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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 2013**

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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 Regulation¹ as at 31 December 2013. It provides specific information on individual financial instruments, their progress made in implementation and their environment in which they operate.²

Financial instruments are a proven way to achieve EU policy objectives. They use EU funds to support economically viable projects and attract very significant volumes of 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 general, funds available for public policy are limited and therefore additional resources are needed to pursue public objectives more effectively. In this context, financial instruments can play a very useful role as they enable the Commission to mobilise additional funds, thus leveraging limited public resources (*financial leverage*). They also ensure *policy leverage* by incentivising financial intermediaries to pursue common objectives through alignment of interest, and *institutional leverage* by benefiting from the expertise of the actors involved in the implementation chain.

In the past, financial instruments 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 such as 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, in the 2007-2013 period, the main EU-level financial instruments dedicated to SMEs support (CIP-GIF , CIP-SMEG 07 and RSI) and micro-SMEs support (EPMF) with an overall contribution (EU commitments) of more than EUR 1.6 billion, mobilised lending of nearly EUR 17.9 billion and also supported equity investments of about EUR 2.8 billion, thus enhancing access to finance for more than 336,000 SMEs.

In consequence of the expanded role of financial instruments, the SWD thus provides not only quantitative data 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, describing general market developments in the EU policy areas supported and their implications for the financial ecosystem.

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.

The SWD is divided into six parts. After the initial part (Part I), it offers an executive summary (Part II) and an extensive overview table (Part III) 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 IV) describes the EU economic environment in 2013 taking into consideration strategic target groups, sectors, and non-EU regions, and a specific section (Part V) illustrates further implications of the use of those instruments.

Finally, the detailed information on each financial instrument can be found in "Information on financial instruments according to Article 140(8) of the Financial Regulation" (Part VI). 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.

II. EXECUTIVE SUMMARY

1. Strategic Target Groups

1.1. EU SMEs and Small Midcaps

Generally, SMEs emerge as the business category experiencing particular difficulties in accessing finance, and all the more so since the start of the financial and sovereign debt crises.

Since SME loan volumes have contracted and conditions have worsened – at least in part due to market failures linked to asymmetric information – several guarantee facilities have been set up to extend more **loan volumes** at better conditions to a riskier set of enterprises. These facilities aim to foster the development of a pan-European SME finance market as well as address market failures that are more appropriately tackled at EU level given their widespread nature, their potential to achieve economies of scale and their suitability to diffuse best practices:

1. *The SME Guarantee Facility (SMEG07) under the Competitiveness and Innovation Framework Programme (CIP)* has been enhancing access to debt finance for small and medium-sized enterprises (SMEs). As a result, 311,633 SMEs benefited from EUR 16,108.5 million in guaranteed loans over 2007-2013.
2. *The COSME Loan Guarantee Facility*, the successor of SMEG07, will provide SMEs with capped guarantees for debt financing via loans or leasing, which aims to reduce the particular difficulties that viable SMEs face in accessing finance due to their perceived high risk or lack of sufficient available collateral. It is estimated that the cumulative total amount of financing mobilised for 2014-2020 will range from EUR 14.3 to 21.5 billion; for 2014, the overall value of financing supported by the Union contribution is expected to range from EUR 2 to 3 billion.
3. *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 will enable them to support up to an estimated 3000 innovative SMEs and small midcaps. Furthermore, for the period 2014-2020, it is expected that the successor facility InnovFin SME Guarantee under Horizon 2020 with an Union contribution of around EUR 1 billion could mobilise a total loan volume of around EUR 9 billion. For 2014, the overall value of financing supported by the Union contribution is expected to be around EUR 700 million.

