article 20.1 of the Private Placement Memorandum establishing the fund specifies that the Net Distributable Cash will be distributed (either through the payment of dividends or through the redemption of Shares) to Investors pro rata as soon as possible in the reasonable discretion of the Board upon recommendation of the Investment Adviser after the relevant amount becomes available for distribution.

Up to 31/12/2014, no distribution has taken place.

(i) The value of equity investments, with respect to previous years;

Compared to the value for 31.12.2013 the Net Asset Value of the Commission investment in the fund has increased from EUR 29,4 million to EUR 36,6 million. Taking into consideration the increase in cumulated payments from EUR 28,5 million to EUR 31,3 million, this implies a change of the non-realized capital gain of the Commission from EUR 0,9 million to EUR 5,2 million representing an increase of EUR 4,4 million over the course of the year 2014.

In EUR	31/12/2013	31/12/2014
Cumulated payments by EC	28 520 000	31 320 000
Fair value (NAV) of EC stake	29 405 155	36 560 756
Non-realized capital gain (loss) of EC	**885 155**	**5 240 756**

Source of Net Asset Value: Quarterly report of the Marguerite Fund to 31 December 2014, p.7

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

No impairments have been registered since the establishment of the Fund in 2010. Unaudited data for 2014 show no impairments either

(k) The target leverage effect, and the achieved leverage effect;

- **<u>The target leverage effect</u>**:

No target leverage effect was indicated in the legal base. However, the Commission uses an estimated leverage of 125.

The leverage effect was estimated using the following method: total equity commitment provided by the Marguerite Fund is assumed to represent 7,1% of the amount of finance provided to projects (final recipients). The Commission contribution represents 11,27% of total equity commitment provided by the Marguerite Fund or in other terms 0,8% of the amount of finance mobilised by projects. This means that the leverage is 1/0,8% = 125.

Based on this leverage, it is estimated that the total amount of finance mobilised by the instrument (both equity and debt) at the project level (final recipient level) would be around EUR 10 billion across the three sectors (of which circa EUR 4 billion are expected to be allocated to TEN-T transport projects) for the entire duration of the programme compared to the Union contribution of EUR 80 million.

- **The achieved leverage effect**:

The achieved leverage effect as of 31-12-2014 can be assessed by comparing the amount of finance mobilized to that date (EUR 4 922 million) and the amount of EU budget contribution paid into the fund to that date (EUR 31,3 million). This gives a leverage of EU contribution as at 31-12-2014 of 157x.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The Marguerite Fund was set up by a core group of European public long term investors and the Commission with a view to financing the implementation of infrastructure projects in Member States in the transport, energy and renewable sectors. The Fund has a priority focus on providing risk capital for the transport, energy and renewable sectors and within the two former sectors targets investment in trans-European networks in transport and energy.

The Commission contribution of EUR 80 million was based on an assessment of market needs and available supply. The Commission contribution is to be utilised towards supporting investment in trans-European transport network projects (TEN-T projects). To this effect, the Fund shall endeavour to invest a total sum equivalent to three and a half times the European by the end of the investment period, ie assuming no extension of the investment period, by December 2016.[186]

As of 31-12-2014, the Fund has committed to invest in three TEN-T projects a total of EUR 66,8 million. As of today the Commission has paid in EUR 31,3 million. The fund commitment represents a multiple of 2,1x of the amounts paid by the Commission to the fund as of 31-12-2014. This is still shy of the 3,5x target established for the end of the investment period, however the fund is progressing in delivering its investment pipeline in the TEN-T transport sector.

As of 31-12-2014, the Fund has been successful in helping the EU to deliver the 2020 targets by a successful financing of seven renewable energy projects in five different Member States.This includes investment in an innovative PPP scheme for the waste-to-energy plant in Poznan, Poland; the Chirnogeni on-shore windfarm project in Romania and Butendiek which is one of the largest off-shore windfarms in the German North Sea.

The fund was equally successful in catalysing a transfer of knowledge in terms of financial structuring into new markets: the Poznan Waste-to-Energy project was the first Waste-to-Energy project in Poland to be structured as a Private Public Partnership (PPP) with the use of EU structural funds. In Romania, the Chirnogeni project was the first non-recourse project financed transaction in the on-shore wind renewable energy sector. Also, the Zagreb Airport transaction has sent an important signal that greenfield PPPs with traffic risk in Eastern Europe can be closed, and bring attractive market-returns. The transaction is considered a benchmark for PPP bankability in the region. Zagreb Airport also was the first PPP in the Western Balkans with debt financing contributed by the EIB. Market participants considered that the expertise of the Marguerite Advisor team was crucial in ensuring the deal’s workability as the first PPP to close under Croatia’s new concession law. Finally, the N17/N18 motorway deal closed in April 2014 signalled a revival in Irish PPP market.

[186] As per the placement memorandum, the investment period can be extended two times by one year, i.e. until December 2018 at the latest.

The Marguerite fund also serves as a role model for innovative financial instruments investing in European infrastructure projects. It is unique in bringing several European Development Banks together to finance a common pan-European investment vehicle. It is successful in attracting private funding (via co-investors and commercial bank lending) while demonstrating the business case behind these investments and creating a credible track record of EUR 295 million of equity commitment to ten projects representing EUR 4,9 billion of mobilized finance (equity and debt).

E - Other key points and issues

- **Three main issues for the implementation:**

  i) The December 2012 payment was subject to a Court of Auditors verification. In its findings, the Court stated that the Commission's participation in the Marguerite fund which invests across three sectors (TEN-T transport, renewable energy and Energy) violates the principle of *specification* as defined in the Financial Regulation[187]. The Commission considers that specification principle needs to be applied only at the end of the investment period and not on a payment-by-payment basis.
  From a risk management perspective a high level of diversification is usually preferred. This is especially true for portfolios which are diversified over different economic sectors (e.g. transport, energy, renewables) and is seen as a way to avoid concentration risk and sectoral correlation.
  ii) However, DG ECFIN has reflected the findings of the Court in the design of new financial instruments under the Multi-Annual Financial Framework 2014-2020. The experience from the Marguerite audit case allowed to preserve a maximum grade of diversification and stay at the same time in line with the principle of specification.
  iii) For the Marguerite fund, the decision was made to create a new bespoke fund with a relatively original structure. While this allowed to fully respect the requirements of the initial public sponsors in terms of investment guidelines, the fund was not successful in crowding-in private investors' commitments in the successive fundraising rounds. Other investment structures could be explored for future financial instruments with EU participation, such as a co-investment vehicle alongside a privately raised fund, investment in an existing fund, etc.
  iv) When the Marguerite fund was set up it was decided that a bespoke Fund Manager would be created to service it. This had the benefit of creating a new team on the market with a clear policy objective. By all measures the team is well respected in the market and performs well. However, the process took quite some time (which is normal when a new investment team is brought together). This timing issue could be avoided in the future when implementing new Commission participation to financial instruments by either attributing a mandate to manage the new vehicle by an existing Investment Manager or by investing (or co-investing) alongside an already existing structure.

- **Main risks identified:**

The Commission Decision has laid down clearly defined rules, terms and conditions as well as specific investment criteria in the Investment Guidelines to be followed by the Fund. The Investment Committee, as well as the Management and Supervisory boards closely monitor the compliance with these guidelines.

[187] Council Regulation (EC, Euratom) 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, now replaced by Regulation (EU) 966/2012

The Fund operates in full compliance with its Investment Guidelines and other governance and operational provisions.

- **General outlook:**

The Fund constantly develops a pipeline of investment opportunities across the three target sectors (TEN-T transport, renewable energy and energy). It is in close contact with market participants and actively seeks out new transactions.

In the near-term, the fund is expected to close its first transaction in the Energy sector in the Baltic region and is also pursuing other opportunities.

Other numerous opportunities are in the medium-to-long-term pipeline.

4.3. European Energy Efficiency Fund (EEEF)

A - Summary

Policy DG in charge:	DG ENER
Implementing DG in charge:	DG ENER
Operating Body in charge:	Deutsche Bank as Fund manager
Initial Overall Budget Envelope:	EUR 146 334 644,50
Current Overall Budget:	EUR 146 334 644,50

The Fund was established in 2011 with a global volume of EUR 265 million, more than double the direct EU contribution (EUR 125 million), in line with the objective of leveraging[188]. In addition a EUR 20 million technical assistance grant to support project development services was made available. The Fund provides tailored financing (both debt and equity instruments) in particular for energy efficiency projects but also for renewable energy and clean urban transport projects. Beneficiaries are local or regional public authorities or entities acting on their behalf.

The fund has an investment manager, Deutsche Bank, which undertakes the pre-selection and due diligence of the projects before the Management Board (in which the Commission seats) approves them. The Fund has also an Investment Committee and a Supervisory Board (in which the Commission holds 2 seats out of 3) to give general orientations and grant derogation from the investment guidelines.

The fund had allocated the full EU contribution by the end of the investment period (31 March 2014) providing innovative financing solutions to energy efficiency projects. The technical assistance support has proved to be also very useful to support public authorities in preparing their projects that will subsequently be financed by the Fund. As of December 31, 2014, EUR 185 million have been allocated to 12 projects which will generate some EUR 333 million of final investments. Until December 2014, EUR 216 million of final investments were already generated.

[188] In addition to the EU contribution, i.e. €125m in the form of junior tranches (first loss piece), the EIB invested € 75m, Cassa depositi e prestiti (CDP) € 60m and Deutsche Bank (DB) € 5m in more senior shares of the Fund.

For 2015, the project pipeline contains 6 projects with a total volume of EUR 243 million for which the envisaged EEE F share is EUR 92 million.

By now, the Fund has progressively established a solid track record of profitable investments (net profit registered from 2013) and is now actively looking for additional investors. It is also envisaged to further extend the scope of the Fund to SMEs/private sector beneficiaries once additional investors join in[189].

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EU) No 1233/2010 of the European Parliament and the Council of 15 December 2010 amending regulation (EC) No 663/2009 establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy[190]

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
On 1 July 2011, EUR 146,3 million from the European Energy Programme for Recovery (EEPR) were allocated to a new European Energy Efficiency Fund — EEEF (in the form of a specialised investment fund (SICAV). The EEEF invests in energy efficiency, renewable energy projects, and clean urban transport particularly in urban settings, achieving at least 20 % energy saving or GHG/CO2 emission reduction.

The beneficiaries must be public authorities or public or private entities acting on their behalf, including ESCOs[191].

The Fund was launched on 1st July 2011 with an initial volume of EUR 265 million: in addition to the EU contribution (EUR 125 million in junior 'C-shares'), the European Investment Bank (EIB) invested EUR 75 million (mainly senior 'A shares'), Cassa Depositi e Prestiti SpA (CDP) EUR 60 million (mainly senior 'A shares'); and the designated investment manager (Deutsche Bank) EUR 5 million (mezzanine 'B shares').

Finally, a EUR 1,3 million programme has been established to raise awareness of financing methods and options for EE and RE among national and regional authorities managing Cohesion/Structural funds. EPEC[192] manages this programme.

In accordance with the amending Regulation, the deadline for allocating EU funds to investment projects and Technical assistance (TA) was 31 March 2014. As of 31 December 2014, 12 projects were approved for EUR 185 million. Apart from this, there is no fixed deadline for proposals. The winding down of the instrument will take place probably after 2024.

[189] The deadline of 31 March 2014 was only applicable for the allocation of funds from the EU Contribution, not from other investors.
[190] (OJ L 346, 30.12.2010, p. 5)
[191] An energy service company (ESCO), via an energy performance contract (EPC), can enable a public authority to implement upfront investments (e.g. to upgrade the performance levels of public buildings or to install efficient street lighting) without taking the financial risk.
[192] The European PPP Expertise Centre (EPEC) is a joint initiative of the EIB, the European Commission and EU Member States and candidate countries. EPEC helps strengthen the capacity of its public sector members to enter into Public Private Partnership (PPP) transactions.

Implementation arrangements

Fund/Investment Manager

Deutsche Bank (DB) is responsible i.e. for selecting projects and conducting a due diligence process before submitting the projects to the Fund's Investment Committee for advice and to the Management Board for approval. DB also manages the TA component, submitting TA propositions to DG ENER for approval.

Investment Committee

The Investment Committee (IC) is responsible for assessing projects submitted to it by the fund manager and giving recommendations to the Management Board. Two EIB members and one member from CDP were appointed to the IC.

Management Board

The Management Board (MB) has broad powers to administrate and manage the Fund; it decides on the investments upon recommendation by the IC. However, it cannot decide on major issues (such as change of the statutes and documentation) without approval by the Supervisory Board (SB). It reports quarterly to the SB. It is composed of representatives from the European Commission (1), the EIB (1, the chair) and the CDP (1).

Supervisory Board

The supervisory board's main duties include a permanent supervision of the management of the Fund, giving strategic advice to the MB, proposing the annual Fund business plan for Shareholder approval, and approving changes in the investment guidelines etc. It is composed of representatives from the European Commission (2), the EIB (1) and the CDP (1).

Added value

The Fund offers a range of non-standard financial products such as senior and junior loans, guarantees, equity participation or forfeiting schemes which can be combined in a flexible way with standard finance. The Fund is also intended to attract further private and public investors (up to a total volume of EUR 700 million).

In addition, about EUR 20 million of the EU funding is available for technical assistance (in the form of grants) to help sponsors make projects bankable for the Fund.

Finally, a EUR 1,3 million programme has been established to raise awareness of financing methods and options for EE and RE among national and regional authorities managing Cohesion/Structural funds. EPEC[193] manages this programme.

(c) The financial institutions involved in implementation;

EIB was entrusted through a Delegation Agreement signed in March 2011 with the Commission to establish the Fund and manage the Union contribution.

Deutsche Bank has been appointed Investment Manager and was sub-delegated the Management of the Technical Assistance facility. CDP is a core investor in the instrument.

[193] The European PPP Expertise Centre (EPEC) is a joint initiative of the EIB, the European Commission and EU Member States and candidate countries. EPEC helps strengthen the capacity of its public sector members to enter into Public Private Partnership (PPP) transactions.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

in EUR	Fund	Technical Assistance	Total
Aggregate Budgetary Commitments	125 000 000	21 334 644,50	146 334 644,50

Aggregate budgetary payments as at 31/12/2014

in EUR	Fund	Technical Assistance	Total
Aggregate Budgetary Payments as at 31/12/2014	88 230 884,95	10 321 419,14	98 552 304,09

(e) The performance of the financial instrument, including investments realised[194];

The EEE F has successfully allocated the full Union contribution by the end of the investment period (31 March 2014) providing innovative financing solutions to energy efficiency projects. The technical assistance support has proved to be also very useful to support public authorities in preparing their projects that will subsequently be financed by the Fund. In total, EUR 185 million have been allocated to 12 projects which will generate some EUR 333 million of final investments[195].

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 125 million (committed to the EEEF) N/A
Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 265 million not yet determined
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 441 million (based on current investment ratio)

[194] EEEF Annual Report 2013 and Quarterly Reports for 2014 (www.eeef.eu)
[195] Out of these, the Fund has signed contracts with 9 projects for EUR 114 million, generating 216 million final investments.

Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 185 million (allocated amount) 12 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 216 million for 9 projects (signed)

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

EUR 26,8 million[196]

(h) Revenues and repayments (Art.140.6);

In line with the contractual arrangements, no revenues nor repayments are expected to be recovered by the Union budget before the closure of the instrument.

Additional information:
The fund has generated an income of EUR 6,1 million in 2014[197] which are distributed along the income waterfall in order to cover direct operating expenditures, distribute target dividends to A and B shares (Commission's C-shares are not entitled to target dividend) and fully replenish the Commission C shares to their original nominal value.

(i) The value of equity investments, with respect to previous years;

The nominal value of the equity investments of the Commission into the Fund is EUR 64,29 million as at 31 December 2014. It was EUR 23, 51 million as at 31 December 2013[198]. There is no difference between the issue price of the Commission's shares (C Shares) and their Net Asset Value (NAV), following the replenishment of the NAV Deficiency amount as of 31/12/2014.

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

NA.

[196] Two Trust accounts have been created but they are not fiduciary accounts as defined in the "Annex 5 Guidelines art. 140.8". The Fund Trust account is credited with the part of the EU contribution to be used for the Fund as well as interest earned and debited with the payments of EU Contribution to the Fund. Its balance on 31/12/2014 was EUR 24,9 million. The TA Trust Account is credited with the part of the EU Contribution to be used for the Technical assistance, interest earned, funds recovered from Technical Assistance and debited with payments of EU Contribution to eligible costs for Technical Assistance, external audit costs, funds to be returned to the Commission and the Technical assistance management fee. Its balance on 31/12/2014 was EUR 1,9 million.
[197] Source: 2014 Annual accounts.
[198] Source: 2014 Annual accounts.

(k) The target leverage effect, and the achieved leverage effect;

The achieved leverage (total size of the Fund/EU contribution) is 2,12. This is calculated as the ratio between the total amount of the EEEF (265 million EUR) and the EU contribution (125 million EUR).The target leverage effect is 5,6 (based on a contribution of EUR 125 million to the fund and expected fund volume up to EUR 700 million) over the lifetime of the financial instrument.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The first objective of the Amending Regulation was to establish a specialised investment Fund to reallocate the EEPR uncommitted appropriations leveraging additional contributions. This has been achieved in 2011 with the support of the European Investment Bank to which the establishment of the Fund and the management of the EU contribution were delegated.

The second objective of the EEE-F was to facilitate the financing of energy efficiency investments (portfolio target of 70%), renewable energy (20%) and clean urban transport (10%). The Fund thus mostly concentrates on alleviating specific financial and non-financial barriers to energy efficiency such as high transaction costs, fragmented and small investments, limited access to credit, complex deal structuring, and low confidence of investors and lack of capacity of project promoters. In order to do so, the Fund supports the development of a credible energy efficiency market through the provision of non-standard project finance and dedicated financial products (both debt & equity) supporting in particular the development of Energy Performance Contracting. The portfolio of the Fund currently consists of 67% senior debt, 22% subordinated debt and 11% equity[199]. 78% of the financing has been provided directly to beneficiaries, while 22% has been provided through a financial intermediary.

To tackle the lack of financing and the risk aversion of investors, the EEE-F was established as a layered investment Fund, with three classes of shares. The European Commission invested in junior C shares, absorbing the first losses and taking most of the risk to attract additional investors, including private ones.

The EEE- F also serves as a role model for innovative financial instruments investing in cost-effective and mature sustainable energy projects (with payback periods of up to 20 years) that can attract private capital while demonstrating the business case behind these investments and creating a credible track record. For instance, as of December 2014, the Fund's financing of EUR 114 million has allowed the mobilisation of an additional EUR 102 million on Energy efficiency, Renewable Energies and Clean urban transport projects, thereby generating EUR 216 million of total investments.

E - Other key points and issues

- **Three main issues for the implementation:**

Experience with the EEE-F is very useful to understand the dynamics of the energy efficiency:

[199] The total value (EUR 12,4 million) of the two projects which have an equity investment component has been taken into account.

1) Financing instruments for sustainable energy need to be flexible, reflecting local market needs;

2) The gap in capacity to develop and finance energy efficiency investments can be effectively tackled by the provision of project development assistance, which would enable the creation of a verified track record of the impacts of energy efficiency investments, building the sector's credibility and investor confidence;

3) EU-level instruments should address common barriers, market failures and impacts of the financial crisis, while complementing national or regional schemes in place, avoiding duplication and avoiding crowding out private investments.

- **Main risks identified:**
  - In line with the requirements of the amending regulation (EU 1233/2010), the Commission has laid down clearly defined rules, terms and conditions as well as specific investment criteria in the Investment Guidelines to be followed by the Fund Manager and closely monitored by the governing boards.
  - Significant changes to the founding documents of the fund, the Issue Document and Articles of Incorporation need to be approved by all core investors, so that the Commission cannot be overruled.
  - In addition, the Investment Guidelines of the EEE F may only be amended by resolution of the Management Board and the Supervisory Board. In the Supervisory Board, the Commission has two of four members, including the Chairperson who has a casting vote in case of a tied vote.
  - From an operational perspective, governing boards hold meetings frequently to exert regular control on the fund's investment manager and its operations.
  - It is essential to stress that the investment manager is charged to comply with requirements, in particular procurement rules, and that the fund put in place its own "risk management function" and a "conflict of interest policy".
  - As regards performance, the Investment Manager's fees are calculated on disbursed amount[200] and against key performance indicators to allow for an alignment of interests.

- **General outlook:**

For 2015, the project pipeline contains 6 projects with a total volume of EUR 243 million for which the envisaged EEE F share is EUR 92 million.

By now, the Fund has progressively established a solid track record of profitable investments (net profit registered from 2013) and is now actively looking for additional senior investors to leverage further the Union contribution.

[200] The Investment management fee is calculated as a percentage of the average total outstanding amount of performing investments in Partner Institutions and Investments in Partner Institutions under active restructuring and/or collection within the quarter.