4. *The Cultural and Creative Sectors Guarantee Facility* under Creative Europe programme shall provide guarantees to banks dealing with cultural and creative SMEs, thereby strengthening the financial capacity of the cultural and creative sectors. The guarantee scheme will begin in 2016 and the overall amount of loans supported by the Union contribution of EUR 120 million until 2020 is estimated to hover around EUR 700 million of additional financing in these sectors.
5. *The EU SME Initiative*, designed as a crisis-response instrument, will provide uncapped guarantee and/or securitisation to improve access to finance for SMEs including innovative SMEs as well as high risk SMEs. The 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. With a commitment from aggregate ESIF amount of up to EUR 815 million, the volume of SME loans supported in the participating Member States (ES and MT) is expected to reach some EUR 4 billion.

SMEs also endure particularly challenging conditions in raising **equity capital**, for European venture capital has suffered a slow-down in private equity activity during the period 2008-2013 in terms of fund raising, investment levels and divestment conditions, and it remains fragmented across countries and dependant on a lifeline from public investors.

Support via EU-level financial instruments is key to tackling this fragmentation, as truly multi-country funds often face difficulties in obtaining support from national programmes. Thus, several equity finance facilities have been set up, with the purpose of strengthening the internal market for venture capital by tackling the market failures encountered, especially by early stage SMEs that have the potential to achieve high growth, to bring innovation to the market and to create high added value jobs:

1. *The High Growth and Innovative SME Facility (GIF) under the CIP* aims to increase the supply of equity for innovative SMEs in their early stages (GIF1) and in the expansion phase (GIF2). By the end of 2013, a total of EUR 587.1 million in net commitments from the Union budget supported 46 venture capital funds and 349 investees, catalysing nearly EUR 2.8 billion in equity finance.
2. *The Equity Facility for Growth (EFG) under COSME*, the successor of GIF2, shall aim to stimulate the take-up and supply of equity finance for SMEs in their expansion phase. For the 2014-2020 period, it is expected that an indicative commitment amount of EUR 633 million will support venture capital investments in the order of EUR 2.6 to 3.9 billion, going to some 360 to 540 SMEs.
3. *The InnovFin SME Venture Capital under Horizon 2020*, the successor of GIF1, is designed to improve access to risk finance by early-stage R&I-driven SMEs and small midcaps. A commitment of EUR 430 million indicatively foreseen for the period 2014-2020 is expected to support around EUR 2.5 billion of equity financing.

1.2. EU Microenterprises

The European microfinance sector is characterised by continuously decreasing bank lending, the limited capacity of national governments to support microfinance and the strong demand for microfinance on the market. This suggests that there is still a clear rationale for intervention at EU-level by providing risk-sharing solutions to microfinance providers.

More specifically, "in several EU member states high levels of youth unemployment call for ongoing support of inclusive entrepreneurship as an option to (re-)enter the labour market. Microloan provision is an important tool for this."³ The large diversification of both institutional actors and products offered calls for specific micro-finance facilities, which aim at easing loan and equity access for micro-enterprises, who continue facing more difficulties than other SMEs:

1. *The European Progress Microfinance Guarantee Facility*, as part of the PROGRESS programme (2007-2013) provides up to 20% capped guarantees on portfolios of micro-credit loans granted by intermediaries to micro-enterprises. Furthermore, *the Fonds Commun de Placement – Fonds d'Investissement Spécialisé* under this Programme is a specialised investment fund whose objective is to increase access to a range of financial products and services in the area of microfinance.

As of 30 September 2013, both instruments provided 13,850 micro-loans to final recipients reaching the volume of EUR 133 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.

2. *EaSI Microfinance and Social Enterprise – Microfinance*, the successor of both instruments, will aim at increasing access to microfinance for vulnerable groups, by providing support to microfinance providers. The indicative EU contribution of EUR 86 million will target to support 41.000 microloans, worth around EUR 440 million to be provided to final recipients.

2. Strategic Sectors

2.1. Research and Innovation (R&I)

Evidence that larger, established R&I-intensive firms have problems in accessing debt finance to fund innovation projects is mixed and harder, methodologically, to establish. However, a

³ Evers & Jung (2014, <http://ec.europa.eu/social/BlobServlet?docId=12485&langId=en>)

recent econometric study⁴ as well as empirical experience suggest that demand for the debt financing of R&I is much higher than what the market currently provides.

To address R&I financing needs, which can hardly be met at the national level, the Commission has set up the *Risk-Sharing Finance Facility (2007-2013)* and its successor *InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee* under Horizon 2020:

The Risk-Sharing Finance Facility (2007-2013) and its successor *Loans Service for R&I (2014-2020)* both offer loans and hybrid or mezzanine finance to improve access to risk finance for R&I projects. The 2007-2013 Union contribution of EUR 960 million under *RSFF* supported an active accounting for over EUR 15 billion, whereas the 2014-2020 Union contribution of EUR 1 billion under *the successor* is expected to support debt financing of at least EUR 5 to 6.5 billion before the end of 2020.

2.2. Infrastructure and Energy Efficiency

Infrastructures in the transport, telecommunications and energy sectors perform 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 economy, enabling growth, and facilitates the interconnection of the internal market.

Also, energy efficiency and its promotion are becoming increasingly important within the Union, in particular in view of the achievement of the Union's 2020 20% headline target on energy efficiency and of further energy efficiency objectives beyond that date.

The goal of the EU financial intervention in these sectors is to contribute to overcoming the deficiencies of European capital markets. The summary below comprises EU financial instrument programmes for different sub-sectors (transport and energy infrastructure, energy efficiency including environment and climate action and ICT) launched in the 2007-2013 period:

1. *The Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT)* is a debt instrument for project finance. To date, six TEN-T projects worth a cumulated capital cost of EUR 11,716 million have been supported, using almost EUR 500 million of guarantees and attracting EUR 6 billion of private financing.
2. The Pilot Phase of the *Project Bond Initiative (PBI, MFF 2007-2013)* & the *Risk sharing debt instrument under the Connecting Europe Facility (CEF) including the PBI*.

The Project Bond Initiative aims to stimulate capital market financing for infrastructure projects in the areas of Trans-European networks in transport and energy as well as broadband networks. Several transactions have reached financial

⁴ European Commission (2013a).

close under the Pilot Phase of the *PBI* so far; in 2013, the Union contribution under TEN-E of EUR 10 million supported a project bond-credit enhancement of EUR 54.9 million for a project size of EUR 421 million. Moreover, in 2014 the Union contribution under TEN-T supported the financing of a Greenfield transport project for A11 Motorway in Belgium through a EUR 578 million-project bond issue (with a EUR 115 million EU contribution) and of the new A7 Autobahn in Germany through a EUR 430 million project bond issue (with a EUR 85 million contribution).

In addition, also in 2014 the budget contribution of EUR 20 million for the ICT sector enabled credit enhancement of ca. EUR 38 million in support of a ca. EUR 189 million bond issue by a French provider of broadband services.

The *Risk sharing debt instrument including the PBI* will target projects of common interest in the sectors of transport, broadband, and energy networks. The expected Union contribution of EUR 121 million in 2014 is estimated to support financing for EUR 720-1,800 million.

3. *The Equity Instrument under the Connecting Europe Facility (CEF)* will aim to provide risk capital for actions contributing to projects of common interest in the field of transport, energy and broadband. The goal of the instrument shall be to attract capital market financing by providing equity and quasi-equity investments to European infrastructure projects. The instrument will be designed at a later stage.
4. *The Private Finance for Energy Efficiency Instruments (PF4EE)*, financed under the LIFE programme, shall provide *inter alia* a Risk Sharing Facility, designed to reduce the credit risk faced by financial intermediaries when lending to the energy efficiency sector. The Union budget commitment of EUR 80 million is expected to support a total investment up to about EUR 650 million for 2014-2020.
5. *The 2020 European Fund for Energy, Climate Change and Infrastructure – (Marguerite)* is a Pan-European equity fund which supports infrastructure investment within the transport (TEN-T), energy (TEN-E) and renewables sectors in MS. The Union contribution of EUR 80 million is expected to support funding volumes around EUR 10.2 billion.
6. *The European Energy Efficiency Fund (EEEF)*, a spin-off of the European Energy Programme for Recovery (EEPR), invests in energy efficiency, renewable energy projects, and clean urban transport. By the end of March 2014, the Fund fully allocated the EU contribution (EUR 125 million) for a total of EUR 219 million investment in projects. From the Technical Assistance envelope, EUR 17.7 million has been allocated to support project preparation by the same date.
7. *The Natural Capital Financing Facility (NCFE)* will finance upfront investment and operating costs for revenue-generating or cost-saving pilot projects, which promote the conservation, restoration, management, and enhancement of natural capital in the areas of Nature and Biodiversity and Climate Change Adaptation. The initial Union contribution is foreseen at EUR 60 million.