5. Financial Instruments in the Enlargement Countries

5.1. Guarantee Facility under the Western Balkans Enterprise Development and Innovation Facility

A - Summary

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund
Initial Overall Budget Envelope:	EUR 21,9 million
Current Overall Budget:	EUR 21,9 million

The WB EDIF Guarantee Facility guarantees SME loan portfolios issued by commercial banks for new SME lending. It will, therefore, improve SME access to lending and potentially lower the cost of borrowing in the Western Balkans, where access to loan finance remains one of the biggest difficulties for SMEs.
The Facility is implemented under indirect management, with the implementation tasks entrusted to the EIF. The budget for the instrument amounts to EUR 21,9 million (of which EUR 1,9 million is a provision for fees to the EIF as the Manager and EUR 20 million is the guarantee capital).
The financial intermediaries have been selected through an open call for expression of interest published in 2013 and the entire amount of the capital had been allocated to guarantees in the course of 2014, of which the last agreement was pending signature at the end of 2014. Following the signature of this last agreement, the leverage effect of the Facility is expected to increase from 4,5 to around 5,5, which means that the budget of EUR 21,9 million will mobilise some EUR 120 million of new loans.
The Guarantee Facility presents a significant scale-up potential and will be replenished by EUR 17,5 million in 2015. The provision of regulatory capital relief in 2014 should also further boost the potential of the Facility in pooling sufficient number of qualified applicants and the selection of the most suitable for the deployment of the instrument.

B - Description

(a) Identification of the financial instrument and the basic act;

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

The Financial Instrument of the European Union for the Guarantee Facility contributes to achieving the objectives of enhancing socio-economic growth of the Western Balkans.

Its major objectives are the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument guarantees SME loan portfolios issued by commercial banks for new SME lending. This will entail improving SME access to lending and potentially lowering the cost of borrowing.

Under the instrument, guarantees of first loss of new loans to targeted SMEs with a guarantee rate of up to 70 % and a guarantee cap of up to 25 % in the overall loan portfolio can be used. Exact guarantee rate and cap is being determined on a case-by-case basis.

The instrument started in 2013 and guarantees loans with maturity until 2023. The geographical coverage is the Western Balkans in line with the Common Implementing Regulation.

Implementation Arrangements
The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation (through a Fiduciary and Management Agreement). Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF).

Added value
Under the respective guarantee agreements, the intermediary banks, commit to a range of benefits to be transmitted to the final beneficiaries, which is determined on a case-by-case basis. These include: lower interest rates, lower collateral requirements or longer loan maturities. Under the EU guarantee, a new SME loan portfolio is to be created reaching out to those companies that would otherwise not be served by the intermediary.

(c) The financial institutions involved in implementation;

The Facility is implemented under indirect management, with the implementation tasks entrusted to the EIF. The financial intermediaries selected through an open call for expression of interest in 2013, with whom guarantee agreements had been signed until end-2014 include (figures in million EUR):

WB Beneficiary Economy	Financial Intermediary	Loan volume supported	Guaranteed Portfolio	Guarantee Cap
Bosnia & Herzegovina	Procredit	20	14	3.3
Kosovo	Procredit	20	14	3.2
Albania	Procredit	20	14	3.5
Serbia	Unicredit	30	21	5.3
Montenegro	CKB	7.9	5.5	1.4
Total		97.9	68.5	16.7

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 21 900 000
Aggregate budgetary payments as at 31/12/2014	EUR 21 900 000

(e) The performance of the financial instrument, including investments realised;

The first three operational agreements with the banks were signed in December 2013. Two further agreements were subsequently signed in 2014 with UniCredit Serbia (in August) and CKB Montenegro (September). In total, they will make EUR 98 million available to SMEs in these countries, allowing them to benefit from reduced collateral requirements for new loans for investment and/or working capital.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 97 900 000 N/A
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 32 460 000 532 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	N/A

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	7 553 435
Term deposits/Bonds (if applicable)	13 015 331
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 month < 1 year (current assets)	*13 015 331*
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	
= Total assets	**20 568 766**

(h) Revenues and repayments;

NA

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments and on called guarantees for guarantee instruments;

NA

(k) The target leverage effect, and the achieved leverage effect;

The financial envelope of EUR 21,9 million is estimated to leverage a total investment of around 120 million once the EU guarantee is fully allocated, implying the leverage factor of 5,5. So far, the achieved leverage as at 31/12/2014 is 1,5 (amount of financing of EUR 32,46 million provided so far to final recipients, supported by EUR 21,9 million of Union contribution).

The expected leverage based on signed agreements with financial intermediaries is 4,5 (EUR 97,9 million expected to be provided, supported by 21,9 million of Union contribution).

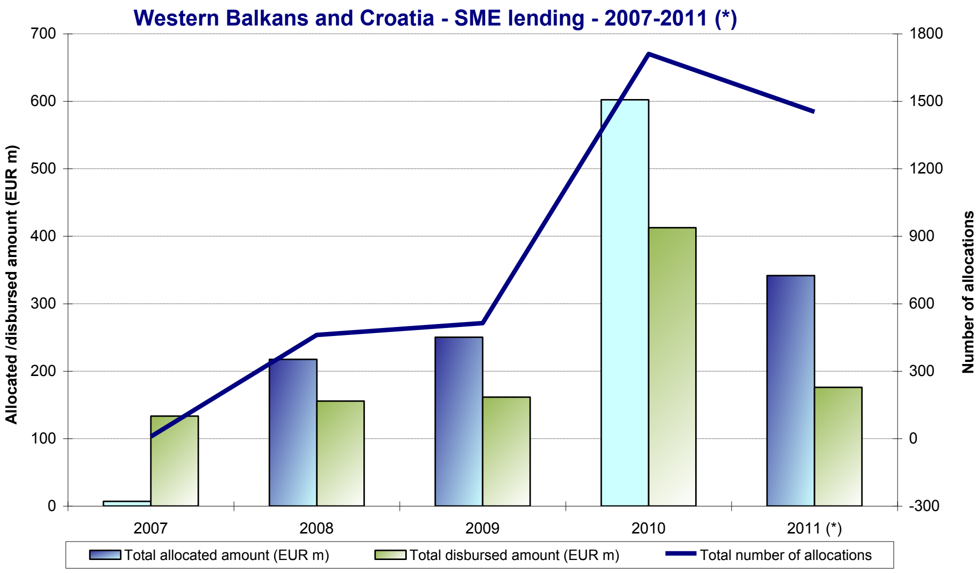
D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

Access to loan finance remains one of the biggest difficulties for SMEs in the Western Balkans, in spite of SMEs becoming the most efficient segment of their transition economies and a pillar for growth and employment. This is borne out by high interest rates and high collateral requirements.

Additionally, access to bank financing for SMEs in their early stage is almost impossible due to the lack of financial history of the SMEs.

In recent years access to finance of Western Balkans SMEs has increased a lot, in particular thanks to the rapid development of EIB SME loans:



	2007	2008	2009	2010	2011 (*)	Σ 2007-2011
Total number of allocations	9	461	514	1711	1453	4148
Total allocated amount (EUR m)	7	217	250	602	342	1418
Total disbursed amount (EUR m)	133	156	162	413	176	1039

(*) As of 15.09.2011

However, there is a segment of the SME market, made of start-up, newly established enterprises or in general SMEs that do not have the appropriate financial history or are lacking sufficient level of collaterals and thus fall outside the current credit criteria of the commercial banks. The GF instrument is targeting this market segment in priority.

The benefits from the GF could take a number of forms and thus respond to the key constraints in each beneficiary. However, all of the benefits will improve the investment climate by:

- reducing collateral requirements;
- creating lower cost of borrowing for SMEs;
- resulting in longer loan maturities.

In the case of innovative companies, the availability of public sector supported guarantees is usually a precondition for access to credit. Thus the GF is looking to bolster lending into start-up firms in the medium term.

By the end of 2014, the banks have already provided to SMEs one third of the intended portfolio volumes under the Guarantee Facility, i.e. EUR 32 460 000 out of EUR 97 900 000, showing a balanced take-up across the countries. In total, 532 SMEs where served in a wide array of sectors, with the average loan maturity between 2 and 3 years and the average loan size of close to EUR 60 000.

GF is managed by the European Investment Fund (EIF). ElF is the European Union body specialised in SME risk financing and is member of the EIB Group[201].

E - <u>Other key points and issues</u>

- **Main issues for implementation:**
  - **Provision of regulatory capital relief:**
    The provision of regulatory capital relief under the Guarantee Agreements has been identified as a pivotal characteristic and its importance in the pooling of a sufficient number of qualified applicants and the selection of the most suitable ones for the deployment of the instrument cannot be overemphasised. What is more, in individual cases of Intermediaries that have been pre-selected and entered legal negotiations with EIF, it has been presented as sine qua non condition for the conclusion of negotiations with the signature of a Guarantee Agreement if the benefit transferred to the SMEs includes pricing reduction. This should be viewed in the context of the implementation of the Third Basel Accord that strengthens bank capital requirements. Against this background, in 2014, DG Enlargement consented to the granting of the regulatory capital relief to the intermediaries under the Guarantee Facility. This was done on the basis of the provisions of the Fiduciary and Management Agreement that stipulates that “in order to further the objective of the Action, Guarantees should aim to provide regulatory capital relief for Intermediaries”.
  - **Increase of budgetary allocation:**
    The budgetary allocation of EUR 20 million has been fully committed to operations by the end of 2014 (with one deal pending signature till 1Q 2015). Under the current call for expression of interest, the aggregate amount under the applications received exceeded the budget available. It should also be noted that even under the signed operational agreements, the allocated budget per intermediary is less than the one requested by the intermediary, thus, leading to the deployment of portfolios of lower volume. The build-up of the loan portfolio of EUR 120 million should be seen in the broader framework of more than 300 thousand SMEs of the region that contributed approximately EUR 22 billion to the GDP of the Western Balkan Beneficiary

[201] As Europe's leading developer of risk financing for entrepreneurship and innovation, ElF delivers a wide spectrum of SME financing solutions through selected intermediaries. By sharing the risk in SME development, ElF promotes the implementation of EU policies, particularly in the field of entrepreneurship, technology, innovation and regional development.

Economies in 2012. Hence, the multi-country IPA 2014 allocated a further EUR 17,5 million to the instrument.

- **Main risks identified:**
  Contractual and process compliance is ensured through continuous reporting and monitoring after the signature of the operational agreements in accordance with the EIF internal procedures.In order to encourage utilisation, a commitment fee will be charged if not at least a contractually set percentage of the Agreed Portfolio Volume (the maximum loan portfolio volume that should be supported) is reached. Furthermore, a trigger event shall occur if halfway through the availability period the committed amount of loans in the portfolio is less than a contractually set percentage of the Agreed Portfolio Volume – in such a case, EIF may forbid the inclusion of more loans in the portfolio.

- **General outlook:**
  The current call for expression of interest expired on 30 June 2014. As indicated in the call, EIF may, at its sole discretion, determine that the deadline will end on an earlier date or will be extended, depending, inter alia, on the availability of the budgetary resources for the West-Balkans EDIF Guarantee Facility. EIF has received nine applications (more than one for some of the WB Beneficiary Economies) and two expressions of interest. On this basis the 2014 Multi-country Programme IPA allocation was made and is to be contracted in 2015 with an intention to serve the existing pipeline. Utilisation of this and further replenishments will however depend on the rules which will ensure compliance with the legal framework in place, taking into account the transition from the old and to the new Financial Regulation, and which remain to be decided.

5.2. Enterprise Expansion Fund (ENEF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)

A - Summary

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 11,0 million
Current Overall Budget:	EUR 11,0 million

ENEF will target SMEs with high growth potential located in the Western Balkan countries, with the objective of achieving long-term capital growth. The strategy envisaged for ENEF will be a continuation of the one successfully developed by EBRD with the existing LEF facility throughout the region.

•Sector: Generalist – investing in all eligible economic sectors
•Stage: Expansion and development capital. The team will adopt a hands-on approach to foster the implementation of best market practices as promoted by EBRD and EIF.
•Geographical focus: Western Balkan countries (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Kosovo [202]).
•Capital deployment: ENEF will provide equity and quasi-equity as well as convertible bonds to encourage the expansion of high growth SMEs in the Western Balkans and will create an investment portfolio with a target capital of EUR 55 million (EUR 38,5 million initial), associated with an EBRD EUR 55 million co-financing facility from the Local Enterprise Facility (LEF)[203]. Portfolio is envisaged comprising a group of app. 15-20 companies with deals approximately ranging from EUR 1-8 million with a total amount of EUR 110 million.

B - <u>Description</u>

(a) Identification of the financial instrument and the basic act;

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

The Financial Instrument of the European Union for the Enterprise Expansion Fund (ENEF) contributes to achieving the objectives of enhancing socio-economic growth of the Western Balkans.Its major objectives are the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument will finance development and expansion capital in established SMEs with high-growth potential in their respective markets through equity participation. Under the instrument, equity and quasi-equity investment can be used.

Implementation arrangements
The Commission is implementing the instrument under indirect management in accordance with Article 139 of the Financial Regulation. Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF). The instrument is implemented under indirect management with the implementation tasks entrusted to the EIF. ENEF Management: the European Bank for Reconstruction and Development (EBRD) is the Investment Advisor responsible for origination, structuring, executing and monitoring investments. An Independent Investment committee decides on investment and divestment proposals. The fund is supervised by the Board of Directors, comprised of EIF, EBRD and DEG.[204] EBRD manages ENEF through its offices in each beneficiary country.ENEF was formally

[202] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.
[203] EBRD developed the Local Enterprise Facility (LEF) in order to provide various financing instruments such as debt, quasi-equity and equity financing to small and medium-sized enterprises (SMEs) in the Western Balkans. So far, the LEF has reached a portfolio of EUR 165m invested in 70 deals. Expansion, restructuring or acquisitions of existing private businesses (both locally or internationally controlled) are all eligible investments according to the LEF.
[204] *Deutsche Investitions- und Entwicklungsgesellschaft*

incorporated under Luxembourgish Law on 14th of February 2014 and in the course of the year concentrated on deal origination. The investments under the instrument will start in 2015. Following an investment period of maximum 5 years, its portfolio will be wound up in a subsequent period of maximum 5 years (duration until 2025). The geographical coverage will be the Western Balkans in line with the Common Implementing Regulation.

EU added value
At the level of the finance-pooling, ENEF will add value through attracting private sector investors to what is perceived as a risky and complex SME market (the Western Balkans) with small, fragmented economies. Furthermore, building on the EBRD experience, ENEF will diversify sources of financing for the high-potential companies, enabling growth and employment creating investments.

(c) The financial institutions involved in implementation;

- EIF – acting as a trustee on behalf of DG NEAR's contribution and investor in ENEF
- EBRD – Investment Adviser of ENEF as well as its investor
- The DEG – Investor in ENEF

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 11 000 000
Aggregate budgetary payments as at 31/12/2014	EUR 10 400 000

Additional Information:
Out of the EUR 11,0 million in the financial envelope envisaged for the instrument, EUR 1,1 million is a provision for fees to the EIF as the Trustee for the Commission, EUR 0,4 million is a provision for technical assistance and EUR 9,5 million is the equity. EUR 10,4 million was paid out to the EIF in its function as a trustee in December 2012.

(e) The performance of the financial instrument, including investments realised;

The investments under the instrument had not started in 2014 but EBRD had built up a pipeline of deals which were undergoing due diligence as at 31/12/2014.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 9 500 000 1 FI
Amount of financing expected to be provided by financial intermediaries to eligible final recipients, and expected number of eligible final recipients;	EUR 77 000 000 10-14
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	No financing was provided in 2014, due diligence was done however allowing the first investments in the first half of 2015, of the approximate value of EUR 15 million to 3 companies in 3 different countries.
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	N/A

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable

(g) The balance of the fiduciary account;

<u>**For Equity Instruments**</u>	**(*in EUR*)**
Balance on the fiduciary account (current account)	4 528 019
Term deposits/Bonds (if applicable)	5 418 718
Term deposits < 3 months	
Term deposits > 3 month < 1 year	*5 418 718*
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[205]	24 004
***Other assets* (if applicable)**	
= Total assets	**9 970 741**

(h) Revenues and repayments;

Not applicable

(i) The value of equity investments, with respect to previous years;

The first equity investment in ENEF by EIF on behalf of the Commission of EUR 74 766 was made in 2014 with NAV at 31.12.2014 of EUR 24 004.

(j) The accumulated figures on impairments / on called guarantees for guarantee instruments;

Not applicable

(k) The target leverage effect, and the achieved leverage effect;

The financial envelope of EUR 11,0 million shall leverage a total investment by other investors in ENEF targeting an amount of EUR 110 million approximately of finance to SMEs with initial fund size of EUR 38,5 million. Given the association of ENEF, of which the target fund size is EUR 55 million, to EBRD's co-financing facility (Local Enterprise Facility) which will always match ENEF investment at a ratio of 1:1, the target leverage factor is 10. The achieved leverage as at end 2014, given the initial fund size, is 7 (initial fund size of EUR 38,5 million matched by the EBRD, divided by the Union contribution of EUR 11 million).

[205] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

There is a growing demand in the markets of the Western Balkans for tailor-made financing (complementary to local banks) to finance expansion capital of local SMEs. The market in the WB has been unable to provide successful experiences with (quasi) equity funds at regional level likely because of: (i) perceived risks, (ii) cost associated to a regional operation in 7-8 countries, and (iii) lack of fund managers with proven track record in the region.

The Enterprise Expansion Fund will provide equity and quasi-equity as well as convertible bonds to encourage the expansion of high growth SMEs in the Western Balkans and will create an investment portfolio with a target capital of EUR 55 million (EUR 38,5 million initial), associated with an EBRD EUR 55 million co-financing facility from the Local Enterprise Facility (LEF)[206]. Portfolio is envisaged comprising a group of app. 15-20 companies with deals approximately ranging from EUR 1-8 million with a total amount of EUR 110 million, but with the possibility to finance marginally smaller or larger deals, depending on market needs and financing gaps, and provided that deals are in line with ENEF strategic and operational objectives.

E - Other key points and issues

- **Three main issues for the implementation:**
  - **Quality Deal flow:** The sufficient deal flow of potential investees is necessary to allow ENEF to invest in viable companies with high growth prospects within the defined Investment Period. Traditionally the economies in the WB region are characterised by companies that are less innovative with low value added products which naturally makes it more difficult to identify viable investee companies.
  - **Lack of knowledge / access to alternative funding instruments in the target region:** The predominant reliance of entrepreneurs on traditional banking products is an inherent characteristic of certain economies. Such reliance, however, makes entrepreneurs less used and willing to consider alternatives to traditional funding such as equity funds considering them as "too complicated". Therefore it could be expected to take more time from deal identification to deal closure in the region than in more developed economies.
  - **Lack of exit routes:** Due to the characteristics explained above and the remote interest of equity funds in the WB region, it will be substantially more difficult to realise exits than in other economies. Thus it is considered more appropriate to use quasi-equity instruments which naturally pre-empt an exit route in their structure. Another consideration with a view of future instruments, is that they could act as a catalyst and attract the attention of regional and pan-European equity players to the WB region by co-investing with them on a deal-by-deal basis while providing certain incentives for the participating investors. The latter could be used to efficiently address both, the shortage of private capital and the

[206] EBRD developed the Local Enterprise Facility (LEF) in order to provide various financing instruments such as debt, quasi-equity and equity financing to small and medium-sized enterprises (SMEs) in the Western Balkans. So far, the LEF has reached a portfolio of EUR 165m invested in 70 deals. Expansion, restructuring or acquisitions of existing private businesses (both locally or internationally controlled) are all eligible investments according to the LEF.

difficulties of realising exits due to lack of critical mass of follow-on equity investors.

- **Main risks identified:**
  - **Fund Management expertise:** The local expertise in structuring and managing equity funds is largely underdeveloped in the WB Region leading to a very compressed group of individuals that can adequately make and subsequently manage venture capital investments. In order to address such a shortfall, involvement of specialised investors (International Finance Institutions) is sought to ensure a responsible lay-out and implementation of best industry practices in fund management and selection of the right combination of experts and skill sets for management of such instruments. In the case of ENEF, EBRD has been selected as Investment Adviser responsible for sourcing and structuring deals which are approved by an independent Investment Committee. The overall control and ultimate responsibility of ENEF rests within its Board of Directors comprising the representatives of EIF, DEG and EBRD.
- **General outlook:**
  - Following the 1st closing of ENEF, EBRD as Investment Adviser has been actively involved in pipeline building and a number of deals had undergone due diligence in the course of 2014. This has however not led to investments in 2014; first investments being expected in early 2015.

5.3. Enterprise Innovation Fund (ENIF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)

A - Summary

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 21,2 million
Current Overall Budget:	EUR 21,2 million

ENIF will benefit SMEs in the region through attracting private sector investors to what is perceived as a risky and complex SME market (the Western Balkans) with small, fragmented economies. Furthermore, ENIF will diversify sources of financing for the innovative companies, enabling growth and employment creating investments.

ENIF is particularly innovative in that it is to finance the riskiest segments of the SME population, innovative SMEs and start-ups/early stage development, typically of interest to venture capital investors, who have so far avoided the region. Hence, ENIF will also serve as a market test for the venture capital investment potential in the region.

ENIF expects to create an investment portfolio comprising a group of app. 20 to 50 innovative companies (depending on its final closing) at various stages of business development, from start-up to early expansion. ENIF will provide equity and quasi-equity funding to SMEs.

A diversified portfolio of around 20-25 companies from the entire Western Balkans geography, should be built with an average investment per company in the range of EUR 1 – 1,5 million (provided in several tranches). At the same time, an amount of EUR 1,5 million within ENIF is to be invested exclusively in 25-30 companies in pre-seed and seed companies across the entire Western Balkans Region.

ENIF will target innovative SMEs in all technology sectors with potential for high growth. In addition, the Fund envisages paying special attention to the ICT sectors (software, telecom, consumer electronics, mobile technologies, Internet and media) due to their high innovation potential in the Western Balkans Region. The generalist approach of the ENIF Manager in terms of stage and sectors is in line with the Western Balkans entrepreneurial market that is still too immature to allow for a more focussed strategy. At the same time, due to the practically inexistent competition on this market, the Fund should manage to benefit from the first mover advantage and attract the best opportunities early on.

B - <u>Description</u>

(a) Identification of the financial instrument and the basic act;

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

The Financial Instrument of the European Union for the Enterprise Innovation Fund (ENIF) contributes to achieving the objectives of enhancing socio-economic growth of the Western Balkans. Its major objectives are the creation of preconditions for the emergence and growth of **early stage innovative companies** through equity investments. The instrument will finance early to development and, possibly, up to early expansion stage capital in innovative SMEs. Under the instrument, equity and quasi-equity investment can be used.

Implementation Arrangements
The Commission will implement the instrument under indirect management in accordance with Article 139 of the Financial Regulation. Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF). The instrument will be implemented under indirect management, with the implementation tasks entrusted to the EIF.

Investments under the instrument will start in 2015. Following an investment period of maximum 5 years, its portfolio will be wound up in a subsequent period of maximum 5 years (up to 2025). The geographical coverage will be the Western Balkans in line with the Common Implementing Regulation.

Funds must be committed by all stakeholders at outset and will be drawn down over years. Reflows of funds will be either distributed to investors or, reused.

ENIF management: Given the expertise needed to manage such a fund, an international Call of Expression of Interest was published and an appropriate manager was selected by the European Investment Fund in the end of 2013. Since local knowledge and contacts are important elements of the viability of the fund, the fund manager will be required to demonstrate its ability to ensure full regional coverage. Individual investment and divestment decisions are to be taken by the fund manager on commercial grounds following industry's practice of the arm's length approach under which the investors in the fund are not responsible for taking investment / divestment decisions.

Following the appointment of the Fund Manager, EIF has concentrated on completing the commercial and legal negotiations whilst supporting the Fund Manager in selecting the most suitable legal jurisdiction to incorporate the Fund. The EDIF Platform Advisory Group has decided to domicile ENIF in the Netherlands with the expected launch of the instrument in the first half of 2015.The ENIF incorporation should consequently be expected in 2015 in the Netherlands.

EU added value

At the level of the finance-pooling, ENIF will add value through attracting private sector investors to what is perceived as a risky and complex SME market (the Western Balkans) with small, fragmented economies. Furthermore, ENIF will diversify sources of financing for the innovative companies, enabling growth and employment creating investments. ENIF is particularly innovative in that it is to finance the riskiest segments of the SME population, innovative SMEs and start-ups/early stage development, typically of interest to venture capital investors, who have so far avoided the region. Hence, ENIF will also serve as a market test for the venture capital investment potential in the region.

(c) The financial institutions involved in implementation;

- EIF – acting as a trustee on behalf of DG NEAR's contribution and investor in ENIF
- EBRD – Investor in ENIF
- KfW – Investor in ENIF

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 21 200 000
Aggregate budgetary payments as at 31/12/2014	EUR 21 200 000

Additional Information:

Out of the EUR 21,2 million financial envelope envisaged for the instrument, EUR 0,9 million is a provision for fees to the EIF as the Trustee for the Commission, EUR 6,2 million is a provision for technical assistance and EUR 14,1 million is earmarked for the equity investments.

(e) The performance of the financial instrument, including investments realised;

ENIF is expected to be incorporated[207] in 2015. The instrument has not started as at 31/12/2014. The EDIF Platform Advisory Group has decided to domicile ENIF in the Netherlands with the expected launch of the instrument in the first half of 2015.

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable

[207] Legally established

(g) The balance of the fiduciary account;

<u>For Equity Instruments</u>	(*in EUR*)
Balance on the fiduciary account (current account)	4 034 260
Term deposits/Bonds (if applicable)	17 221 263
Term deposits < 3 months	
Term deposits > 3 month < 1 year	*17 221 263*
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[208]	
***Other assets* (if applicable)**	
= Total assets	**21 255 523**

(h) Revenues and repayments;

Not applicable

(i) The value of equity investments, with respect to previous years;

Not applicable

(j) The accumulated figures on impairments / on called guarantees for guarantee instruments;

Not applicable

(k) The target leverage effect, and the achieved leverage effect;

The financial envelope of EUR 21,2 million shall leverage a total investment of approximately EUR 40 million (equalling a total fund size), implying the target leverage factor of 2.

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

In the Western Balkans, venture capital is either absent or its availability is very limited. The Market Assessment prepared by EIF and Venturexchange Ltd in November 2010 finds that venture capital market is in an embryonic stage in terms of number of fund managers as well as experience and best market practices. The Assessment indicates a market gap of app. EUR 20million per year as well as necessity of further reforms designed to create an enabling environment and supporting ecosystem for equity financing.

Currently, only small financial allocations have been made into equity investment instruments. They are mainly made available by IFIs for specific sectors in a sporadic manner

[208] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) ‘the value of equity investments’.

and without them, most companies in the Western Balkans will continue to face difficulties in accessing finance needed to develop and market their innovative products. Companies in the seed stage find themselves in even more difficult situation as no structured means of access to finance are available thus either discouraging entrepreneurship or making innovative entrepreneurs relocating to more developed markets in order to seek finance and mentorship.

At the same time, R&D expenditure is low thus preventing the expansion of the R&D base and the technology transfer record is poor and closing the door for applying different scientific solutions in industry. According to the 2010-2011 World Economic Forum Global Competitiveness Index, the Western Balkans, with the exception of Montenegro, performed poorly in the field of innovation and the availability of venture capital, despite the relatively good quality of scientific research institutions and progress in the economy.

As a result, innovative SMEs are not sufficiently stimulated and supported to commercially-exploit research excellence. This feeds into the wider picture where the private sector alone finds it difficult to build an economy based on expertise and knowledge. Furthermore, the global economic crisis has particularly hit innovative companies. It is more difficult for innovative businesses to reduce their cost base whilst maintaining their research and development activities. Innovative and R&D focused SMEs are, by definition, highly specialised, and often have a weaker financial structure and as a result a lower or no credit rating. This means that they are usually considered high risk and more vulnerable to market turbulence. Equity investment instruments can address these shortcomings to some extent and at least set the basis for further development of those companies.

The Enterprise Innovation Fund expects to create an investment portfolio comprising a group of app. 20 to 50 innovative companies (depending on its final closing) at various stages of business development, from start-up up to early expansion. ENIF will provide equity and quasi-equity funding to SMEs.

A diversified portfolio of around 20-25 companies from the entire Western Balkans geography, should be built with an average investment per company in the range of EUR 1 – 1,5 million (provided in several tranches), targeting a stake at entry of ca. 30%. At the same time, an amount of EUR 1,5 million within ENIF is to be invested exclusively in 25-30 companies in pre-seed and seed companies ("Seed Pocket"[209]) across the entire Western Balkans Region. Together with the Seed Pocket, the total number of companies to be supported through ENIF at minimum fund size is expected to be 45-55.

E - <u>Other key points and issues</u>

- **The three main critical issues for the implementation:**
  - **Insufficient Deal flow:** The sufficient deal flow of potential investees is necessary to allow ENIF to invest in innovative and viable companies with high growth prospects within the defined Investment Period. Traditionally, the economies in the Western Balkans region are characterised by companies that are less innovative with low value add products which naturally makes it more difficult to identify viable investee companies which is even more applicable to companies in seed / start-up phase. To partially address such a problem and ensure building sufficient and quality deal flow to the Fund, it has been envisaged to allocate exclusively EUR 1,5 million under ENIF to be invested in up to 30 pre-seed/seed companies. The latter should be used to test the pre-seed / seed market in the Western Balkans Region with a view of designing and implementing a dedicated facility in the future;

[209] Seed Pocket will fund seed capital, i.e. the initial capital used to start a business.

- **Anchor investor participation**: Fundraising for venture capital has been extremely difficult in Europe following the crisis with 2010 and 2011 seeing the bottom of investor participation in such asset class. The situation in the Western Balkans Region is even more difficult stemming from the underdeveloped market, insufficient deal flow and lack of fund management expertise and track record on the market. Against this background, participation of an anchor investor (such as International Finance Institution) is a catalyst of other private capital by ensuring expertise and implementation of best industry practice. This is the approach taken by ENIF to attract private capital and achieve leverage;
- **Lack of other venture capital investors** to make follow-on / co-investments: Generally, venture capital investors seek the participation of other such investors (syndication) in follow-on rounds as a company develops more and requires further capital injections and expertise. Due to the characteristics explained above and the remote interest of equity funds to the Western Balkans region, it will be substantially more difficult to attract follow-on investors that are normal for venture capital funds, than in more developed markets. To address this problem future instruments could be contemplated to act a catalyst and attract the attention of regional and pan-European equity players to the Western Balkans region by co-investing with them on a deal-by-deal basis while providing certain incentives for the participating investors. The latter could be used to efficiently address both the shortage of private capital and the difficulties of co-investing stemming lack of sufficient and sizeable follow-on venture capital investors in the region.

- **Main risks identified:**
  - **Fund Management expertise:** as outlined above the expertise in the venture capital industry is largely underdeveloped in the Western Balkans region leading to a very compressed group of individuals that can adequately make and subsequently manage venture capital investments; In order to address such a shortfall, involvement of specialised investors (International Finance Institutions) is sought to ensure the lay-out and implementation of best industry practices in fund management and selection of the right combination of experts and skill sets for management of such instruments. In the case of ENIF, EIF has been appointed to select appropriate fund manager and provide support in setting up the fund;
  - **Investors in the fund:** ENIF was initially structured so that each of the IPA beneficiary governments will make financial contribution in ENIF corresponding to its GDP. Given the pioneer nature of such investments by the beneficiary governments, it remains to be seen how they will be able to mobilise funds and participation modalities in ENIF. EIF works closely with all of them with a view to mitigating these risks. In addition, KfW identified investment constraints related to the ODA eligibility requirements linked to their participation.
- **General outlook:**
  - Following the appointment of a Fund Manager of ENIF, the EIF has lead the commercial and legal negotiation process to be finalised with the incorporation and first closing of the fund, expected in early 2015. The Fund Manager (RSG Capital) is already a known-name based on the fact that it manages the only Fund dedicated to making venture capital investments in the Western Balkans region and has positive track record. It should be expected that the Fund Manager quickly build pipeline of companies subsequently after the formal incorporation of ENIF.

5.4. European Fund for Southeast Europe (EFSE)

A - Summary

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 26 234 995
Current Overall Budget:	EUR 87 684 935

EFSE is a public-private-partnership, attracting private capital and thereby leveraging public donor funds. EFSE extends loans to local commercial banks and micro-finance institutions in the Western Balkans, Turkey and Eastern Neighbourhood for on-lending to micro and small enterprises and households. EFSE is the worldwide model of catalysing finance for small and medium enterprises.

The fund has performed well despite the economic crisis and the overall financial sector situation. ROM and monitoring "on situ" confirms that the fund has a very high penetration down to the end borrowers. NPLs are limited and frequently monitored. The total amount of finance to end borrowers exceeded EUR 4 billion, as at 31/12/2014, of which some EUR 3,2 billion in the Enlargement region.

EFSE is at the "cruising speed" and while Commission should not withdraw or transfer its shares, on which the financial construct lies, it remains to be assessed whether the EU participation in EFSE would need to be increased.

B - Description

(a) Identification of the financial instrument and the basic act;

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) (OJ L 210, 31.7.2006, p. 82).
European Fund for Southeast Europe (EFSE), Community Assistance for Reconstruction, Development and Stabilisation (CARDS) 2006/018-264, IPA 2007/019-344, IPA 2008/020-300 and IPA 2009/021-373.

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
The EFSE is a form of public-private-partnership. The Fund aims at fostering economic development and prosperity primarily in the Southeast Europe region but also in the European Eastern Neighbourhood region through the sustainable provision of additional development finance. Its objective is to attract capital from the private sector thereby leveraging public donor funds that will assist the development of the private sector in the region. EFSE extends loans to local commercial banks and micro-finance institutions in the Western Balkans for on lending to micro and small enterprises and households.

Implementation Arrangements
European Investment Fund (EIF) manages the EFSE.

Furthermore, the EFSE operates through financial intermediaries in the region of Southeast Europe, including the European Eastern Neighbourhood Region. These include commercial banks, microfinance banks, microcredit organisations and non-bank financial institutions such as leasing companies. They on-lend funds received from EFSE to the Fund's ultimate target group: micro and small enterprises and low-income private households. All of EFSE's partner lending institutions are carefully selected: In addition to being financially stable, the institutions must treat their clients fairly and in a transparent manner.
The EFSE also has a Development Facility endowed with grants and replenished with reflows to enable technical assistance, consulting and training measures to strengthen financial institutions in the region. It aims to enhance the long-term development impact of the Fund's investments. The EU contribution does not cover the Development Facility funding.

Added value
The EFSE generates impacts at three different levels:
- supporting micro and small enterprises as the backbone of the local economies, thereby contributing to generating income and creating employment,
- satisfying the basic need of adequate shelter,
- strengthening local financial markets.

(c) The financial institutions involved in implementation:

- European Investment Fund as Trustee for the European Commission
- International Financial Corporation (IFC)
- European Bank for Reconstruction and Development (EBRD)
- KfW Development Bank (KfW)
- Netherlands Development Finance Company (FMO)
- Oesterreichische Entwicklungsbank (OeEB)
- European Investment Bank (EIB)
- Sal. Oppenheim
- BN&P Good Growth Fund
- Credit Coopératif
- ESPA VINIS Microfinance
- Steyler Bank
- Versorgungsfonds des Landes Brandenburg
- Finance in Motion
- Deutsche Bank

C - <u>Implementation of the financial instrument</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 26 234 995
Aggregate budgetary payments as at 31/12/2014	EUR 26 029 558

Additional information: The total amount of the EU contributions to the instrument, i.e. EUR 87 684 935,, includes share and cash transfers from pre-existing EU-financed instruments during the period 2006 – 2011.

(e) The performance of the financial instrument, including investments realised;

EFSE was subject for Result Oriented Monitoring (ROM) in 2012. Their performance was considered very good in all aspects. EFSE has been an international role model for microfinance funding[210]. The performance so far has been very good with key figures steadily growing and the number of NPLs insignificant.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 112 631 752 (NAV as at 31/12/2014) 1 FI
for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	N/A
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , And expected number of eligible final recipients;	EUR 1 032 000 (total funding committed to the Fund) N/A
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 4.1 billion for the Fund, of which EUR **3.2 billion EUR in the Enlargement region** (see also the table under point l) 496 716 Final Recipients in the Enlargement region
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	NA

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable

(g) The balance of the fiduciary account;

Not applicable

(h) Revenues and repayments;

Not applicable

[210] At the 2010 G20 summit in Seoul, EFSE was presented with the G20 SME Finance Challenge Award. A determining success factor of the Fund‘s award-winning concept was its public-private partnership structure as one of the most effective models worldwide to catalyse private capital for micro, small and medium enterprises.

(i) The value of equity investments, with respect to previous years;

EUR 112 631 752 (at the level of the EFSE)

(j) The accumulated figures on impairments / on called guarantees for guarantee instruments;

Not applicable

(k) The target leverage effect, and the achieved leverage effect;

The financial envelope of EUR 88 million has so far leveraged a total amount of financing available to the final recipients in the Enlargement region of EUR 3,2 billion implying the leverage factor of 36.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The European Fund for Southeast Europe provides sustainable funding to entrepreneurs and private households in Southeast Europe, including the European Eastern Neighbourhood Region, helping small businesses to grow and generate additional income, and to create as well as to sustain employment. In addition, it assists low-income families in the improvement of their housing conditions. Overall, in both regions of operations, the EFSE performance was the following:

EFSE performance overall (as of December 2014)	
Outstanding Amount Invested in Partner Lending Institutions	EUR 940.5 million
Outstanding Loan Amount Disbursed to End-Borrowers	EUR 798.5 million
Number of Active End-Borrowers	146,828
Average Size of Loans Outstanding to End-Borrowers	EUR 5,438
Micro and Small Enterprise Loans Disbursed to End-Borrowers below EUR 20,000	94%
Cumulated Amount of Approved Investments in Partner Institutions since inception in December 2005	EUR 1.9 billion
Cumulated Amount of Loans Disbursed to End- Borrowers since inception in December 2005	EUR 4.1 billion
Cumulated Number of Loans Disbursed to End-Borrowers since inception in December 2005	593,332

E - Other key points and issues

- ***Three main issues for the implementation:***
  - At present EFSE is up and running under stable conditions. To make the fund more robust (following relevant regulations, in particular IPA) the trend has been to move from National allocations to further Regional allocations.
  - At present, the C share allocation of the Commission seems sufficient compared to the Fund's exposure.
  - The Fund Manager has indicated however, that additional EU participation may need to be considered in the future, including specific allocations for Turkey, the country being a market in its own right.

- ***General outlook:***
  - The Fund has a revolving nature and has an undetermined duration. Extension of the underlying delegation agreement establishing a trusteeship for the IPA funds in EFSE with EIF is planned under IPA II, Multi-country Programme 2015 (subject to decision).
  - Fund Manager argues for additional C-share investments from the EU part. These will however need to be based on a market assessment and weighed against the potential implications of the new Financial Regulation, which introduces new rules applicable to the financial instruments.

5.5. Green for Growth Fund (GGF)

A - Summary

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund (as Trustee of the European Commission)
Initial Overall Budget Envelope:	EUR 19,6 million
Current Overall Budget:	EUR 38,6 million

The Green for Growth Fund has continued to foster economic development and prosperity in South East Europe and Turkey by providing additional development finance for Energy Efficiency (EE) and Renewable Energy (RE) projects to broaden the financial base for these kinds of investments. First signs of attracting private sector capital to the Fund have been noticed, and will be reported in this next report. Private sector investment in GGF is expected to leverage Commission's investments into the region for the development of the EE and RE projects. The Fund continued achieving 20% energy savings and/or 20% CO2 savings across the energy efficiency portfolio and promoting the use of renewable energy sources.

The current portfolio of projects is EUR 185,1m, invested in 20 Partner Institutions (“PI”) in 9 Target Partners, with 11 375 final recipients.

From the perspective of the participating country Partner Institutions (PI), adequate financing for the particular purpose of EE and RE is important in terms of a growing demand at the level of households and Small and Medium-size Enterprises (SME) and a shortage of funds available to lend to these groups in the countries.

B - Description

(a) Identification of the financial instrument and the basic act;

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) (OJ L 210, 31.7.2006, p. 82).
Crisis Response Package, IPA 2009/021-373.

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

The Green for Growth Fund (GGF) is an innovative fund initiated in 2009 by the European Investment Bank (EIB) and the KfW Entwicklungsbank (KfW) with the support of the

European Commission. The Fund provides dedicated financing for energy efficiency and renewable energy projects to help the target countries reduce CO_2 emissions and energy consumption.

This is achieved by lending to businesses and households via financial institutions and through direct funding. The Commission is investing in the GGF on behalf of the beneficiaries, to support the stabilisation of financial markets and economies. These investments are made in the Fund's first-loss tranche ensuring that finance remains available to the public and private energy sector and countries keep high their potential to achieve the Energy Community's energy efficiency and renewable energy targets. The activities of GGF are complemented by a Technical Assistance Facility.

Subject to programming 2014–2020.[211]

The Financial Instrument of the European Union for energy efficiency and renewable energies (Green for Growth Fund) contributes to achieving the objectives of the Multi-annual Indicative Planning Document (MIPD) 2010-2013, i.e. support for investments in energy efficiency as a potential key driver of recovery from the economic crisis and sustained economic growth.

Its major objectives are to contribute in the form of a public-private partnership with a layered risk/return structure, to enhancing energy efficiency (EE) and renewable energies (RE) in South-East Europe, Turkey, and Neighbourhood East regions predominantly through the provision of dedicated financing to businesses and households via partnering with financial institutions and direct finance.

The instrument finances Financial Institutions (commercial banks and non-bank financial institutions, such as leasing companies) to finance mainly EE and RE investments in private households and small and medium-sized enterprises; direct financing of Energy Service Companies (ESCOs), small renewable energy projects as well as companies and municipal entities.

Under the Instrument, medium to long-term senior loans, subordinated loans, syndicated loans, letters of credit, guarantees, mezzanine debt instruments, local debt securities and equity can be used.

Implementation arrangements

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation. Under indirect management, the Commission may entrust implementation tasks to the following multilateral Development Financial Institution: European Investment Fund (EIF).

Added value of the European Union contribution

C-shares bought by the European Union and the German Government are of highest risk and lowest gains, in order to stimulate the private sector to buy A-shares or Private Notes which are, vice versa, of lowest risk and highest gains. In this way, the European Union leverages private sector investments.

(c) The financial institutions involved in implementation;

The main investors in the Fund, besides the Commission (with the European Investment Fund - EIF as Trustee), are the European Investment Bank (EIB), KfW, European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC),

[211] In the context of probable additional buying of C-shares by DG NEAR, most probably via IPA 2016.