2.3. Social Enterprises

Among the business suffering from access to credit difficulties, social enterprises qualify as deserving particular attention due to the correlation between social capital and economic growth. Their primary objective is the achievement of measurable and positive social impacts.

The fact that social enterprises are not primarily seeking the maximisation of profits exposes them, however, to more acute difficulties in accessing finance, due to the reluctance and difficulty of traditional bankers to assess their business plans. A new financial instrument provided by the EU in 2014-2020 for social enterprises is the *EaSI Microfinance and Social Enterprise – Social Enterprise*, which aims to support the development of social enterprises.

2.4. Education

Education, as a form of human capital accumulation, is a primary source of economic growth; yet, to the extent it is made accessible to students of different social and economic backgrounds, it also contributes to social equity and cohesion. Moreover, student mobility represents a key factor, which has been proven to significantly affect social and economic development.

A new EU financial instrument – *The Student Loan Guarantee Facility* ('Erasmus + Masters Loans', a guarantee facility under the Erasmus+ programme) – will aim to support mobility, equity and study excellence via guarantees to financial institutions which agree to offer loans for Master's studies in other Programme countries on favourable terms for students. The Union contribution of EUR 517 million foreseen for 2014-2020 is expected to support loans for up to EUR 3 billion.

3. Strategic Non-EU Regions

3.1. Enlargement Countries

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 economies' transition and a pillar for growth and employment. In addition, access to bank financing for SMEs in their early stage is almost impossible due to their lack of financial history and access to finance in the energy sector appears rather vulnerable.

1. *The Guarantee Facility under the Western Balkans Enterprise Development and Innovation Facility* aims to enhance socio-economic growth of the Western Balkans by promoting preconditions for the emergence and growth of innovative and high-potential companies. The Union contribution of almost EUR 22 million committed under the Facility is estimated to support a total investment of more than EUR 110 million.
2. *The Enterprise Expansion Fund (ENEF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)* aims to enhance socio-economic

growth in the Western Balkans by creating the preconditions for the emergence and growth of innovative and high-potential companies. The financial envelope of EUR 11 million will leverage a total investment by other investors in ENEF of EUR 55 million. On the whole, given the association of ENEF to EBRD's co-financing facility, the Union contribution will support an overall investment amount of approximately EUR 110 million to final recipients.

3. *The Enterprise Innovation Fund (ENIF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)* contributes to the enhancing of socio-economic growth in the Western Balkans, through the setting up of preconditions for the emergence and growth of early stage innovative companies. The Union contribution of EUR 21 million committed under the instrument is expected to support an investment of approximately EUR 40 million over the 2014-2020 period.
4. *The European Fund for Southeast Europe (EFSE)* is a form of public-private-partnership, with the objective of attracting capital from the private sector. The Union contribution of EUR 83.9 million supports a total investment in the Enlargement region of EUR 580 million. In 2010, the Group of 20 (G-20) selected EFSE as the best worldwide model of catalysing finance for small and medium enterprises (SME) through the online competition "G-20 SME Finance Challenge."
5. *The Green for Growth Fund (GGF)* provides dedicated financing for energy efficiency and renewable energy projects to help the target countries reduce CO2 emissions and energy consumption. The Union contribution of EUR 38.6 million committed to this Fund is expected to leverage a total investment of EUR 200 million to final recipients.
6. *The SME Recovery Support Loan for Turkey* aims to mitigate the crisis impact for SMEs and contributes to the development of the Turkish economy and employment sector. The Union contribution amounts to EUR 30 million and has mobilised a total of EUR 150 million in lending.

3.2. Neighbourhood Countries⁵

The EU funded programmes aim to foster sustainable, inclusive growth and a favourable investment climate in the European Neighbourhood Policy (ENP) partner countries. Indeed, establishing better energy and transport infrastructure interconnections between the EU and neighbouring countries, addressing threats to our common environment and promoting smart growth through support of small and medium enterprises represent the strategic objectives to which the EU is committed in pursuing its neighbourhood policies:

⁵ Armenia, Azerbaijan, Egypt, Georgia, Israel, Jordan, Lebanon, Moldova, Morocco, Palestine, Tunisia, Ukraine (fully participating members in the European Neighbourhood Policy); Algeria (under access negotiations to the ENP), Belarus, Libya, Syria (outside most of the structures of the European Neighbourhood Policy). See also http://ec.europa.eu/enp/index_en.htm

1. *The Neighbourhood Investment Facility (NIF)* aims to increase energy and transport infrastructure and interconnectivity in the region, addressing threats to the environment including climate change, promoting socio-economic development through support for SMEs and the social sector. For the period 2007-13, some EUR 753 million committed to the Facility have leveraged EUR 9.6 billion in loans from European Financial Institutions, with total project costs estimated at EUR 20.8 billion.
2. *The Support to the Facility for Euro-Mediterranean Investment Partnership (FEMIP)* provides capital to the private sector of Mediterranean partner countries *pari passu* with other commercial investors in the region. The current overall Union contribution under the programme is EUR 224 million.

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

The lack of a well-established institutional framework able to ensure property rights, address market failures and provide incentives for private initiatives in some non-European countries often accounts for the underdevelopment of the SME sector, the shortage of infrastructures and the deficiency of the overall investment level in health, education and environmental protection. Addressing these problems by financing worthy SMEs, infrastructure and productive investments is the main challenge for the EU in its external policy:

1. *The Investment Facility for Central Asia (IFCA) & Asian Investment Facility (AIF)* aim to promote additional investments and key infrastructures with a priority focus on better energy infrastructure, increased protection of the environment and growth of SMEs. The current overall budget is EUR 145.56 million. So far, IFCA contributions of EUR 64 million leveraged approximately EUR 425 million in financing whereas AIF contributions of EUR 36 million leveraged approximately EUR 889 million in financing.
2. *The Latin America Investment Facility (LAIF)* aims to promote additional investments and infrastructures in the transport, energy, and environment sectors and to support social sectors and private sector development in the Latin American countries. So far, the Union contribution of EUR 189.6 million (including the additional funds from the Climate Change Window) enabled approval of 25 projects, mobilising a total investment amount of EUR 5.5 billion.
3. *The Global Energy Efficiency and Renewable Energy Fund (GEEREF)* aims to promote energy efficiency and renewable energy in developing countries and economies in transition. The Union contribution was raised to EUR 101 million (Union budget + EDF). The Fund currently maintains an active pipeline of five potential private equity fund investments which are targeting to mobilise approximately EUR 500 million in equity capital for renewable energy and energy efficiency projects in Africa, Asia, and Latin America.