German Federal Ministry for Economic Cooperation and Development (BMZ) (with KfW as Trustee), and the Netherlands Development Finance Company (FMO).

The Fund expects the addition of the first large private sector investor, Gemeinschaftsbank für Leihen und Schenken (GLS) from Germany, in early 2015.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014	EUR 38 633 232
Aggregate budgetary payments as at 31/12/2014	EUR 38 633 232

Additional information: the financial envelope of the instrument amounts to EUR 38,6 million that was committed and paid out (of which EUR 19 581 014 were contracted as an initial buying of C-shares (with EIF as Trustee) and paid by DG NEAR under centralised indirect management contract, while EUR 19 052 218 were subscribed with a second contract via the Transfer and Delegation Agreement between KfW, EIF, and the European Commission).

(e) The performance of the financial instrument, including investments realised;

The European Commission committed EUR 38,6 million for South East Europe and Turkey, leveraging the total size of the Fund of EUR 281 million as of end December 2014. This amount corresponds to the amount of loans expected to be provided to the end beneficiaries.
The current portfolio of projects is EUR 185,1m, invested in 20 Partner Institutions ("PI") in 9 Target Partners, with 11 375 final recipients.
81,6% of the Fund's committed capital has already been disbursed, committed or approved for investments in PIs. Taking into account schedules repayments and pending new investments in the Fund itself, GGF has sufficient capital to meet these obligations.
The number of active Partner Institutions has increased from 18 to 20.

New Investments & Pipeline
During Q2 2014, six investment proposals for the amount of EUR 85 million were approved:

- Partner MCO (Bosnia & Herzegovina),
- Yapi Kredi Leasing (Turkey),
- Bank of Georgia (Georgia),
- Access Bank (Azerbaijan)
- Ak Lease (Turkey), and
- Dariali HPP (Georgia).

It has to be highlighted that immediately after the end of the quarter; the IC approved two additional investments, EUR 10 million to Fibabanka (Turkey) and EUR 2 million to Microinvest (Moldova).

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

GGF has a self-revolving character – revenue is reinvested, according to the same criteria as for the initial budget envelope. It has indeed been reinvested so.

(g) The balance of the fiduciary account;

NA

(h) Revenues and repayments;

NA

(i) The value of equity investments, with respect to previous years;

EUR 39 324 943 (at the level of GGF) (2013 EUR 39 186 417)

(j) The accumulated figures on impairments / on called guarantees for guarantee instruments;

NA

(k) The target leverage effect, and the achieved leverage effect;

The target leverage effect of the Fund at present is in the order of 7,2 (total size of the Fund EUR 281 million, divided by EU Contribution). It is estimated that the leverage will generate an excess of EUR 281 million of loans to eligible final recipients.

The achieved leverage target is in the order of 4,8 (disbursements/loans to end beneficiaries of 185,1 million divided by EU contribution).

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

DISBURSEMENT ANALYSIS AS OF 30 JUNE 2014

Amounts in Euro

Subloan portfolio		Subloans disbursed since inception*		GGF disbursements to PI*	Disbursement percentage	Months since initial disbursement	Remaining ramp-up period (months)
	Partner Institution	Number	Amount	Amount	%		
PIs in ramp-up period		**936**	**53,736,214**	**118,312,304**	**45%**		
Albania	BKT	48	11,789,371	15,000,000	79%	0	12
Armenia	ACBA	-	-	3,629,501	0%	7	5
Armenia	ACBA Leasing	7	509,288	1,725,900	30%	7	5
Azerbaijan	AccessBank	-	-	10,956,903	0%	0	18
Bosnia and Herzegovina	UniCredit Bank BA	35	2,730,195	10,000,000	27%	9	3
Bosnia and Herzegovina	Partner	615	1,429,936	3,500,000	41%	2	10
Croatia	Privredna Banka Zagreb	7	693,799	25,000,000	3%	6	5
Croatia	Zagrebacka Banka	-	-	20,000,000	0%	7	5
Serbia	Intesa Leasing Beograd	-	-	5,000,000	0%	7	8
Turkey	Yapi Kredi Leasing	224	36,583,625	23,500,000	156%	0	9
PIs out of ramp-up period		**10,440**	**89,722,101**	**93,053,031**	**96%**		
Albania	Lengarica	1	3,877,411	3,877,411	100%	0	-
Armenia	Araratbank	40	821,129	3,819,036	22%	20	-
Armenia	Inecobank	2,659	4,174,795	7,678,292	54%	21	-
Bosnia and Herzegovina	NLB Razvojna Banka	426	3,659,763	5,000,000	73%	30	-
FYR Macedonia	Halkbank	1,275	5,925,103	5,000,000	119%	44	-
Serbia	Cacanska Banka	839	5,853,498	5,000,000	117%	37	-
Serbia	Komercijalna Banka	610	18,242,726	23,000,000	79%	26	-
Serbia	Banca Intesa RS	2,215	7,017,016	7,000,000	100%	23	-
Turkey	Şekerbank	2,323	33,115,520	25,000,000	132%	49	-
Ukraine	Megabank	52	7,035,140	7,678,292	92%	21	-
Total		**11,375**	**143,458,315**	**211,365,335**	**68%**		

Source: FiM Management Information System (MIS)
* Cumulative since inception until to date

Compliance Monitoring
The Issue Document regulates GGF's risk diversification by placing limits on the exposure to individual Partner Institutions. These diversification ratios are taking into consideration in the Fund Advisor's planning and decision-making process of all investments, and are ultimately tracked by the Fund Custodian. At the end of Q2 2014, GGF is in compliance with all PI limits.

Asset Impairment
No asset impairment was recorded in Q2 2014.

Sub-Loan Monitoring / Environmental Impact
Sub-loan monitoring is done by the Fund Advisor through a combination of internal systems (for loan amounts, maturity, etc.) and the programme eSave (for the energy and CO2 savings) from data provided by the PIs as part of their quarterly reporting requirements. GGF requires its Partner Institutions to monitor and report energy savings and CO2 reductions using an acceptable reporting system.

All PIs are using the eSave system, which was presented to the Board in 2010. In light of the rapid development of the Fund's investment portfolio, a series of eSave implementation projects was proposed in order to respond to the Fund's and FIs' need for a monitoring and reporting tool.

The current portfolio of projects is EUR 185,1m, invested in 20 Partner Institutions ("PI") in 9 Target Partners, with 11 375 final recipients.
Measures financed through GGF funding have produced annualized energy savings of 1 049 745 MWh/year and annualized CO2 reduction of 428 447 tons/year. On average, these measures are 62% and 50% more efficient in terms of emissions and energy consumption respectively. This figure is well in excess of the Fund's minimum of 20% for each category.

CO2 REDUCTION AND ENERGY SAVINGS BY PI TYPE AS OF 30 JUNE 2014

Measure	PI Type	Cumulative disbursement amount (EUR)	share of disbursements	CO2 reduction (tCO2/year)	CO2 reduction (%)	Energy Savings (MWh/year)	Energy Savings (%)
Agri-equipment	FI	7,536,060	5%	22,211	24%	95,809	26%
Buildings	FI	52,812,214	37%	111,141	59%	432,769	54%
Complex heat supply and distribution systems	FI	3,166,110	2%	7,783	52%	30,308	45%
Energy service and supply business	FI	3,174,631	2%	-	0%	-	0%
Improvements in processes, process related equipment	FI	54,434,771	38%	51,210	33%	191,207	35%
Lighting	FI	70,965	0%	21	50%	65	50%
Use of RE by households and businesses	FI	6,019,246	4%	10,459	96%	41,485	97%
Use of RE for commercial energy generation	FI	14,920,398	10%	224,537	100%	256,676	100%
Vehicles	FI	1,323,920	1%	1,085	18%	1,427	5%
Total		**143,458,315**	**100.0%**	**428,447**	**62%**	**1,049,745**	**50%**

Source: FiM Management Information System (MIS)

E - **Other key points and issues**

- **Three main issues for the implementation**:
  1) Additional buying of C-shares – ongoing discussions on how to contract the additional Commission's purchase of C-shares regarding the stipulations of the new Financial Regulation presents a concern. It is a cross-cutting issue, and expected to be resolved as such. In addition, with focus on WBIF co-financing of big infrastructure projects within the Connectivity Agenda, the challenge is to secure appropriate continuation of funding of the GGF.
  2) Coordination of GGF with other Commission mechanisms – GGF is since late 2014 participating at the regular meetings of the Energy Community's EE Coordination Group (EECG). In this way, the instrument is being coordinated with the other main Commission facility, the Regional EE Programme (REEP), and with other non-Commission EE stakeholders in the region, as well as with the Energy Community. The GGF started reporting on its contribution to the EE and RE targets of the Energy Community. The challenge remains to properly address the EE and RE needs via our two main mechanisms.
  3) Additional funding for Turkey – it is the position of the Regional Programmes unit that any additional purchase of C-shares for the GGF's Turkish operations needs to be financed from the national IPA exclusively. The discussion is ongoing, and it remains a challenge if, how, and when this will be possible.
- **Main risks identified**:
  None detected on part of the Trustee and the Fund. However, new Financial Regulation has reporting requirements that are beyond either the date or the scope as agreed in the contracts between the Commission and the IFIs. This discrepancy would need to be addressed appropriately.

- **General outlook:**
  The perspective of the sustainable development of GGF is positive, but its full adoption depends on the pace of development and the quality of EE/RE policy and the regulatory frameworks. Equally important is the establishment of the institutional framework which will ensure implementation of these policies and the legislative provisions (independent regulators and enforcement agencies that can guarantee implementation of these common rules).

The policy framework varies across countries. In BA and Serbia the environmental policy framework is at different stages of development. Important progress in the policy driven agenda in Serbia is evident, while some improvements in Bosnia's policy framework are expected to enable the fund to operate in a more sustainable manner. The necessary liberalisation of the retail electricity price in Albania, BA and Serbia would create favourable conditions to the fund operations and investments in EE and RE.

Both the quality of lending to the PIs and the quantity of energy and CO2 savings are good and contribute to the achievement of the goals of the Fund. The main purpose of the EC contribution to the Fund, (to support the beneficiary countries in the stabilisation of financial markets and economies in the Western Balkans and Turkey, thereby alleviating the impact of the global financial and economic crisis in the region) has been achieved, through establishment of the full functionality of the GGF.

The particular structure where the EC takes up C shares is to make the Fund attractive to the private investors. To date of this report, the Fund had attracted only a limited number of private investors. As the first four years of implementation are seen as an early stage of the GGF existence, it is expected that the interest of private investors will progressively grow as the results from the increase in disbursements in the last two years are made public.

The description of the action provided for an interaction with municipalities, but this is not yet taking place. The municipalities in the region have limited technical capacity and chronically limited budgets, but it is expected that they should in the future be more proactive in taking advantage of funds such as the GGF to achieve common goals, like a better integration of the EE/RE solutions within their local development strategies. For the time being, they are state/donor dependent and fragmented. The small, rural municipalities should pursue EE and RE objectives in partnership with neighbouring larger, better off ones. The awareness of the municipalities should be progressively built up and in the long-term they should become the main promoter of the EE benefits to their citizens, following the example of the more advanced EU countries.

5.6. SME Recovery Support Loan for Turkey (RSL)

A - Summary

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	EIB (EUR 120 million)
Initial Overall Budget Envelope:	EUR 30 million
Current Overall Budget:	EUR 30 million

The SME Recovery Support Loan Facility for Turkey (RSL) is a joint European Union (EU) /European Investment Bank (EIB) action consisting of blending €120 million EIB loan funds allocated with €30 million EU funds, aiming at enabling Turkish banks to expand their SME lending and provide more attractive and longer term lending to SMEs. The Turkish intermediary banks match the amount of finance made available to the final beneficiaries 1:1, hence doubling the final total amount of loans. Up to date the amount of financing provided by the instrument to eligible final recipients is EUR 299,64 million. The project has a "recovery" nature, as part of IPA 2009 Crisis Response Package but is also in line with EU policies for SME sector development and supports Turkey's efforts for preparation in view of EU accession.
From a strategic perspective, the RSL is consistent with the objectives of the Multi-Annual Indicative Planning Document (MIPD) 2008-2010 for Turkey, the Turkish SME Strategy and Action Plan 2007-2009 and the general objective to develop synergies between IPA initiatives and EIB lending activities. The SME Action Plan identified access to finance as one of the main problem for SMEs, which prevents their further growth and harms their competitiveness.

B - Description

(a) Identification of the financial instrument and the basic act;

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) (OJ L 210, 31.7.2006, p. 82).
Crisis Response Package, IPA 2009/021-373.
Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II) (OJ L 77, 15.3.2014, p. 11)

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

The overall objective of the SME Recovery Support Loan for Turkey is to mitigate the crisis impact for SMEs and contribute to the development of the Turkish economy and employment sector. The main objective is to support SMEs with concrete productive investments by providing access to attractive and longer-dated debt financing. The co-financing of loans is to be provided to local commercial banks operating in Turkey (the ‘Financial Intermediaries’) for the benefit of eligible investments carried out by SMEs. In the context of the Action, the European Investment Bank (EIB) shall extend loans from its own resources together with the Union Contribution loans. The SME Recovery Support Loan amounts to EUR 150 million, including EUR 120 million of EIB funds and EUR 30 million of the EU Contributions financed from the IPA funds.

Individual SMEs are eligible for financing from a Financial Intermediary using funding available through the Action (each a ‘Sub-Loan’) up to a maximum amount of EUR 5 million and a minimum amount of EUR 200 000 and with a minimum maturity of 4 years.

(c) The financial institutions involved in implementation;

EIB is the Commission's risk-sharing partner, contributing EUR 120 million in lending to the two intermediary banks, as follows:

- Halkbank: Their share of the Facility (EUR 74,82 million) is fully allocated since the end of 2011. The average size of allocation is EUR 0,51 million. The number of jobs created through the financed investments is 2 340;
- Akbank: Their share of the Facility (EUR 74,82 million) is fully allocated since the end of June 2012. The average size of allocation is EUR 0,8 million. The total number of jobs created through the financed investments is 1 780.

The Union contribution does not benefit from any guarantee or other security, nor does it bear a higher risk to guarantee/secure the EIB lending. The Union resources are however provided on an interest-free basis to the Financial Intermediaries. The EIB resources and the Union resources will be clearly dissociated from each other but will be disbursed in parallel in order to maintain the ratio of 4/1 between EIB resources and Union resources, hence ultimately reducing the cost of borrowing for all end beneficiaries.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate budgetary commitments as at 31/12/2014:	EUR 30 000 000
Aggregate budgetary payments as at 31/12/2014:	EUR 30 000 000

(e) The performance of the financial instrument, including investments realised;

Although there were no set indicators to measure the Recovery Support Loan (RSL) expected outcomes (job creation/maintenance and growth for the beneficiary SMEs) there was an EIB requirement that the SMEs report, at application stage, contained the expected number of jobs to be created following the implementation of the RSL supported projects.

Accordingly, the 265 loans allocated to date are expected to help create almost 5 000 new jobs, which represent a 42% increase of the number of employees of the beneficiary SMEs, compared to the situation before receiving the loans. The average sub-project value is €1,53 million, the average sub-loan size (EIB loans + loans from other FI resources) is €0,67 million and the average individual EIB sub-loan is €0,56 million. Average maturity of loans is 4,4 years, slightly higher than the minimum tenure of 4 years imposed.

For Risk-sharing and Guarantee Instruments*: the information shall indicate:*

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 299,64 million 265 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 299,64 million 265 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	N/A

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

EUR 52 840,07

	In EUR
Balance on the fiduciary account (current account)	52 840
Term deposits/Bonds (if applicable)	NA
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 month < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Loans	18 979 166
= Total assets	**19 032 006**

(h) Revenues and repayments;

Not applicable

(i) The value of equity investments, with respect to previous years;

Not applicable

(j) The accumulated figures on impairments / on called guarantees for guarantee instruments;

There are no impairments. The balance sheet value of the instrument at 31/12/2014 is the result of exchange losses and actuarial adjustments as follows:

In EUR	**Cumulative**	**2014**
Initial Capital	**29 630 000**	
Exchange Gain/(Loss) (Turkish lira/euro)	(7 814 639)	946 892
Actuarial Adjustment increase/(decrease)	(2 836 195)	1 503 208
Current Value	**18 979 166**	

(k) The target leverage effect, and the achieved leverage effect;

The target and achieved leverage effect is 1:10 over the lifetime of the financial instrument.

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The RSL was highly relevant at the time it was proposed but the immediate need had passed by the time it became operational. Attractive, very efficiently implemented and benefiting of reliable credit recipients, the facility has resulted in successful projects, able to produce positive impact at micro level, but unlikely to produce any relevant impact at sector level. The main benefits stem from lessons learned and the opportunity to better shape similar future interventions.

The amount available under the facility is very small compared to the size of the Turkish SME market and to the size of the EIB lending in Turkey. There were no logframe or indicators of achievement set for the facility. The only measurable targets set were the number of financial intermediaries to be employed (2-3), the minimum number of SME loans to be achieved (100) and the minimum additional volume of SME loans to be achieved by the financial intermediaries during the initial RSL allocation period (at least twice than the RSL loans). All these could be considered implicit given the features of the facility and the business profile of the Turkish banks envisaged as financial intermediaries.

E - <u>Other key points and issues</u>

- **Three main issues for the implementation:**
  - at the moment, further engagement planned under IPA II seems to be unlikely, unless the EIB will demonstrate that a second phase of the action could still be relevant. The project has been successful for all involved parts. However,

following the spirit of the Commission Decision under the Crisis Response Package, the project purpose of the programme (to support the SMEs which have concrete productive investment plans by providing access attractive and longer-dated debt financing) seems to be achieved.

- **Main risks identified:**
  - o well managed project. Risks are only subject for market conditions.
- **General outlook:**
  - o no further engagement planned under IPA II.

6. Financial Instruments in Neighbourhood and Countries covered by the DCI

6.1. Neighbourhood Investment Facility (NIF)

A - Summary

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	Eligible Finance Institutions
Initial Overall Budget Envelope:	EUR 50 million
Current Overall Budget:	EUR 1 159,1 million

In general terms, the NIF has proven to be an effective instrument within the European Neighbourhood Policy in particular by leveraging significant financial resources through financial instruments. For the period 2007-2014, the Union contribution of approximately EUR 1 159 million has leveraged EUR 11,9 billion in loans from European Financial Institutions (EFIs), with total project costs estimated at EUR 26 billion.

The independent Mid-Term Evaluation report of the NIF confirms the relevance of funded projects in relation to the NIF strategic objectives which are: (1) to increase energy and transport infrastructure and interconnectivity in the region; (2) to address threats to the environment including climate change; (3) to promote socio-economic development through support for SMEs and the social sector. The MTE reports notes the steady increase in the number of projects presented and volume of operations, and confirms that the NIF is an efficient instrument which has contributed to increased co-ordination and co-financing among Finance Institutions.

The Mid-Term Evaluation of the NIF also recommends that more attention be devoted to interconnectivity issues as well as to its crosscutting objectives, including a more structured policy dialogue and consultation with civil society.

B - Description

The breakdown of the Current Overall Budget is as follows:

Commission Decision No	Initial Decision	East	South	Top up East	Top up South	Total
C(2007) 6280	50	25	25			50
C(2008) 2698	50	25	25			50
C(2009) 3951	70	25	45			70
C(2009) 8985	15		15			15
C(2010) 4400	85	40	45			85
C(2010) 7989	25	22	3			25
C(2011) 5547	100	33,3	66,7			100
C(2012) 4533	150	50	100	12,7	9,2	171,9
C (2013) 1276	200	66,7	133.3	10,5		210,5
C(2013) 5300	12,3	12,3				12,3
C(2014) 5750	361,7	96.4	265,3	7,7		369,4
TOTAL	1 119	395,7	723,3	30,9	9,2	**1 159,1**

(a) Identification of the financial instrument and the basic act;

Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.[212]

Regulation (EU) N° 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument.[213]

Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action, (OJ L 77, 15.04.2014, p. 95).

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The Financial Instrument of the European Union for the Neighbourhood Region contributes to achieving the objectives of the European Neighbourhood Policy (ENP) or related EU thematic policy priorities by leveraging additional financing for the region.

The NIF overarching objective is to mobilise additional investments to support the establishment of an area of prosperity and good neighbourliness involving the EU and neighbouring countries. In complementarity with other EU-funded programmes, the NIF can

[212] (OJ L 310/1, 9.11.2006)

[213] (OJ L 77, 14.03.2014)

foster a sustainable, inclusive growth and a favourable investment climate in our partner countries.

Within this framework, the NIF pursues three strategic objectives, notably:

- establishing better and more sustainable energy and transport interconnections between the EU and neighbouring countries and between the neighbouring countries themselves,
- addressing climate change, as well as threats to the environment more broadly,
- promoting smart, sustainable and inclusive growth through support to small and medium size enterprises, to the social sector, including human capital development, and to municipal infrastructure development.

The NIF operations support the implementation of the ENP Action Plans and focus on five main sectors: Energy, Environment with a particular focus on climate change mitigation and adaptation, Transport, Social and Small and Medium Enterprise development.