III. OVERVIEW TABLE

	Organization					Policy			Implementation			Draft Budget 2015		Financial Accounting Data		
Financial Instruments	Type	New /Old	Basic Act	DG in charge	IB ⁶	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope	Aggr. Commitment 2007-213	Aggr. Payment 2007-13	Indicative Commitments	Indicative Payments	Revenues and Repayments	Impairments/ Called Guarantees	AdminE xpen- diture ⁷
GIF (CIP)*	E ⁸	Old	Dec N° 1639/2006/EC	DG ENTR ECFIN	EIF	Increase the supply of equity for innovative SMEs	SMEs	SMEs with no specific sector / innovative	EUR 605.70 mln	EUR 625.20 mln	EUR 338.93 mln	not appl.	Total CIP (equity and loan guarantee): EUR 95 mln	EUR 19.47 mln	EUR 2.69 mln	EUR 16.78 mln
CEF Equity Instruments	E	New	Reg. N° 1316/2013	DG MOVE ENER CONN-ECT	EIB	Provide equity & quasi-equity investments in transport, energy telecom	Infra-structure Projects	Transport Energy Telecom	n/a	n/a	n/a	Total CEF (equity AND debt): EUR 154,1 mln	Total CEF (equity AND debt): EUR 105,9 mln	n/a	n/a	n/a
EFG (COSME)	E	New	Reg. N° 1287/2013	DG ENTR	EIF	Increase the supply of equity for SMEs	SMEs	SMEs with no specific sector focus	EUR 633.00 mln	n/a	n/a	EUR 70.75 mln	Total COSME (equity and loan guarantee): EUR 99,2 mln	n/a	n/a	n/a
InnovFin SME Venture Capital (H2020)	E	New	Reg. N° 1291/2013; 1290/2013	DG RTD	EIF	Improve access to risk finance by early-stage R&I-driven SMEs and small midcaps	Innovative SMEs & Small Midcaps	R&I	EUR 430.00 mln	n/a	n/a	EUR 50.00 mln	EUR 50.00 mln	n/a	n/a	n/a
SMEG07 (CIP)*	G ⁹	Old	Dec N° 1639/2006/EC	DG ENTR ECFIN	EIF	Increase the supply of debt financed to SMEs	SMEs	SMEs with no specific sector focus	EUR 637.80 mln	EUR 649.90 mln	EUR 259.70 mln	not applicable	Total CIP (equity and loan guarantee): EUR 95 mln	EUR 12.09 mln	EUR 116.55 mln	EUR 12.51 mln

⁶ Implementing Body in charge

⁷ Note: Including management fees

⁸ Equity

⁹ Guarantee

	Organization					Policy			Implementation			Draft Budget 2015		Financial Accounting Data		
Financial Instruments	Type	New /Old	Basic Act	DG in charge	IB ⁶	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope	Aggr. Commitment 2007-213	Aggr. Payment 2007-13	Indicative Commitments	Indicative Payments	Revenues and Repayments	Impairments/ Called Guarantees	AdminExpenditure ⁷
EPMF-G*	G	Old	Dec N° 283/ 2010/EU	DG EMPL ECFIN	EIF	Enhances access to microfinance by reducing microfinance providers' risk	Micro-enterprises/ Households	Micro-finance/ no specific focus	EUR 23.60 mln	EUR 23.80 mln	EUR 17.50 mln	not applicable	EUR 8.2 mln ¹⁰	EUR 0.21 mln	EUR 1.35 mln	EUR 1.65 mln
EaSI	G	New	Reg. (EU) N° 1296/ 2013	DG EMPL ECFIN	n/a	Microfinance for vulnerable groups/ Support social enterprises	Micro-enterprises/ Households	Micro-finance	EUR 193.00 mln	n/a	n/a	EUR 24.96 mln	EUR 11.84 mln	n/a	n/a	n/a
Loan Guarantee Facility (COSME)	G	New	Reg. (EU) N° 1287/ 2013	DG ENTR	EIF	Increase the supply of debt financed to SMEs	SMEs	SMEs with no specific sector focus	EUR 686.00 mln	n/a	n/a	EUR 90.76 mln	Total COSME (equity and loan guarantee): EUR 99.2 mln	n/a	n/a	n/a
RSI (2007-2013)	G	Old	Reg. (EU) N° 1291/ 2013; 1290/ 2013	DG RTD	EIF	Address the financing gap for innovative SMEs and Small Midcaps	Innovative SMEs & Small Midcaps	R&I	EUR 270.00 mln	EUR 270.00 mln	EUR 270.00 mln	not applicable	not applicable	Incl. under RSFF	Incl. under RSFF	Incl. under RSFF
InnovFin SME Guarantee (H2020)	G	New	Reg. (EU) N° 1291/ 2013; 1290/ 2013	DG RTD	EIF	Address the financing gap for innovative SMEs and Small Midcaps	Innovative SMEs & Small Midcaps	R&I	EUR 1,060.00 mln ¹¹	n/a	n/a	EUR 101.10 mln	EUR 101.10 mln	n/a	n/a	n/a
The CCS¹² Guarantee Facility	G	New	Reg. (EU) N° 1295/ 2013	DG EAC	EIF	Strengthen the competitiveness of the cultural and creative sectors	SMEs	Arts & Culture	EUR 121.00 mln	n/a	n/a	EUR 1.00 mln	EUR 0.70 mln	n/a	n/a	n/a
Student Loan Guarantee Facility	G	New	Reg. (EU) No 1288/ 2013	DG EAC	EIF	Support mobility, equity and study excellence	Students	Education	EUR 517.00 mln	n/a	n/a	EUR 33.00 mln	EUR 15.30 mln	n/a	n/a	n/a