Geographical coverage and final recipients

European Neighbourhood Policy partner countries directly eligible to the NIF are neighbourhood countries having signed an action plan, except for those that do not qualify because of their level of development. Currently, this encompasses Armenia, Azerbeijan, Georgia, Moldova and Ukraine in the Neighbourhood East region, and Egypt, Jordan, Lebanon, Morocco and Tunisia in the Neighbourhood South region. On a case-by-case basis, other countries, which are not directly eligible, may benefit from NIF interventions taking into account regional or specific circumstances. Their eligibility will have to be decided unanimously by Member States and the Commission. Other final recipients will be the private sector and, in particular the SMEs. Both multilateral and national European Development financial institutions may be direct partners and important stakeholders of the facility. They will be eligible as lead partners to propose lending operations that could benefit from a NIF support.

Implementation arrangements

The NIF finances different types of operations such as risk capital (equity and quasi-equity investments), risk-sharing instruments, guarantees, loans, investment grants, interest rate subsidies and technical assistance. Until 2014, implementation of the NIF was possible through the following management modes: centralised management (direct and indirect), joint management, and partially decentralised management. From 2014 onwards, implementation is made according to the modalities foreseen in the new Financial Regulation, mainly through Delegation Agreements with Financial institutions, but also through indirect management with partner countries.

The NIF has, since the beginning of 2011, included a Climate Change Window (CCW) under the Programme on the Environment and the Sustainable Management of Natural Resources including Energy Thematic Programme (ENRTP) of the Development Cooperation Instrument to support the implementation of projects, helping partner countries tackle climate change through mitigation and/or adaptation measures. The NIF CCW is managed in a streamlined way and has in general the same rules and the same financing and implementation modalities as the NIF.

Duration and impact on the budget

The decisions relating to this instrument are valid for the two Multiannual Financial Frameworks of 2007-2013 and 2014-2020 and may be extended further following decisions on the next Multiannual Financial Framework.

The final date for contracting is 31st December 2015 relating to decisions from 2014. This is not the date of duration of the facilities but the final date for contracting of the individual decisions establishing the facility. The duration of individual projects is established on a case-by-case basis with a maximum of 120 months from the date of entry into force of the financing agreement or, when none is concluded, from the adoption of the 2014 Action Document creating the NIF. The budgetary breakdown of EUR 1 159,1 million between the two Neighbourhood sub-regions is as follows[214]:

CRIS reference	Cumulated amount of global commitment	Budget line
Neighbourhood **South**		
ENPI/2007/019548	158 000 000	19 08 01 01
ENPI/2011/023086	309 220 334,34	19 08 01 01
ENI/2014/037510	265 300 000	21 03 01 02/03
Total	**732 520 334,34**	
Neighbourhood **East**		
ENPI/2007/019549	137 000 000	19 08 01 03
ENPI/2011/023087	173 200 000	19 08 01 03
ENI/2014/037515	104 085 901,58	21 03 02 02
Sub-total	***414 285 901,58***	
ENPI/2013/024746 (SUDeP, *cf.* note under "Current Overall Budget")	12 300 000	19 08 01 03
Total	**426 585 901,58**	

Added value

The NIF provides a simple, clear, structured mechanism to examine and approve blending projects to the benefit of Neighbourhood countries. Through the use of the NIF for the examination of all blending projects in the Neighbourhood, the Commission ensures that:

- equal treatment is given to all projects and all partner financial institutions,
- competition is promoted between projects in terms of their value for money,
- all projects are examined according to an agreed set of fundamental parameters, notably regarding their leverage, value-added, additionality and compliance with EU principles and EU policy objectives.

The expected results of the NIF are increased investment in the following sectors contributing to:

1) Better transport infrastructure.
2) Better energy infrastructure.
3) Increased protection of the environment and better focus and control of climate changes impacts.
4) Improved social services and infrastructures.
5) Creation and growth of SMEs and improvement of the employment situations.

214 An endowment with EUR 17.3 million was adopted by the Commission in 2011 [C (2011)9538], to be shared between the NIF and the Latin America Investment Facility (LAIF). Finally, this endowment was integrally used for two projects under the Latin America Investment Facility (LAIF).

(c) The financial institutions involved in implementation;

The entrusted budget implementation tasks consist in the implementation of procurement and grants following the rules of the Leading Financial Institution, which is also entrusted with the residual tasks of ex ante or ex post controls. Payments may be executed by the Leading Financial Institution or by the partner country under the control of the Leading Financial Institution. In this particular case, the Commission signs a Financing Agreement with the recipient country and a Delegation Agreement with the Leading Financial Institution. The Commission may entrust implementation tasks to the following Financial Institutions:

- *Multilateral European Finance Institutions:* currently, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB) and the Nordic Investment Bank (NIB);
- *European bilateral development finance institutions from one of the Member States:* currently, the Agence Française de Développement (AFD), the Agencia Española de Cooperación Internacional para el Desarrollo (AECID), the KfW Entwicklungsbank (KfW) and the Società Italiana per le Imprese all'Estero (SIMEST).

In addition, budget-implementation tasks may be entrusted to the partner countries in accordance with Article 53c of Financial Regulation 1605/2002 (partially decentralised management)[215].

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate Budgetary Commitments as at 31/12/2014	EUR 1 159 100 000,00
Aggregate Budgetary Payments as at 31/12/2014	EUR 448 852 849,28

(of which SANAD EUR 10,2 million, EFSE EUR 5 million and GGF EUR 13,4 million)

(e) The performance of the financial instrument, including investments realised;

The NIF has demonstrated to be a successful operation throughout the seven years of its existence so far. It has fully delivered on its objectives, detailed in section b), by creating a favourable environment for investments to be made on its priority sectors and countries to a scale never achieved in previous years and which would be difficult to achieve without the existence of the Facility.

In the period 2008-2014, the expected leverage of the investments made so far should reach 21, far exceeding the target leverage of the instrument, initially set at 4 to 5. Because of that mobilisation capacity, the Commission is increasingly channeling ENI funds through the NIF, as portrayed in the steady increase of the annual NIF funding. The NIF has allowed the financing of a total of 101 projects so far.

In 2014, the Operational Board of the NIF approved contributions to 19 projects totalling EUR 297,7 million. The total investment cost of these projects is estimated to exceed EUR 5,2 billion (estimated leverage rate of 17), mobilising EUR 2, 3 billion from eligible European Financial Institutions.

[215] Article 58 of the current Financial Regulation (No 966/2012) applicable to the general budget of the Union for the methods of implementation of the budget applying to commitments made as of 01-01-2014.

A Mid-Term Evaluation (MTE) of the NIF under the European Neighbourhood and Partnership Instrument (ENPI) 2007-2013[216] was finalised in May 2013. It focussed on the analysis of the mechanism and its procedures since its inception until the end of 2011. The evaluation was carried out based on the following OECD/DAC evaluation criteria: relevance, effectiveness, efficiency, impact, and sustainability.

The MTE stated that the NIF has proven to be an effective instrument within the European Neighbourhood Policy and highlights that the NIF achieved its goal of leveraging significant financial resources through grants. The executive summary notes "a steady increase in number of projects and volumes of allocations" and "effective coordination amongst Financial Institutions."

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not yet applicable

(g) The balance of the fiduciary account;

GGF: EUR 2 662 910; SANAD: EUR 1 034 832

(h) Revenues and repayments;

Reflows in 2014: not applicable

(i) The value of equity investments, with respect to previous years;

SANAD fund for MSME-Debt Sub Fund in USD

Market Value as of 31/12/2012:	9 344 931 USD
Market Value as of 31/12/2013:	9 311 447 USD
Market Value as of 31/12/2014:	7 826 972 USD

SANAD fund for Equity Sub Fund in USD

Market Value as of 31/12/2012:	927 616 USD
Market Value as of 31/12/2013:	722 234 USD
Market Value as of 31/12/2014:	1 973 318 USD

EFSE-SICAV SIF Fund in EUR

Market Value as of 31/12/2012:	4 986 980 EUR
Market Value as of 31/12/2013:	5 061 483 EUR
Market Value as of 31/12/2014:	4 981 305 EUR

Green for Growth Fund, SICAV-SIF in EUR

Market Value as of 31/12/2014:	10 198 244 EUR

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

NA

[216] Mid-Term Evaluation of the Neighbourhood Investment Facility under the European Neighbourhood and Partnership Instrument (ENPI) 2007-2013, May 2013; Evaluation for the European Commission by Development Researcher's Network, European Centre for Development Policy Management and Ecorys (Research and Consulting).

(k) The target leverage effect, and the achieved leverage effect;

In 2014, Commission Implementing Decision C (2014) 5750 has been adopted on 20 August 2014 for a contribution of EUR 369,4 million. The target leverage effect indicated in that Decision for NIF contributions is **4 to 5** over the lifetime of the NIF. This target leverage effect has been kept throughout the different NIF Commission Decisions since 2008.

The **NIF expected leverage for 2014** is estimated as follows: the EUR 297,7 million NIF contributions approved during 2014 should mobilise over EUR 5.2 billion in total investments, from which EUR 2,3 billion from participating Financial Institution alone. Therefore for each euro contributed by the NIF, more than 17 should be invested, 7,7 of them from eligible Financial Institutions.

The **NIF expected leverage for the period 2008-2013** is estimated as follows: Total project cost (*circa* EUR 20,8 billion) / NIF contributions (789 million): **26,3**; whereby the leverage of Eligible Finance Institutions is calculated as Eligible Finance Institutions ressources (*circa* EUR 9,6 billion) / NIF contributions: 12,7

The high expected leverage is related to the success of the mechanism, which has succeeded to mobilise much more investment so far than foreseen initially.

Following the same reasoning, the expected leverage over the period 2008-2014 should be around 21 (total project cost of 26 billion/NIF contribution of EUR 1,1 billion).

The NIF cannot report yet on achieved leverage, since the number and size of projects concluded so far are not enough to provide a sizeable sample to the achieved leverage of the instrument. However, we expect the achieved leverage not to be too far from the expected leverage mentioned above for the first years of the instrument.

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The NIF has proven to be an effective instrument within the European Neighbourhood Policy and achieved its goal of leveraging significant financial resources through financial instruments.

NIF projects are overall relevant to NIF strategic objectives. However, according to the MTE, more attention should be paid to its regional interconnectivity aspects as well as to its cross-cutting objectives, including policy dialogue.

There is a relatively balanced geographical and sectorial distribution of projects. The MTE recommended, at the same time, establishing a system which could allow for prioritisation of projects according to their relevance and expected impact.

In terms of project design, sound processes and good standards implemented by Financial Institutions were observed. Social, environmental and climate change concerns were adequately addressed in the appraisal process.

The three-tiered governance of the instruments has been effective, although there is room for improvement for some of its aspects such as for example the resource allocation mechanisms, the monitoring and evaluation functions and transparency of the decision making process.

The NIF has significantly contributed to the development of partnerships and increased co-ordination between the Financial Institutions and the Commission, as well as amongst the Financial Institutions themselves. The MTE recommended further developing the co-ordination mechanisms at national and regional levels.

Finally, the MTE recommended introducing a results-based monitoring system to be applied to all NIF projects, as well as strengthening the communication and the visibility aspects.

The findings of the MTE have been used, with other reports, by the Platform for Blending in External Cooperation (EUBEC[217]). This Platform was set up in December 2012 and covers various different EU facilities. The evaluation recognised the relevance of EUBEC and recommended continued support to its development.

The future structure and operation of the NIF will reflect the conclusions of the EUBEC policy group, which were finalised and published through the Report COM (2014) 733 of 15 December 2014 from the Commission to the Council and the European Parliament.

It will also take into account the recommandations issued by the Special Report 16/2014 of the Court of Auditors on "The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies".

E - <u>Other key points and issues</u>

- Attention is to be given to the aspects of the regional interconnectivity, as well as to the cross-cutting objectives including the policy dialogue. For this it has been recommended establishing a system which could allow for prioritisation of projects according to their relevance and expected impact.
  Co-ordination with the EU Delegations, although steadily improving over the last two years, could still be further improved. Finance Institutions should strengthen their liaison with EU Delegations during early stage definition of the projects, this will allow room for the creation of synergies and efficiency.
  Connected to the previous point, further emphasis will be put in the monitoring, follow up and evaluation of projects. A results-based monitoring system applied to all NIF projects would further enhance project implementation.
  The communication and visibility aspects should be reinforced. Until now, visibility actions have been implemented and visibility clauses are included in NIF contracts. Overall, visibility would be reinforced through the development of a communication and visibility strategy and action plan, in close coordination with key stakeholders.
  The added value and additionality of the EU grant provided to NIF projects should be clearly determined from the outset, so that the reasons of financing each project through the NIF are clear to everyone involved in the NIF approval process.
- The Financial Regulation introduces rules specific to financial instruments. These rules are applicable from 2014 onwards. The Financial Regulation provides an important improvement in the legislative framework through the definition of concepts and principles, the simplification of the management modes used for blending and the possibilities created for using innovative financing tools.
  It is expected that financial allocation to the regional investment facilities will substantially increase during the next programming period. This might also be done by channelling funds from the National or Regional Indicative Programs through the blending mechanisms. The management of such an increase represents a significant challenge for the Commission.

[217] EUBEC has taken a wide-ranging look at many aspects of the EU's blending facilities. Its policy group has met on several occasions and considered a range of topics. Experts from the Commission, Member States, the European External Action Service, and participating Financial Institutions work together in this Platform (the European Parliament participates as an observer) to further increase the effectiveness of aid delivered by the EU through blending.

6.2. Investment Facility for Central Asia (IFCA) & Asian Investment Facility (AIF)

A - Summary

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	Eligible Financial Institutions
Initial Overall Budget Envelope:	EUR 50 000 000
Current Overall Budget:	EUR 171 567 000
Envisaged overall budget for IFCA and AIF concerning the period 2014-2020:	EUR 490 000 000 (out of which EUR 140 000 000 for IFCA and EUR 350 000 000 for AIF)

In general terms IFCA and AIF have proven to be effective instruments, in particular by leveraging significant financial resources through the Union contributions under both Facilities.

Key investments are essential to implement reform strategies in line with the EU-Central Asia policy framework. Blending loans supported by the European Financial Institutions and by the Commission will be an important tool in the post 2015 financial perspective to address the investment needs in energy efficiency, environment, water, climate change mitigation, and SME development.

For IFCA the Commission contributions of EUR 82 million supported a total investment volume of EUR 465 million, including also other public and private investments.

For AIF the Commission contributions of EUR 62 million supported a total investment volume of EUR projects amounting to EUR 2 046 million, including also other public and private investments.

B - <u>Description</u>

The breakdown of the current overall budget is as follows:

Decision Reference	Cumulated amount of global commitment (maximum envelope)	Budget line
Investment Facility for Central Asia (IFCA)		
DCI-ASIE/2010/021-627	20 000 000	19 10 02
DCI-ASIE/2011/023-117	45 000 000	19 10 02
DCI-ASIE/2013/024-950	20 567 000	19 10 02
Asia Investment Facility (AIF)		
DCI-ASIE/2011/022-036	30 000 000	19 10 01 01
DCI-ASIE/2013/024-917	30 000 000	19 10 01 01
DCI-ASIE/2014//037-548	26 000 000	19 10 01 01
TOTAL	86 000 000	

In comparison to the 2013 for IFCA; no changes have occurred whereas the budget for AIF has increased with EUR 26 007 000 during 2014. AIF has been recreated in 2014 for the Multi-annual Financial Framework (MFF) 2014-2020, with an initial financing decision of EUR 26 million, whereas IFCA will be recreated in 2015. A total amount of EUR 140 million for IFCA and of EUR 350 million for AIF are foreseen for the current MFF.

(a) Identification of the financial instrument and the basic act;

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation, (OJ L 378, 27.12.2006, p. 41).

Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020, (OJ L 77, 15.04.2014, p. 44), Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action, (OJ L 77, 15.04.2014, p. 95).

Based on the first results from the Neighbourhood Investment Facility (NIF), the Commission proposed to set up investment facilities targeting countries under the Development Cooperation Instrument (DCI) Regulation, initially in Central Asia, Asia, and Latin America. Two facilities were set up for Asia: the Investment Facility for Central Asia (IFCA) in 2010 and the Asian Investment Facility (AIF) in 2011. These two facilities have been modelled based on the NIF and have the same types of objectives and scope as those defined in the NIF General Framework agreed in March 2008 (cf. section of this report on NIF)

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The IFCA's main purpose is to promote additional investments and key infrastructures with a priority focus in the first implementation period on energy and environment. The AIF's main purpose is to promote additional investments and key infrastructure with a priority focus on climate change and 'green' investments in the areas of energy, environment and transport. In addition, capital may be provided in particular to small and medium sized enterprises (SMEs) and to social sector investments.

Geographical coverage and final recipients

The final recipients of these two facilities are the countries of these two regions. Other final recipients will be the private sector and, in particular SMEs.

Main technical characteristics

The types of operations to be financed can be the following:

- investment co-financing in public infrastructure projects,
- loan guarantee cost financing,
- interest rate subsidy,
- technical assistance,
- risk capital operations,
- any other risk-sharing instruments.

Implementation arrangements at Blending framework level

In order to improve the effectiveness of blending operations (including the ones for IFCA and AIF) in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of their management including a reduction of transaction costs, it was agreed in the context of the EU Platform for Blending in External Cooperation (EUBEC) to organise four blending "frameworks" according to the financing instruments (EDF – ENI – DCI – IPA)[218]. At the same time, in order to be able to address the different regional strategic priorities, to increase policy leverage and effectively use blending operations for policy dialogue, and for reporting purposes, it was agreed to designate under each framework geographically defined "facilities ". The financing comes essentially from the regional programmes defined under the different instruments, in accordance with the priorities and objectives defined in the programming documents, in dialogue with partner countries and relevant regional organisations. Where relevant and appropriate, financing could also come from specific national/regional programmes, in support of priorities and objectives in these countries/regions as defined in the relevant programming documents. Should there be an interest from EU Members States or other donors to contribute to blending operations, this will be done through dedicated fund(s). There is one single governance structure for each blending framework, governing Commission funds as well as EU Members States or other donor's contributions through dedicated funds. Decision making is organised in a two-level structure. Opinions on projects proposals are formulated at the Board level. Such opinions are prepared by a technical level assessment. Boards, chaired by the Commission, include the EEAS, the EU MS as voting members, and Financial Institutions as observers. They are responsible for formulating opinions on individual blending operations, providing guidance to

[218] EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

participating institutions, monitoring and reviewing the project pipeline, examining project related results and monitoring the portfolio of approved projects, as well as drawing on the specific expertise of the Financial Institutions as appropriate, ensuring division of labour. The technical assessment of project proposals includes regular technical meetings chaired by the Commission (involving relevant DGs as appropriate) with the participation of EEAS and Financial Institutions that discuss the pipeline and assess the projects to be submitted to the Boards.

Implementation arrangements

Individual projects financed under IFCA and AIF are implemented through indirect management mode. This means that the Commission delegates budget implementation tasks to eligible Financial Institutions which have successfully undergone an ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012.

Budget implementation tasks consist of the launch of public procurement and grant award procedures and of concluding and managing the resulting contracts as well as execution of payments. The entrusted Member State agency or international organisation shall also monitor and evaluate the project and report on it.

In addition, budget-implementation tasks may be sub-delegated by the entrusted entity to the partner country in accordance with 4(7) of Regulation (EU) No 236/2014. The entrusted budget-implementation tasks shall be carried out according to the rules assessed and approved by the Lead Financial Institution.

Climate Change Window

Addressing climate change issues, both mitigation and adaptation, will require a huge amount of funds. According to the Commission Communication of September 2009[219] "Stepping-up international climate finance," the financial needs for developing countries could reach about $ 100 billion per year by 2020. Hence, this Window is applicable to all the EU Blending Facilities.

Added value

EU added value of IFCA and AIF can occur at different levels e.g:

i. at the strategy and policy level, IFCA and AIF provide policy leverage, enhance the supply of public goods, increase EU visibility, assist in managing debt sustainability thresholds and contribute to aid effectiveness;
ii. at the financial level, IFCA and AIF provide financial leverage, help mitigate risks and lower borrowing costs and provide flexibility to tailor assistance to financing needs;
iii. at the operational level, IFCA and AIF stimulate financial discipline, efficient administration and monitoring, enable the acceleration of projects, improve project quality and increase donor coordination.

In addition, the expected results for both facilities are increased investments in the following sectors contributing to:

1) better energy infrastructure, notably:
   - improved transit connections between Asian countries, thus increasing security of energy supply for Asian countries;
   - improved safety and security of energy infrastructure;
   - improved energy efficiency and energy savings;

[219] SEC(2009) 1172

- increased production and use of renewable energy (wind, solar energy).

2) Increased protection of the environment and better focus and control of climate changes impacts, notably:
   - introduction of integrated water management, including necessary related infrastructure;
   - reduction of air, soil and water pollution including monitoring infrastructure when needed;
   - increased forest protection including by strengthening forest governance;
   - promotion of climate change related investments, i.e. renewable energy, energy saving and cleaner production and other environment friendly techniques;
   - promotion of integrated waste management (household, municipal and industrial) including necessary related infrastructures.
3) Creation and growth of SMEs and improvement of the employment situations:
   - better access to financing for SMEs (availability of a larger range of financial products than currently available) at the different stages of enterprise creation, restructuring, modernisation, etc.;
   - creation of technological poles, enterprise incubators, etc.
4) Improved social services and infrastructures:
   - better access to health care and improved health services installations in urban and rural areas;
   - better education facilities, increased access to education in urban and rural areas;
   - improve vocational training facilities.

And in addition for the AIF:

5) better transport infrastructure, notably in the area of climate change relevant and "green" investments:
   - better (faster, cheaper and safer, environmental friendly) transport infrastructure within beneficiary countries and between them;
   - better interconnection between Asian countries;
   - faster and cheaper movement of people and goods within Asia.

(c) The financial institutions involved in implementation;

The main entrusted entities to which the Commission delegates the implementation of the projects financed under IFCA and AIF are multilateral and national European financial institutions. They are eligible to ensure the role as a Lead financial institution to propose lending operations that could benefit from AIF and IFCA support.

Multilateral finance institutions such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) are eligible for both Facilities. Regional financial institutions active in Asia, like Asian Development Bank, may be associated in projects supported by AIF. For IFCA, the Nordic Investment Bank (NIB) is also eligible. Eligibility of other multilateral finance institutions will be examined on a case-by-case basis.

National European development finance institutions such as the Agence Française de Développement (AFD), the Kreditanstalt für Wiederaufbau (KfW), SIMEST (Società Italiana per le Imprese all'Estero) and the Spanish Agency for International Development Cooperation (AECID) are already eligible under the AIF and IFCA.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate Budgetary Commitments as 31/12/2014:
IFCA: EUR 85 567 000
AIF: EUR 86 000 000
TOTAL: EUR 171 567 000
Aggregate Budgetary Payments as 31/12/2014 EUR
IFCA: EUR 27 485 020
AIF: EUR 17 945 500
TOTAL: EUR 45 430 520

(e) The performance of the financial instrument, including investments realised;

IFCA

Through IFCA the Commission has until the end of 2014 approved funding for 15 projects amounting to EUR 82 million of EU contribution. These have mobilised another EUR 342 million from European financial institutions and reached a total investment volume of EUR 465 million, including also other public and private investments. Four of the projects are implemented in Kazakhstan, three in the Kyrgyz Republic, two in Tajikistan, one in Turkmenistan, one in Uzbekistan and four have a regional implementing dimension.

In 2014, the Operational Board of IFCA gave a positive opinion on four projects totalling to EUR 18 million. The overall investment cost of these projects reached EUR 25 million, mobilising another EUR 39 million from eligible European Finance Institutions.

AIF

AIF has until the end of 2014 committed a total of 62 million for 13 projects thereby mobilising EUR 1 043 billion from European financial institutions. The total investment costs of these projects amount to EUR 2 046 billion. The countries where these projects are implemented are Bangladesh (four), Pakistan (two), Indonesia (one), Nepal (one), Cambodia (one), Vietnam (one), Philippines (one) and Sri Lanka (one). In addition to these, one project is of regional character.

In 2014, the Operational Board of AIF gave a positive opinion on contributions to five projects totalling EUR 26 million. The total investment cost of these projects reached more than EUR 1 157 billion, mobilising EUR 684 million from eligible European Finance Institutions.

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA for IFCA and AIF

(g) The balance of the fiduciary account;

NA for IFCA and AIF

MIFA Debt Fund ("Microfinance Initiative for Asia" funded under both IFCA and AIF)

MIFA *(in EUR)*	
Balance on the fiduciary account (current account)	2 002 247
Term deposits/Bonds (if applicable)	Not Applicable
Term deposits < 3 months	
Term deposits > 3 month < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[220]	7 745 343
***Other assets* (if applicable)**	
= Total assets	9 747 590

(h) Revenues and repayments;

NA for IFCA and AIF

(i) The value of equity investments, with respect to previous years;

MIFA Debt Fund ("Microfinance Initiative for Asia" funded under both IFCA and AIF)

Equity investments in USD	31.12.2014	31.12.2013
C2 shares	6 616 717	6 605 836
C3 shares	2 786 904	2 650 471

(j) The accumulated figures on impairments / on called guarantees for guarantee instruments;

NA for IFCA and AIF

(k) The target leverage effect, and the achieved leverage effect;

For 2007-2014:

IFCA

The achieved leverage effect based on historical leverage experience during the period 2010-2013 (since the Facility was only created in 2010) for the IFCA was 5,6 (total project cost = EUR 465 million/IFCA contributions = EUR 82 million).

[220] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.

AIF
The achieved leverage effect based on historical leverage experience during the period 2011-2013 (since the Facility was created only in 2011) for the AIF was 32,98 (total project cost = EUR 2 046 million/AIF contributions = EUR 62 million).

For 2014-2020:

IFCA
The target leverage effect as indicated in the ex-ante evaluation of IFCA is 4 to 5 over the lifetime of the IFCA (2014-2020), based on the leverage attained since its creation.

On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 140 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 560 million to 700 million for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost) divided by the total amount of the EU blending facility contribution relating to the investment leverage

AIF
The target leverage effect as indicated in the ex-ante evaluation is 4 to 5 over the lifetime of the AIF (2014-2020), based on the leverage attained since its creation.

On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 350 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 1,4 billion to 1,75 billion for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost) divided by the total amount of the EU blending facility contribution relating to the investment leverage.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

IFCA
IFCA's main purpose is to promote additional investments and key infrastructures with a priority focus in the first implementation period on energy, environment, support to SMEs and social infrastructure. Projects in the transport sector are only eligible for IFCA funding if the sector is considered as a priority by the strategic board of the facility. Operations financed by Financial Institutions in consortia pooling their loan resources with IFCA support allows an increase in risk and credit ceilings to the benefit of the Central Asian countries and promote the financing of categories of investments, which at present cannot be financed either by the market or by the development Finance Institutions individually.
The leverage effect of IFCA has already and will continue to generate a considerable multiplying factor of financial non-refundable contributions. The loans provided by the Financial Institutions and grants made available by other donors increase the resources to be directed towards the Central Asian recipient countries.

IFCA also strongly supports investments aiming at mitigating or reducing the negative impact of Climate Change. The commitment of Central Asia towards Climate Change investments was confirmed during the meeting of the EU Central Asia Environment Platform held in Bishkek in February 2013. In this context, Central Asian countries have committed to strengthen their institutional frameworks and technical capacity to manage climate-related risks and opportunities mainly by promoting sustainable use of water and development of

renewable energy sources. IFCA is therefore an appropriate instrument to co-finance some of these investments and to develop a range of Climate Change oriented operations in Central Asia.
The Facility intervenes in cases where the market fails to offer adequate financing, which otherwise would hinder the realization of projects with the potential to reduce unemployment and poverty and to advance the economy in a sustainable way. SMEs, for example, are a seedbed for economic development, but can often not develop due to a lack of financing options. Infrastructure projects with a large impact on the population are frequently abandoned for the same reason. The IFCA, in collaboration with eligible Financial Institutions, provides financial assistance in these cases, thereby supporting poverty reduction and sustainable development.

The Commission has until the end of 2014 supported a total investment volume of EUR 465 million, including also other public and private investments.

AIF
AIF's main purpose is to promote additional investments and key infrastructure with a priority focus on climate change relevant and "green" investments in areas of environment, energy as well as in SME's and social infrastructure. Projects in the transport sector have become one of the priorities for AIF funding since 2014. The leverage effect of the AIF since its creation has been considerable. The multiplying factor of the amount of financial non-refundable contributions provided has been important, constituting together with the resources from the financial institutions significant resources, directed towards the Asian recipient countries. Operations financed by financial institutions pooling their loan resources in consortia with AIF support has allowed an increase in risk and credit ceilings to the benefit of Asian countries and promote the financing of categories of investments which at present cannot be financed either by the market or by the development finance Institutions separately. AIF has until the end of 2014 supported the total investment costs of projects amounting to EUR 2 046 billion.

Climate Change Window:
Addressing climate change issues, both mitigation and adaptation, will require a huge amount of funds. According to the Commission Communication of September 2009[221] "Stepping-up international climate finance," the financial needs for developing countries could reach about $ 100 billion per year by 2020.

For the EU to meet its commitments, specific "climate change windows" (CCWs) have been created in the EU regional blending mechanisms. These "windows" indicate the financing and enable tracking of all climate change related projects funded by the EU and other European Finance Institutions through these facilities. Their main purpose is to promote additional investments in projects which have climate change as their principal objective. According to the OECD-DAC categories, these projects should be earmarked as Rio Marker 2. They can target either mitigation or adaptation or both and should contribute to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere. Operations could address all relevant fields in line with the ones of the facilities.
AIF will therefore also include a Climate Change Window to support the implementation of projects helping partner countries to tackle climate change through mitigation and/or adaptation measures. The AIF CCW will be managed in a streamlined way and will have in general the same rules and the same financing and implementation modalities as the AIF.

[221] SEC(2009) 1172

Depending on the pipeline of operations, it may be endowed in the future by additional financing.

E - Other key points and issues

- **Main issues for implementation:** for both Facilities
  - A stable political and security climate at the regional level in general and at the country level in particular is needed to promote and secure investments. Partner countries must be ready to increase the level of investments through their own resources as well as through loans. The pipeline of operations must be of sufficient quality and volume and supply sufficient EU additionality.Strong commitment is needed from recipients (for IFCA). Finance Institutions' capability to provide sufficient loan amounts also depends on the availability/accessibility of financial guarantees/grant resources in countries with a concessionality requirement (for AIF).
  - The financial allocation to the regional investment facilities will substantially increase during the ongoing programming period. For IFCA, an amount of 140 million is foreseen whereas the expected allocation for AIF amounts to 350 million. To these amounts, funds from the National Indicative Programmes may be added. The management of such an increase represents a significant challenge for the Commission.
  - One of the priorities for the current programming period, in line with the Agenda for Change, is a higher share of EU aid to be channelled through facilities for blending grants and loans. A greater use of financial instruments such as guarantees, equity and other risk-sharing instruments is one way to use the catalytic effect of blending in crowding in more private financing.
  - The Facilities will continue to operate by providing support for loans to partner countries from EIB, and from other multilateral and national development financial institutions. By financing technical assistance and providing complementary grants, the Facility will encourage the recipient governments and institutions to make essential investments, which would otherwise be postponed due to lack of resources.
  - AIF will also provide better access to finance for Small and Medium Enterprises, and include investments in the transport sector, as well as contributing to the ASEAN Connectivity Master Plan
  - For AIF, the 2015 indicative pipeline of operations includes 17 projects for a total amount of approximatively EUR 2,7 billion with an indicative potential for AIF budget contribution of EUR 94,5 million. Increased involvement of Asian Development Bank and other partners in the region could expand this pipeline further.
  - Concerning IFCA, the 2015 indicative pipeline of operations includes 19 projects for a total amount of EUR 1 067 billion with an indicative potential for IFCA budget contribution of almost EUR 62 million.
  - Projects to be funded under the 2014-2020 programming are subject to the availability of funds and subsequent commitment in 2014-2015.
  - EUBEC Platform: in 2012, the EUBEC Platform was launched to further increase the effectiveness of blending. The Platform is led by a Policy Group which makes recommendations based on work carried out in technical groups. It is chaired by the Commission and involves representatives from MS, the European Parliament (EP) and the EEAS. In the technical groups the Commission works together with experts from EFIs and MS. In 2014 the Platform continued the work on reviewing notably the governance of the existing blending mechanisms (see above in section A(b)) in order to improve the effectiveness of blending operations in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of

their management. The Platform also carried on its work on further development of financial instruments, harmonisation of contracting, monitoring and reporting, mobilization of private sector resources as well as mainstreaming Climate Change financing through blending. The overall results of the technical groups were presented to the Policy Group in July and December 2014. A report on the activities of the EUBEC Platform was submitted to the Council and the EP end of 2014.

- **Main risks:**
  - the European Court of Auditors published a special report[222] on the EU blending facilities in October 2014. The Court concluded that blending had been generally effective. The investments facilities are well set up but the potential benefits of blending were not fully realized due to Commission management shortcomings. All the projects examined by the Court were judged to be relevant. However, the auditors considered that the approval process was not sufficiently thorough and the justification for awarding grants for blending during the appraisal process was not always evident. The recommendations covered the following aspects: need to improve the documentation on additionality of the grant and its level, produce guidelines, ensure more pro-active role of EU Delegations, simplify the decision making process, improve Commission's monitoring of the projects and ensure appropriate visibility for EU funding.
- **General outlook**:
  - many of these recommendations have already been dealt with by the EUBEC Platform, including the development of a harmonized and improved project application form and its guidelines as well as the development of a results measurement framework with standard indicators.

6.3. Latin America Investment Facility (LAIF)

A - Summary

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	Eligible Financial Institutions
Initial Overall Budget Envelope:	EUR 10 850 000
Current Overall Budget:	EUR 210 400 000
Envisaged overall budget for the period 2014-2020:	EUR 350 000 000

[222] European Court of Auditors' special report no. 16/2014. The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies

In general terms, the LAIF has proven to be an effective instrument within the European External Policy in particular by leveraging significant financial resources through grants. For the period 2009-2014 approximately EUR 204 million[223] in LAIF grants have leveraged EUR 2,9 billion in loans from European Financial Institutions (EFIs) for total investment costs amounting to EUR 6,6 billion.

Building on the success of the several regional facilities so far, blending, including LAIF will be an increasingly important tool for the EU in the current Multiannual Financial Framework (2014-2020).

B - Description

The breakdown of the current overall budget is as follows:

Decision No	Initial Decision	Top up
C(2009) 10106	10,85	
C(2010) 4256	24	
C(2011) 4655	40	
C(2012) 7462	55 (for 2012)	
C (2012) 7462	45 (for 2013)	2 + 2.5 +1,05
C (2014) 9128	30 (for 2015)	
TOTAL	204,85	5,55

In comparison to the 2013 overall budget (EUR 179,35 million), there has been an increase of EUR 31,05 million during 2014.

LAIF has been recreated in 2014 for the Multi-annual Financial Framework (MFF), with an initial financing decision of EUR 30 million. A total grant amount of EUR 350 million is foreseen for the current MFF.

(a) Identification of the financial instrument and the basic act;

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation, (OJ L 378, 27.12.2006, p. 41).

Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020 (OJ L 77, 15.04.2014, p. 44), Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action (OJ L 77, 15.04.2014, p. 95):

Based on the first results from the Neighbourhood Investment Facility (NIF), the Commission proposed to set up investment facilities targeting countries under the Development Cooperation Instrument (DCI) Regulation, initially in Central Asia, Asia, and

[223] On the basis of 27 projects, including 2 cancelled projects.

Latin America. The LAIF was set up in 2009. The facility has been modelled based on the NIF and has the same types of objectives and scope as those defined in the NIF General Framework agreed in March 2008.

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope

The LAIF was officially launched by the Commission and the Spanish Presidency of the European Union during the VI EU-Latin America and the Caribbean (EU-LAC) Summit in 2010.

The LAIF's main purpose is to promote additional investments and infrastructures in the transport, energy, and environment sectors and to support social sector such as health and education, and private sector development in the Latin American countries. The Facility will support the growth of SMEs, by making available a range of financial instruments in Latin America. LAIF interventions should focus indicatively on the following sectors:

- Improving interconnectivity between and within Latin American countries, in particular establishing better energy and transport infrastructure, including energy efficiency, renewable energy systems and the sustainability of transport and communication.
- Increasing the protection of the environment and supporting climate change adaptation and mitigation actions.
- Promoting equitable and sustainable socio-economic development through the improvement of social services infrastructure and support for small and medium-sized enterprises (SME).

Financing and implementing large infrastructure projects requires considerable amounts of finance. The aim of LAIF is to create a partnership, pooling together grant resources from the Commission and using them to leverage loans from European and Latin American Finance Institutions as well as own contributions from partners countries in Latin America.

The LAIF has also included, since the beginning of 2011, a Climate Change Window to support the implementation of projects helping partner countries tackle climate change through mitigation and/or adaptation measures. An endowment of EUR 17,3 million was approved by Commission Implementing Decision in 2011 (C (2011) 9538)[224] under DCI-ENV shared with the NIF, although it was finally entirely used under the LAIF.

The final recipients will be the Latin American countries foreseen in the DCI Regulation (CE) No 1905/2006 and the DCI Regulation (EU) No 233/2014. Other final recipients will be the private sector and in particular SMEs for categories of operations dedicated to private sector development. Eligible finance institutions will be stakeholders of the Financial Instrument's operations.

Main technical characteristics

The types of operations to be financed under the LAIF can be the following:

- investment co-financing in public infrastructure projects,
- loan guarantee cost financing,
- interest rate subsidy,
- technical assistance,

[224] SEC/2012/30 ()

- risk capital operations.

Implementation arrangements at Blending framework level

In order to improve the effectiveness of blending operations (including the one for LAIF) in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of their management including a reduction of transaction costs, it was agreed in the context of the The Platform for Blending in External Cooperation (EUBEC) to organise four blending "frameworks" according to the financing instruments (EDF – ENI – DCI – IPA[225]). At the same time, in order to be able to address the different regional strategic priorities, to increase policy leverage and effectively use blending operations for policy dialogue, and for reporting purposes, it was agreed to designate under each framework geographically defined "facilities ".

The financing comes esentially from the regional programmes defined under the different instruments, in accordance with the priorities and objectives defined in the programming documents, in dialogue with partner countries and relevant regional organisations. Where relevant and appropriate, financing could also come from specific national/regional programmes, in support of priorities and objectives in these countries/regions as defined in the relevant programming documents. Should there be an interest from EU Members States or other donors to contribute to blending operations, this will be done through dedicated fund(s).

There is one single governance structure for each blending framework, governing Commission funds as well as EU Members States or other donor's contributions through dedicated funds.

Decision making is organised in a two-level structure. Opinions on projects proposals are formulated at the Board level. Such opinions are prepared by a technical level assessment.

Boards, chaired by the Commission, include the EEAS, the EU MS as voting members, and Financial Institutions as observers. They are responsible for formulating opinions on individual blending operations, providing guidance to participating institutions, monitoring and reviewing the project pipeline, examining project related results and monitoring the portfolio of approved projects, as well as drawing on the specific expertise of the Financial Institutions as appropriate, ensuring division of labour.

The technical assessment of project proposals includes regular technical meetings chaired by the Commission (involving relevant DGs as appropriate) with the participation of EEAS and Financial Institutions that are discussed the pipeline and assess the projects to be submitted to the Boards.

Implementation arrangements at individual project level

Individual projects financed under LAIF are implemented through indirect management mode. This means that the Commission delegates budget implementation tasks to eligible Financial Institutions which have successfully undergone an ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012.

Budget implementation tasks consist of the launch of public procurement and grant award procedures and of concluding and managing the resulting contracts as well as execution of payments. The entrusted Member State agency or international organisation shall also monitor and evaluate the project and report on it.

In addition, budget-implementation tasks may be sub-delegated by the entrusted entity to the partner country in accordance with 4(7) of Regulation (EU) No 236/2014. The entrusted

[225] EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

budget-implementation tasks shall be carried out according to the rules assessed and approved by the Lead Financial Institution.
Until 2014, possible management modes were centralised management (direct and indirect), joint management, and partially decentralised management.

Added value

The added value of LAIF can occur at different levels e.g.:

i. at the strategy and policy level, LAIF provides policy leverage, enhances the supply of public goods, increases EU visibility, assists in managing debt sustainability thresholds, and contributes to aid effectiveness;
ii. at the financial level LAIF, provides financial leverage, helps mitigate risks and lower borrowing costs and provides flexibility to tailor assistance to financing needs;
iii. at the operational level, LAIF stimulates financial discipline, efficient administration and monitoring, enables the acceleration of projects, improves project quality and increases donor coordination.

The expected results of the LAIF would be increased investment in the following sectors contributing to:

1) better transport infrastructure,
2) improved energy infrastructure,
3) increased protection of the environment,
4) improved social services and infrastructures,
5) creation and growth of SMEs and improvement of the employment situations.

The supported operations will be ODA[226] eligible, will stimulate investment in line with the strategic objectives of the Facility, and will further strengthen the Union policy orientations in the Latin American region.

The LAIF contribution to an operation will be allocated according to the quality of the proposal, the sector of intervention and its visibility, and the leverage effect that the LAIF contribution will have.

Moreover, in order to ensure the EU added value, the following criteria will be considered for giving preference to an operation which support the EU strategy in the region:

- investments addressing environmental threats or climate change mitigation and adaptation, with cross border effects (land, river and sea);
- investments focusing on renewable energy, energy efficiency and on promoting the use of clean energy technologies;
- investments in sustainable social infrastructure with a particular focus on social inclusiveness and on less developed areas, helping to reduce disparities in access to social infrastructure within and between the countries;
- operations supporting the access to finance, including for higher risk activities, in particular for the micro, small and medium enterprises;
- operations in which two or more countries from the region are cooperating;
- investments identified in national, sub-regional or regional priority plans;
- investments in sectors with limited borrowing capacity.

Special attention will be paid to a balanced involvement of the different sub-regions and countries in LAIF, while ensuring support for quality operation proposals and keeping in mind the absorption capacity of individual countries and regions.

[226] ODA (Official Development Assistance)

(c) The financial institutions involved in implementation;

The main entrusted entities to which the Commission delegates the implementation of the projects financed under LAIF are multilateral and national European financial institutions. They are eligible to ensure the role as a Lead financial institution to propose lending operations that could benefit from LAIF support.

Multilateral finance institutions such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) are eligible for the Facility. European bilateral development finance institutions such as the Agence Française de Développement (AFD), the Kreditanstalt für Wiederaufbau (KfW), SIMEST (Società Italiana per le Imprese all'Estero) and the Spanish Agency for International Development Cooperation (AECID) are already eligible under the LAIF.

The Commission's regional Latin American partners are Latin American Development Banks: currently, the Central American Bank for Economic Integration (CABEI); (CAF) Development Bank of Latin America, and the Inter-American Development Bank (IDB).

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate Budgetary Commitments as 31/12/2014:	
LAIF:	EUR 210 400 000
Aggregate Budgetary Payments as 31/12/2014 EUR	
LAIF:	EUR 91 017 000

In addition:
Climate Change Window:
Aggregate Budgetary Commitments as at 31/12/2014 EUR 17 300 000
Aggregate Budgetary Payments as at 31/12/2014 EUR 15 800 000

(e) The performance of the financial instrument, including investments realised;

The LAIF has served its purpose well during its first four years of operation. By adding a grant element to loan funding from leading European development finance institutions and Latin American development banks, LAIF has helped to secure and mobilise funds for major infrastructure projects at national and regional level in Latin America. It has helped consolidate the position of the European Union and its member states as leading supporters of economic growth and social progress in the region. A key factor in the success of the LAIF has been the participation of the regional Latin American development finance institutions which has boosted partnership and cooperation between them and European finance institutions.

As laid down in LAIF's strategic orientations, its key priorities are to improve interconnectivity between and within the Latin American countries, in particular by establishing better energy and transport infrastructure, increasing environmental protection, combatting climate change and supporting the development of small and medium-sized enterprises.

LAIF contributes to achieving the objectives of the EU's Development Cooperation Instrument and its Regional Strategy for Latin America.

The total Union budget of the LAIF by the end of 2014 is EUR 210 400 000, as it includes approximatively EUR 160 000 000 from the Union budget Regional Latin America, EUR 50 000 000 earmarked for Nicaragua. The allocation of EUR 17 000 000 for the Climate Change Window, initially planned to be shared with the NIF, was finally entirely used for LAIF projects.
Unitl the end of 2014, 27 projects have been approved, which represent a total LAIF contribution of EUR 204 million. The total amount of investments supported was EUR 6,6 billion, out of which the eligible European Finance Institutions mobilised more than EUR 2,9 billion. [227]

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

NA

(g) The balance of the fiduciary account;

NA

(h) Revenues and repayments;

NA

(i) The value of equity investments, with respect to previous years;

NA

(j) The accumulated figures on impairments/ on called guarantees for guarantee instruments;

NA

(k) The target leverage effect, and the achieved leverage effect;

<u>For 2007-2013 instruments</u>:
The achieved leverage effect based on historical leverage experience during the period 2010-2013 for the LAIF was 28,2 (total project cost = EUR 5,5 billion/LAIF contributions = EUR 190 million).

<u>For 2014-2020 instruments</u>:
The target leverage effect as indicated in the ex-ante evaluation is at least for 4 to 5 over the lifetime of the LAIF (2014-2020) as included also in the financing decision of the LAIF.
On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 350 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 1,4 billion to 1,75 billion for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost) divided by the total amount of the EU blending facility contribution relating to the investment leverage.

D - <u>Strategic importance/relevance</u>

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

[227] Based on 27 projects, including 2 cancelled projects.

The LAIF has proven to be an effective instrument within European External Policy and achieved its goal of leveraging significant financial resources through grants.

LAIF projects are overall relevant to LAIF strategic objectives, which are: to promote additional investments and infrastructures in the transport, energy, and environment sectors and to support social sector such as health and education, and private sector development in the Latin American countries. It also supports the growth of SMEs, by making available a range of financial instruments in the region. There is a relatively balanced geographical and sectorial distribution of projects.

The LAIF has significantly contributed to the development of partnerships and increased co-ordination between the financial institutions and the Commission, as well as amongst the financial institutions themselves. So far, it mobilized the total amount of investments of EUR 6,6 billion.

Building on the success of the several regional facilities so far, blending will be an increasingly important tool for the EU in the current Multiannual Financial Framework (2014-2020).

E - <u>Other key points and issues</u>

- **Main issues for the implementation:**
  - attention must be paid to the aspects of the regional interconnectivity, as well as to the crosscutting objectives including the policy dialogue.
  - As stated in the context of the current Multiannual Indicative Programme and priorities for 2014-2020, and based on the experience on the LAIF, blending will be a major mechanism of implementation, in particular to support investments complementing the objectives of each priority area, and clearly linked to the overall EU objectives and policy priorities in the region.
  - The financial allocation to the regional investment facilities will substantially increase during the ongoing programming period. For LAIF an amount of 350 million is foreseen two which funds from the National Indicative Programmes may be added. The management of such an increase represents a significant challenge for the Commission.
  - The pipeline of potential projects for 2015 - 2016 shows a balanced distribution of projects both geographically and in sectors.
  - Twelve percent of the total requests in the 2015 – 2016 preliminary pipeline are regional projects. Regarding geographical distribution, projects are foreseen in Brazil (3), Bolivia (1), Ecuador (4), Nicaragua (2), El Salvador (2), Peru (3) and Honduras (3). Regarding sectors covered in the preliminary pipeline, energy projects represent around 37% followed by Transport 26%, Water and Sanitation 5,6%, social and economic infrastructure 5,6%, climate change 5,1%, private sector 4,7%, Total amount indicated for LAIF support is EUR 179 700 000. The average size of the operations is circa EUR 10,5 million.
  - *EUBEC Platform*: in 2012, the EUBEC Platform was launched to further increase the effectiveness of blending. The Platform is led by a Policy Group which makes recommendations based on work carried out in technical groups. It is chaired by the Commission and involves representatives from MS, the European Parliament (EP) and the EEAS. In the technical groups the Commission works together with experts from EFIs and MS. In 2014 the Platform continued the work on reviewing notably the governance of the existing blending mechanisms (see above in section A(b)) in order to improve the effectiveness of blending operations in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of their management. The Platform also carried on its work on further development of financial

instruments, harmonisation of contracting, monitoring and reporting, mobilization of private sector resources as well as mainstreaming Climate Change financing through blending. The overall results of the technical groups were presented to the Policy Group in July and December 2014. A report on the activities of the EUBEC Platform was submitted to the Council and the EP end of 2014.

- **Main risks**:
  - o the European Court of Auditors published a special report[228] on the EU blending facilities in October 2014. The Court concluded that blending had been generally effective. The investments facilities are well set up but the potential benefits of blending were not fully realized due to Commission management shortcomings. All the projects examined by the Court were judged to be relevant. However, the auditors considered that the approval process was not sufficiently thorough and the justification for awarding grants for blending during the appraisal process was not always evident. The recommendations covered the following aspects: need to improve the documentation on additionality of the grant and its level, produce guidelines, ensure more pro-active role of EU Delegations, simplify the decision making process, improve Commission's monitoring of the projects and ensure appropriate visibility for EU funding.
- **General outlook:**
  - o many of the recommendations above have already been dealt with by the EUBEC Platform, including the development of a harmonized and improved project application form and its guidelines as well as the development of a results measurement framework with standard indicators applicable to projects under all the blending facilities.

6.4. Support to the Facility for Euro-Mediterranean Investment Partnership (FEMIP)

A - Summary

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 32 million*
Current Overall Budget:	EUR 224 million**

**Appropriations per the Basic Act*
***Under the ENPI Regulation*

In line with its objectives and scope, the Support to FEMIP has provided capital to the ENP South partner countries and invested directly or indirectly in private sector, i.e. enabled the creation, restructuring or growth of enterprises. It has strengthened the role of the local

[228] European Court of Auditors' special report no. 16/2014. The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies

financial sector by supporting the creation of new institutions or the establishment of new activities for the benefit of the private sector.

With EUR 33 million allocated in technical assistance, the Support to FEMIP supported FEMIP investment activities in several southern Mediterranean countries, assisting promoters during different stages of the project cycle and encouraging the modernisation and opening-up of the partner countries' economies. Technical assistance funds were used inter alia to prepare environmental investments in the region under the Mediterranean Hot Spot Investment Programme (MeHSIP), to prepare various transport projects in Tunisia, to assist the Palestinian water authorities in the preparation of a seawater desalination project, to support the transformation process of the Arab Centre for Agricultural Development (microfinance), to participate in the rehabilitation programme of 17 Moroccan hospitals and to promote the use of space technology applications under the Space for Med Acceleration Program. Several sectors have benefited so far from the Technical assistance with significant contribution to the transport and water distribution sector.

As far as risk capital operations are concerned, the Support to FEMIP has played a strong catalytic role for other borrowers and investors. The Support to FEMIP helped to foster private sector activity in various sectors and assisted SMEs operating in any of the eligible sectors: agribusiness sector, financial sector, ICT sector and in particular the industry and the healthcare sectors, these latter currently being the most highly represented sectors. The overall investment amount supported by 2014 amounted to 6 714 million.

The Support to FEMIP has also generated employment opportunities. It is estimated that thanks to the risk capital investments in equity funds, aggregate direct jobs of historical companies supported have increased by more than 1,2 times over the EIB holding period. This is equivalent to an average growth annual rate of circa 5% over the EIB holding period. It is further estimated that a notable share of the portfolio companies (more than 68%) have witnessed an increase of their employment figures over the EIB holding period.

As regard the overall performance, the European Court of Auditors carried out a Follow-up audit of the recommendations made in its Special Report No 1/2009 "Banking measures in the Mediterranean context of the MEDA programme and the previous protocols" in 2013 and further to this follow-up audit, the Court informed the Commission that all recommendations have been assessed as fully implemented. In particular, the Commission is currently working on the last recommendation, i.e. the final evaluation of the Facility.

B - Description

(a) Identification of the financial instrument and the basic act;

The current act for the FEMIP is the European Neighbourhood and Partnership Instrument[229] (ENPI for 2007-2013) for which the legal basis is Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.[230]

[229] The previous act (not included in this report) was the MEDA (*Mesures D'Accompagnement*) programme ended in 2006. The 2013 annual accounts include FEMIP MEDA loans (EUR 115 000 000), investments (EUR 93 000 000) and fiduciary accounts (EUR 356 000 000 including reflow account).
[230] (OJ L 31/1, 9.11.2006)

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
The objective of the support to FEMIP is to provide capital to the private sector of Mediterranean partner countries pari passu with other commercial investors in the region,in the form of risk capital, technical assistance and microfinance.

a) Risk capital is invested directly or indirectly in order to (i) support the private sector, i.e. enable the creation, restructuring or growth of enterprises (ii) strengthen the role of the local financial sector by supporting the creation of new institutions or the establishment of new activities for the benefit of the private sector. The Risk Capital operations consist of private equity and microfinance operations.
b) Technical assistance is mobilised to strengthen FEMIP operations in the Mediterranean region, with a special focus on private sector development.

The EIB must obtain the Commission's prior agreement for each Operation that it intends to carry out.

Geographical coverage and final recipients
Support to FEMIP covers the nine Southern Mediterranean States.[231] The recipients of the Risk Capital Facility are the private sector in general and SMEs as well as financial intermediaries. The recipients of technical assistance are private enterprises, public institutions and the financial intermediaries.

Implementation arrangements
This action with the objective of financing Risk Capital and Technical Assistance and micro-finance. Operations will be implemented in indirect centralised management with the European Investment Bank. The E I B is entrusted to carry out the implementation of these Operations.

Duration and impact on the budget
There has been an annual budgetary commitment of EUR 32 million against budget line 19 08 01 01. The final date for signature under the 2013 envelope was 31st December 2014.

Added value
Support to FEMIP provided a much-needed capital supply in a region where risk capital operations are the exception. Access to finance in the region is very limited and is one of the most serious hindrances to development facing especially small and medium sized enterprises in the region. EIB's capacity to supply capital targeted at reducing this problem is therefore a direct response to this development cooperation challenge. Similarly, the technical assistance share of the Support to FEMIP instrument helped improve the quality of project preparation in the region and improve the standards of project implementation, in direct support of development cooperation objectives for the region.

(c) The financial institutions involved in implementation;

The Commission has delegated some of its management and budgetary implementation responsibilities to the EIB with a view to the execution of Operations covered by the Support to FEMIP.

[231] Note: At this stage, the support to Syria is suspended.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate Budgetary Commitments as of 31/12/2014	EUR 224 000 000
Aggregated Budgetary Payments as of 31/12/2014	EUR 224 000 000

(e) The performance of the financial instrument, including investments realised;

- EUR 33,08 million was allocated to 20 technical assistance operations (ongoing and completed), including regional studies, helping promoters in the day-to-day management of their projects.
- EUR 180,3 million was allocated to 28 risk capital operations and additional EUR 37,5 million were cancelled and returned to the Commission.
- EUR 10,62 million have not been used to finance projects, mostly as a consequence of the instable situation in the region following the events of the "Arab Spring" and the difficulty to arrive to the project signature stage during that period.

✓ **Investments in 2014**

- 2014 was the last year for contracting funds under the ENPI risk capital mandate. All the remaining funds (EUR 15 million) were deployed, with 4 new operations signed. The number of investments was limited due to the mandate being fully utilised.
- By type of investment, *on the private equity side*, commitments were made in one multi-sector fund and one direct operation (EUR 10,5 million in aggregate). The first is a regional fund providing growth capital to generalist small and medium sized companies based in Morocco, Algeria, Tunisia and Egypt and the second is an equity participation in a Lebanese bank with the objective of financing its expansion plans, including increased access to finance for SMEs.

✓ *On the microfinance side*, the EIB has supported two MFIs active in Jordan and Morocco (EUR 4 million signed in aggregate), with a view to contributing to the economic development and social goals of the FEMIP Mandates.

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

The amount of EUR 6,8 million referred to below has been and will be reused to pay for management fees of the instrument. Of this total, EUR 4,5 million have been used already and the remaining EUR 2,3 million are still under reserve for this purpose.[232] If used in total, this will correspond to a management fee of around 3%, fairly reasonable in view of the complexity of the operations involved.

(g) The balance of the fiduciary account;

ENPI RCO account in EUR as of 31/12/2014	EUR 53 711 105
ENPI RCO account in USD as of 31/12/2014	EUR 28 508 328
FEMIP Technical assistance in EUR as of 31/12/2014	EUR 18 273 852
ENPI RCO capital reflow in EUR as of 31/12/2014	EUR 1 823 616
ENPI RCO revenue reflow in EUR as of 31/12/2014	EUR 442 421
TOTAL as of 31/12/2014	EUR 102759 322

[232] The remaining amount will be returned to the general budget as soon as the management fee will be entirely paid.

(h) Revenues and repayments;

To date, EUR 6,8 million has been received from investments made under the Support to FEMIP envelope.

(i) The value of direct equity investments, with respect to previous years;

Cost of Direct Equity Investment as of 31/12/2013	EUR 2 000 000
Value of Equity Investment as of 31/12/2013	EUR 195 519
Cost of Direct Equity Investment as of 31/12/2014	EUR 8 237 280
Value of Equity Investment as of 31/12/2014	EUR 7 222 866

Venture Capital Fund

Cost as of 31/12/2013	EUR 33 444 277
Cost as of 31/12/2014	EUR 41 141 807
Value of Venture Capital funds as of 31-12-2013	EUR 30 834 074
Value of Venture Capital Funds as of 31-12-2014	EUR 46 167 594[233]

(j) The accumulated figures on impairments / on called guarantees for guarantee instruments;

For equity instruments:[234]	
Impairment as at 31/12/2013	EUR – 5 994 557
Impairment as at 31/12/2014	EUR – 7 730 717
Loans and receivables:	
Nominal loans and receivables as at 31/12/2013	EUR 6 358 860
Nominal loans and receivables as at 31/12/2014	EUR 10 775 353

(The increase is due to the loan disbursement(s)).

(k) The target leverage effect, and the achieved leverage effect;

The leverage effect for the risk capital operations as estimated by the EIB is 6,0 for the period 2007-2014 and 26,8 for 2014.[235] EIB has calculated this estimated leverage on the basis of total amounts committed to equity funds, divided by amounts committed by EIB to these funds. The leverage effect for technical assistance for the period 2007-2014 as estimated by the EIB is 73 on the basis of EIB loan amounts committed to projects, divided by amounts committed by EIB for technical assistance operations related to these investments and 137 on the basis of total project costs divided by technical assistance amounts committed.

For the period 2007-2014, the overall achieved leverage effect as estimated by EIB is 20 (if the technical assistance is calculated on the basis of EIB loan amounts), or 33 (if using total project costs).

[233] Direct equity operations include only direct investments while VC funds refer to participations in funds

[234] With reference to financial instruments classified as 'available for sale'. Such financial assets consist of venture capital fund + direct equity investment.

[235] There was only one investment in fund signed in 2014, EIB participated with EUR 5 million in the fund size of EUR 134,4 million; thus it results in 26,8 leverage.

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The overall objective of FEMIP is to promote sustainable economic growth in the region through investments in infrastructure and especially in private sector development. With 36 million of TA funding, the EIB has supported investments amounting to EUR 4 376 million. The EIB co-financing of these investment projects amounted to EUR 2 338 million. The "Support for FEMIP" finances both technical assistance, risk capital operations and micro-finance. The overall investment amount supported by 2014 amounted to 6 714 million.

The European Investment Bank (EIB) has committed EUR 143 million under the European Neighbourhood and Partnership Instrument (ENPI) (2007-2013) for risk capital operations. As far as private equity funds are concerned, the EIB had budgetary resources at work in over 150 companies across the Mediterranean Partner Countries, which employed about 78 000 persons, of whom 24% are women. The portfolio also includes 13 investments in 11 Microfinance Institutions (totalling around 1 000 000 active micro-borrowers).

The Support to FEMIP has generated employment opportunities. It is estimated that thanks to the risk capital investments in equity funds, aggregate direct jobs of historical companies supported have increased by more than 1,2 times over the EIB holding period.

The Union budget allocated a funding of EUR 32 million to the EIB each year from 2007 to 2013 (i.e. EUR 224 million in total). The annual budget has been consistently used, other than in 2011/12, when the political situation in the region led to approximately EUR 10,62 million not being used

E - Other key points and issues

- ***Main issues for the implementation:***
    - risk capital operations depend on mobilising third party resources, particularly when investing in funds. The political instability in the region has frequently made this difficult, particularly in Egypt, Tunisia, Lebanon, and Jordan, as commercial investors have been reluctant to commit.
    - It is crucial to link TA operations with concrete investments to be financed as a result of the TA work.
    - The activities targeting Risk Capital Operations in the region implemented by the EIB need to be closely coordinated with the activities carried out by other donors in the region.
- ***Main risks:***
    - the transposition of the requirements relies on the Bank, which shall apply them irrespective of the size of the investment. Possible applicability of Commission requirements to small investments may appear more challenging. In the Financial Regulation, the selection of the FI's has been regulated and the capacity of the bank to select the FI has been assessed as required.
    - As regard the overall performance, the European Court of Auditors carried out a Follow-up audit of the recommendations made in its Special Report No 1/2009 "Banking measures in the Mediterranean context of the MEDA programme and the previous protocols" in 2013 and further to this follow-up audit, the Court informed the Commission that all recommendations have been assessed as fully implemented. In particular, the Commission is currently working on the last reccomendation, i.e. the final evaluation of the Facility.

- ***General outlook:***
  - the requirement for risk capital in the region remains evident, as demonstrated by the low levels of SME access to finance and private equity in the region. Mediterranean Partner Countries (MPC) need more economic growth to improve living standards and create jobs as well as to stabilise the transition towards democracy started with the Arab Spring.
  - According to the demographics, however, a large number of young people will enter the labour market in the coming years, which is likely to create a great pressure on the market and on the political environment.

    It is generally assumed that governments in MPCs need to implement structural reforms to increase labour productivity. This includes public investment to improve the quality of infrastructure, better-quality education, labour market reforms (in particular increasing female labour force participation), and a better business environment, which should encourage exports and investment. A dynamic private sector could provide more and better jobs for the MPCs, which suffer from a persistent high unemployment.

6.5. Global Energy Efficiency and Renewable Energy Fund (GEEREF)

A - Summary

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	EIB and EIF
Initial Overall Budget Envelope:	EUR 25 million
Current Overall Budget:	EUR 81,1 million*

** The EUR 81,1 million also include an amount for Technical Assistance of 5 million. In addition, EUR 20 million are financed under EDF.*

The GEEREF is an innovative financing vehicle aiming at promoting energy efficiency and renewable energy in developing countries and economies in transition. Structured as a Fund-of-Funds, GEEREF's strategy is to invest in – and thus help develop – regional private equity funds whose investments will target small and medium sized energy efficiency and renewable energy projects.GEEREF aims to improve the economic and social circumstances of underserved or disadvantaged populations, encourage sustainable development, and promote environmental protection by increasing access to low carbon, secure and affordable energy. Its objective is to contribute to the expansion of renewable energy, energy efficiency and other related clean energy technologies in developing countries and economies in transition. As of end 2014, the total investment supported with Union contribution in GEEREF was about EUR 1 billion.

B - Description

(a) Identification of the financial instrument and the basic act;

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation[236];

Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020;

Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action[237];

The GEEREF was approved in the annual action plans (AAPs) of the four-year Thematic Programme for Environment and Sustainable Management of Natural Resources including Energy (ENRTP2007-2010)[238];

Legal basis for the Regional Fund Support Facility (RFSF): preparatory action within the meaning of Article 49(6) of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

(b) Description of the financial instrument, implementation arrangements and the added value of the Union contribution;

Policy objectives and scope
The GEEREF is an innovative financing vehicle aiming at promoting energy efficiency and renewable energy in developing countries and economies in transition. Structured as a Fund-of-Funds, GEEREF's strategy is to invest in – and thus help develop – regional private equity funds whose investments will target small and medium sized energy efficiency and renewable energy projects.

GEEREF aims to improve the economic and social circumstances of underserved or disadvantaged populations, encourage sustainable development, and promote environmental protection by increasing access to low carbon, secure and affordable energy. Its objective is to contribute to the expansion of renewable energy, energy efficiency and other related clean energy technologies in developing countries and economies in transition.

Geographical coverage and final recipients
The scope of GEEREF is to support regional sub-funds for Sub-Saharan Africa, Caribbean, and Pacific Island States, the countries of the European Neighbourhood Policy and Russia, Latin America, and Asia (including Central Asia and the Middle East). There is a special emphasis on serving the needs of the African Caribbean and Pacific (ACP) countries.

Implementation arrangements
The GEEREF is managed by a Board of Directors comprising delegates appointed by its shareholders and advised by the EIF and the EIB. DEVCO has appointed one Board member. Additionally, GEEREF investment decisions are taken by an Investment Committee, also comprising delegates appointed by its shareholders. The Commission is represented in the Investment Committee by DG DEVCO.

[236] (OJ L 378/41, 27.12.2006)
[237] (O J L 77, 15.3.2014, p. 44)
[238] (OJ L 77, 15.3.2014, p. 95)

The Union contribution is being made available via centralised indirect management (Financial Regulation No 1605/2020, article 54 (2) (b)) with implementing tasks delegated to the EIF. In 2007 the EIF received a delegation of powers from the Commission to subscribe shares to the GEEREF, hold those funds in a separate trust account on behalf of the Commission, take part in the decision making organs of the GEEREF (except in the Investment Committee), monitor the progress of the GEEREF and report to the Commission. Those tasks have been detailed in an agreement concluded between the Commission and the EIF, which was subject to the provisions and the conditions provided for in the Financial Regulation for indirect centralised management based on existing cases.

Added value/Expected results

The Fund contributes to the expansion of renewable energy, energy efficiency and other related clean energy technologies to markets and services by increasing access to financing.

Based on a first financial input in the order of EUR 100 million (EU funds plus other investors input) an impact assessment[239] showed that additional capital of at least EUR 300 million up to EUR 1 billion could be mobilised through the sub-fund structure and at the project/SME level.It is also expected that the GEEREF will lead to an increased engagement of the private sector in the energy efficiency and renewable energy business in the areas of investments. The provision of “patient capital” provided on a long term and subordinated return basis will buy down the cost of capital for renewable energy and energy efficiency projects/SMEs. This will improve the investment conditions for private equity co-investors or senior lenders, thereby making the project/SMEs eligible for funding from these sources. The latter will thus have access to resources previously outside their reach.

(c) The financial institutions involved in implementation;

GEEREF was established via a SICAV registered in Luxembourg, with a life of 15 years from the initial closing date, 6 November 2008.

In addition to the Commission, Norway and Germany have invested approximately 13 and 23 million EUR respectively in GEEREF and were actively involved in its creation. The Commission, Norway and Germany have all subscribed to fist loss "junior shares", and are called A-shareholders. These public investors have purchased first-loss shares in the fund.

In addition, six private investors have now committed EUR 66 million to the fund, while the EIB has also invested EUR 10 million. The EIB and the private investors (called “B Shareholders) have second-loss shares in the fund. The fundraising campaign is in its closing process.

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget;

Aggregate Budgetary Commitments	as at 31/12/2014:	EUR	81 100 000
Aggregate Budgetary Payments	as at 31/12/2014:	EUR	79 500 000

(e) The performance of the financial instrument, including investments realised;

GEEREF has as its objective to invest primarily in Regional Funds (as defined in the Prospectus), that invest their assets in projects and companies involved in energy efficiency and renewable energy, which enhance access to clean energy in developing countries and economies in transition.

[239] http://ec.europa.eu/environment/archives/jrec/pdf/ia_2006_en.pdf

GEEREF supports renewable energy and energy efficiency project developers and small and medium-sized enterprises (SMEs). To be eligible to receive GEEREF's investments, private equity funds should focus on projects requiring up to EUR 10 million of equity investment and should fill a substantial gap in the market. Only financially sustainable projects that meet strict investment criteria qualify for GEEREF funding.

Eight investments have been approved by the GEEREF Investment Committee, focussing on projects in Sub-Saharan Africa, Asia, Latin America and the Caribbean. The following have already commenced activities on the ground:

- an investment of EUR 12,5 million in Berkeley Energy's Renewable Energy Asia Fund (REAF) for India, Philippines, Bangladesh and Nepal.
- An investment of approximately EUR 8 million in the Evolution One Fund, dedicated to clean energy investment in Southern Africa.
- An investment of approximately EUR 13 million in Emerging Energy Latin America Fund II (EELAF II), a private equity fund investing primarily in renewable energy infrastructure and, to a lesser extent, in growth stage clean-tech companies in Latin America and the Caribbean.
- An investment of EUR 10 million in DI Frontier Market Energy & Carbon Fund, which focuses on clean energy investment in Sub Saharan Africa.
- An investment of approximately EUR 9 million in "Armstrong S.E. Asia Clean Energy LP", a new fund focussing on renewable energy and resource efficiency investments in Southeast Asia.
- An investment of approximately EUR 10 million in the MGM Sustainable Energy Fund - a fund focusing primarily on energy efficiency projects in Central America and the Caribbean.
- Visum Small Hydropower Energy Fund (EUR 9 million), a fund dedicated to small hydropower projects focused on Ukraine.
- New 2014: Solar Arise (EUR 10 million), an India-focused corporate vehicle targeting solar photovoltaic (PV) investments. This is GEEREF's first invesntment in a corporate vehicle.

In total, GEEREF has committed to investments of EUR 61,9 million in regional private equity funds, of which over EUR 27 million has been disbursed. These funds have subsequently invested in 29 recipient projects including solar, wind, waste/biogas and hydro power generation as well as energy efficiency.

In parallel with GEEREF, a Technical Support Facility (the GEEREF Regional Fund Support Facility - RFSF) has been established to support the creation, the operations and pipeline development of Regional Funds and/or stimulate the renewable energy and energy efficiency market in general. RFSF has supported the development of eight regional private equity funds, three of which have received GEEREF investments already.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 74,27 million 1
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , and expected number of eligible final recipients;	EUR 188 million Not available

Total investment expected to be provided	Approx. EUR 8 billion
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 61 965 650 million invested in 7 regional private equity funds and one corporate vehicle.
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	approximately one billion EUR Invested in 29 recipient projects

(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

Not applicable

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	1 727 212*
Term deposits/Bonds (if applicable)	
Term deposits < 3 months	
Term deposits > 3 month < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[240]	70 299 725*
Other assets **(if applicable)**	
= Total assets	72 026 937*

**Balance sheet concerning GEEREF, held by DG DEVCO*

(h) Revenues and repayments (Art.140.6);

NA

(i) The value of equity investments, with respect to previous years;

EUR 70 299 725

[240] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.

(j) The accumulated figures on impairments/ on called guarantees for guarantee instruments;

No impairment for GEEREF

(k) The target leverage effect, and the achieved leverage effect;

The target leverage effect

1.The target leverage effect of European Union budgetary contribution of EUR 81,1 million at the GEEREF Fund of Funds level is between 2 and 2,5 being equal to a target GEEREF fund size of around EUR 200 million. Fundraising activities - to be closed in 2015 - suggest that this target can be reached or even be slightly higher.

2.Concerning GEEREF investments at regional private equity fund level, an average GEEREF shareholding is estimated to be around 16%. This would bring the targeted leverage, in form of additional equity commitments from other investors, to about 6. The subsequent target leverage of GEEREF-funded regional equity investments at investee/project level, including mobilisation of additional equity and debt from other investors, is expected to reach about 7 times. Hence, combined target leverage compared to available funding on GEEREF Fund of Funds level could be around 42, and as high as 100 in relation to the European Union budgetary contribution of 81,1 million.

The achieved leverage effect

1.Out of the total budgetary EU contribution of EUR 81,1 million, EUR 74,27 million are used by the GEEREF Fund of Funds for further investments. As of end 2014, the 'A-Shareholders' contributions (EU contribution together with contributions from Norway and Germany of about EUR 36 million) have mobilised more than EUR 76 million from other investors (so-called GEEREF B-Shareholders) leading to a total GEEREF fund size of EUR 188 million, reaching a leverage of 2,3 (EUR 188 million divided by EUR 81,1million).

2.Out of the current total GEEREF fund size of EUR 188 million, EUR 61,9 million have been invested in seven equity fund investments and one corporate vehicle investment. This amount invested is mobilising additional equity capital for renewable energy and energy efficiency projects in Africa, Asia, the Neighbourhood and Latin America in line with the targeted leverage of 6. Most of the GEEREF-funded regional equity fund investments are still at the beginning of their investment period, but have already attracted additional equity and debt from other investors to the 29 renewable energy and energy efficiency projects. Regarding these 29 projects the invested equity contributions achieved a leverage of approximately 7 at investee/project level. Hence, the achieved leverage based on the partially invested GEEREF funds reach the targeted leverage of 42 (6x7). As of end 2014, the total investment supported was about EUR 1 billion.[241]

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

GEEREF is a Public Private Partnership that has been initiated by the Commission to accelerate the transfer, development, use and enforcement of environmentally sound

[241] The 1 billion is reflecting that the fundraising as well as the investment periods for GEEREF Fund of Funds and the GEEREF-funded investments are still on-going. Hence already available funding has only been partially invested so far. However, partially invested funds suggest that the overall targeted leverage can be reached.

technologies for emerging markets, helping to bring secure, clean, efficient and affordable energy to local people.

It is set up as an innovative global risk capital fund that uses limited public money to mobilise private investment in small-scale energy efficiency and renewable energy projects. It is both a development tool and a contribution to global efforts to fight climate change.

Not only should investments bring almost one gigawatt of clean energy capacity to recipient countries, providing sustainable energy services to 3 million people and saving up to 2 million tonnes of carbon dioxide emissions but they will enable the transfer of technologies in targeted regions. This makes GEEREF an innovative and ground-breaking financial instrument for sustainable development.

At the Fund of Funds level, GEEREF targets a leverage rate between 2 and 2,5x – aiming to raise a total of approximately EUR 200 million based on an original European Union budgetary contribution of EUR 81,1 million. The actual leverage achieved at this level is currently approximately 2,3 based on a total fund size of EUR 188 million and a total European Union budgetary contribution of EUR 81,1 million.

GEEREF has as its objective to invest primarily in Regional Funds (as defined in the Prospectus), that invest their assets in projects and companies involved in energy efficiency and renewable energy, which enhance access to clean energy in developing countries and economies in transition.

GEEREF supports renewable energy and energy efficiency project developers and small and medium-sized enterprises (SMEs) for energy efficiency and renewable energy projects and technologies, such as small hydropower, biomass, wind farms, as well as solar power technologies.

To be eligible to receive GEEREF's investments, private equity funds should focus on projects requiring up to EUR 10 million of equity investment and should fill a substantial gap in the market. Only financially sustainable projects that meet strict investment criteria qualify for GEEREF funding. As of end 2014, the total investment supported with Union contribution in GEEREF was about EUR 1 billion.

E - <u>Other key points and issues</u>

- ***Main issues for the implementation:***
  - in 2014, GEEREF has successfully attracted private investors for EUR 61,9 million. Going forward, the sustainability and efficiency of the fund-of-funds model will be proven by GEEREF's ability to attract further investment from the private sector. Its fundraising efforts continue in 2015.
  - GEEREF's current portfolio contains 8 fund investments. It will be essential to find further feasible and attractive private equity investments to commit the rest of its capital within its designated investment period, which is due to end in November 2017.
  - GEEREF investee funds have so far only requested approximately 33% disbursement of GEEREF commitments. It will therefore be critical for them to continue building their project pipeline in order to effectively deploy GEEREF and other investors' capital.
- ***Main risks:***
  - no specific risk identified.
- ***General outlook:***
  - the need for investment to catalyse renewable energy and energy efficiency projects in developing countries remains large and well documented.
  - However, the ability to attract private investment into these sectors is entirely dependent on the investment climate and its stability in each developing country.

- It remains challenging to find suitable commercial opportunities in these sectors with risk/return profiles appropriate, attractive to the private sector and in line with EU Tax Policy.

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VI. LIST OF ACRONYMS

- **AAPs** Annual Action Plans
- **ACP** African Caribbean and Pacific Countries
- **AECID** Agencia Española de Cooperación Internacional para el Desarrollo
- **AFD** Agence Française de Développement
- **AIF** Asian Investment Facility
- **AIFMD** Alternative Investment Fund Managers Directive
- **ALM** Anti Money Laundering
- **AML/KYC** Anti Money Laundering/ Know Your Customer
- **AQR** Asset Quality Review
- **ASEAN** Association of South-East Asian Nations
- **BA** Business Angels
- **BMZ** German Federal Ministry for Economic Cooperation and Development
- **CABEI** Central American Bank for Economic Integration
- **CARDS** Community Assistance for Reconstruction, Development and Stabilisation
- **CBS** Capacity Building Scheme under CIP
- **CCS** Cultural and Creative Sectors
- **CCW** Climate Change Window
- **CDC** Caisse des Dépôts et Consignations
- **CDP** Cassa Depositi e Prestiti
- **CEF** Connecting Europe Facility
- **CIP** Competitiveness and Innovation Programme (2007-2013)
- **COESIF** Coordination Committee for European Structural and Investments Funds
- **COSME** Competitiveness of Enterprises and Small and Medium-sized Enterprises (2014-2020)
- **CPR** Common Provision Regulation
- **CRIS** Common Relex Information System
- **DACH** German speaking countries (Germany, Austria, Switzerland)
- **DCI** Development Cooperation Instrument
- **DG CLIMA** Directorate General for Climate Action
- **DG DEVCO** Directorate General for Development and Cooperation
- **DG EAC** Directorate General for Education and Culture

- **DG ECFIN** Directorate General for Economics and Financial Affairs
- **DG EMPL** Directorate General for Employment, Social Affairs and Inclusion
- **DG ENER** Directorate General for Energy
- **DG ENTR** Directorate General for Enterprise and Industry
- **DG ENV** Directorate General for the Environment
- **DG MOVE** Directorate General for Mobility and Transport
- **DG NEAR** Directorate General for Neighbourhood and Enlargement Negotiations
- **DG REGIO** Directorate General for Regional Policy
- **DG RTD** Directorate General for Research and Innovation
- **DIV** Dedicated Investment Vehicle
- **EA** Euro Area
- **EAFRD** European Agricultural Fund for Rural Development
- **EaSI** Employment and Social Innovation Programme
- **EBRD** European Bank for Reconstruction and Development
- **ECA** European Court of Auditors
- **ECB** European Central Bank
- **EDF** European Development Fund
- **EE** Energy Efficiency
- **EEE F** European Energy Efficiency Fund
- **EELAF II** Emerging Energy Latin America Fund II
- **EEPR** European Energy Programme for Recovery
- **EFC** Economic Financial Committee
- **EFG** Equity Facility for Growth
- **EFIs** European Financial Institutions
- **EFSE** European Fund for Southeast Europe
- **EFSI** European Fund for Strategic Investments
- **EFTA** European Free Trade Association
- **EIB/BEI** European Investment Bank
- **EIF** European Investment Fund
- **EIP** Entrepreneurship and Innovation Programme
- **EIPC** European Independent Purchasing Companies
- **EMN** European Microfinance Network
- **EMN** European Microfinance Network
- **ENEF** Enterprise Expansion Fund
- **ENIF** Enterprise Innovation Fund

- **ENP** European Neighbourhood Policy
- **ENPI** European Neighbourhood and Partnership Instrument
- **ENRTP** Environment and the Sustainable Management of Natural Resources
- **EP** European Parliament
- **EPEC** European PPP Expertise Centre
- **EPMF-G** European Microfinance Guarantee Facility
- **EPPA** European Promotional Product Association
- **ERDF** European Regional Development Fund
- **ERP-EIF** European Recovery Programme-European Investment Fund
- **ESCOs** Energy Service Companies
- **ESF** European Social Fund
- **ESI** Economic Sentiment indicator
- **ESIF** EU Structural and Investment Funds
- **EUBEC** European Platform for Blending in External Cooperation
- **EURATOM** European Atomic Energy Community
- **EVCA** European Private Equity and Venture Capital Association
- **EVCF** European Venture Capital Fund
- **EVCFR** European Venture Capital Funds Regulation
- **FAFA** Financial and Administrative Framework Agreement
- **FCP-FIS** Fonds Commun de Placement-Fonds d'Investissement Spécialisé
- **FEMIP** Facility for Euro-Mediterranean Investment and Partnership
- **FIs** Financial Intermediaries
- **FMA** Fiduciary Management Agreement
- **FMO** Netherlands Development Finance Company
- **FP7** Framework Programme for Research and Technological Development
- **G-20** The Group of Twenty Finance Ministers and Central Bank Governors from 20 major economies
- **GDP** Gross Domestic Product
- **GEEREF** Global Energy Efficiency and Renewable Energy Fund
- **GF** Guarantee Facility
- **GGF** Green for Growth Fund
- **GHG** Green House gasses
- **GIF** Growth and Innovative Facility
- **GP** General Partners
- **HLG** High Level Expert group

- **IC** Investment Committee
- **ICT** Internet and Communication Technology
- **IDB** Inter-American Development Bank
- **IFC** International Finance Corporation
- **IFCA** Investment Facility for Central Asia
- **IFI** International Financial Intermediaries
- **IPA** Instrument for Pre-Accession Assistance
- **ITRE** EP Committee on Industry, Research and Energy
- **KfW** Kreditanstalt für Wiederaufbau Banking Group
- **KYC** Know Your Customer
- **LAIF** Latin America Investment Facility
- **LEF** Local Enterprise Facility
- **LGF** Loan Guarantee Facility
- **LGTT** Loan Guarantee Instrument for Trans-European Transport Network Projects
- **LIFE** Programme for the Environment and the Climate Action
- **LNG** Liquefied Natural Gas
- **LP** Limited Partners
- **MAWP** Multiannual Work-Programme
- **MB** Management Board
- **MBO** Management Buy Out
- **MEDA** Euro - Mediterranean Partnership
- **MFF** Multiannual Financial Framework
- **MFIs** Micro Finance Institutions
- **MIFA** Microfinance Initiative for Asia
- **MIPD** Multi-annual Indicative Planning Document
- **MPC** Mediterranean Partner Countries
- **MPGF** MEDIA Production Guarantee Fund
- **MS** Member State
- **MSME** Micro Small and Medium Enterprises
- **MTE** Mid-Term Evaluation
- **NCFF** Natural Capital Financing Facility
- **NEEAP** National Energy Efficiency Action Plans
- **NGO** Non-Governmental Organization
- **NIB** Nordic Investment Bank

- **NIF** Neighbourhood Investment Facility
- **NPL** Non-Performing Loans
- **ODA** Official Development Aid
- **OECD** Organization for Economic Cooperation and Development
- **OECD/DAC** OECD's Development Assistance Committee
- **OFTO** Offshore Transmission Owners
- **PBCE** Project Bond Credit Enhancement
- **PBI** Project Bond Initiative
- **PCT** Patent Cooperation Treaty
- **PF4EE** Private Finance for Energy Efficiency Instruments
- **PFLP** Portfolio First Loss Piece
- **PIs** Partner Institutions
- **PISA** Programme for International Student Assessment
- **PMF** Programme Microfinance Mandate
- **PPP** Public Private Partnership
- **R&I** Research and Innovation
- **RAB** Regulatory Asset Base
- **RCO** Risk Capital Operations
- **RDI** Research Development and Innovation
- **RE** Renewable Energies
- **RFSF** Regional Fund Support Facility
- **ROM** Result Oriented Monitoring
- **RRT** Residual Risk Tranche
- **RSFF** Risk Sharing and Finance Facility
- **RSI** Risk Sharing Instrument
- **RSL** Recovery Support Loan Facility for Turkey
- **SAFE** Survey on Access to Finance of Small and Medium Enterprises in Europe
- **SB** Supervisory Board
- **Se4all** Sustainable Energy for All
- **SICAV-FIS** Société d'Investissement à Capital Variable- Fonds d'Investissement Spécialisé
- **SIMEST** Società Italiana per le Imprese all'Estero
- **SME** Small and Medium Enterprise
- **SMEG** Small and Medium Enterprises Guarantee Facility

- **SPV** Special Purpose Vehicle
- **SUDeP** Sustainable Urban Demonstration Projects
- **TA** Technical Assistance
- **TEN-E** Trans- European Network for Energy
- **TEN-T** Trans-European Network for Transport
- **TMT** Technology, Media and Telecommunications
- **TSOs** Transmission System Operators
- **TT** Technology Transfer
- **UEAPME** European Association of Craft, Small and Medium-Sized Enterprises
- **VC** Venture Capital
- **WB EDIF** Western Balkans Enterprise Development & Innovation Facility
- **WB** Western Balkans