¹⁰ Note: Total for the completion line 04 03 53 (also including other activities)

¹¹ Estimation depending on the effective contribution of H2020 to the SME Initiative

¹² Cultural and Creative Sectors

	Organization					Policy			Implementation			Draft Budget 2015		Financial Accounting Data		
Financial Instruments	Type	New /Old	Basic Act	DG in charge	IB ⁶	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope	Aggr. Commitment 2007-213	Aggr. Payment 2007-13	Indicative Commitments	Indicative Payments	Revenues and Repayments	Impairments/ Called Guarantees	AdminExpenditure ⁷
PF4EE	G	New	Reg. (EU)N° 1293/ 2013	DG CLIMA	EIB	Support access to finance and/or better financing conditions to EE investors	Private individuals, associations SMEs	Energy	EUR 80.00 mln	n/a	n/a	EUR 20.00 mln	EUR 27.50 mln	n/a	n/a	n/a
RSFF (2007-2013)	RS ¹³	Old	Reg. (EU) N° 1291/ 2013; 1290/ 2013	DG RTD	EIB	Improve access to risk finance for R&I projects	Large firms, large & medium Midcaps, Research Institutes	R&I	EUR 960.73 mln	EUR 960.73 mln	EUR 960.73 mln	not appl.	not appl.	EUR 95.03 mln	None ¹⁴	EUR 78.40 mln
InnovFin Large Projects InnovFin MidCap Growth Finance InnovFin MidCap Guarantee (H2020)	RS	New	Reg. (EU) N° 1291/ 2013; 1290/ 2013	DG RTD	EIB	Improve access to risk finance for R&I projects	Large firms, large & medium Midcaps, Research Institutes	R&I	EUR 1,060.00 mln	n/a	n/a	EUR 97.50 mln	EUR 97.50 mln	n/a	n/a	n/a
LGTT	RS	Old	Reg. (EC) N° 680/ 2007; 670/2012	DG MOVE	EIB	Enhance risk-sharing in transport infrastructure for TEN-T projects	Infrastructure Projects	Transport	EUR 250.00 mln	EUR 250.00 mln	EUR 155.00 mln	not appl.	EUR 45.00 mln	EUR 13.99 mln	none	EUR 6.49 mln
Pilot Phase of the Project Bond Initiative	RS	Old	Reg (EU) N° 670/ 2012; 1316/ 2013	DG MOVE ENER CONNECT	EIB	Stimulate capital market financing for infrastructure projects	Infrastructure Projects	Transport, Energy, Broadband	EUR 230.00 mln	EUR 230.00 mln	EUR 67.00 mln	n/a	n/a	EUR 1.9 mln	none	EUR 4.28 mln

¹³ Risk Sharing

¹⁴ Note: Reserve was made for 8.748 mln

	Organization					Policy			Implementation			Draft Budget 2015		Financial Accounting Data		
Financial Instruments	Type	New /Old	Basic Act	DG in charge	IB ⁶	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope	Aggr. Commitment 2007-213	Aggr. Payment 2007-13	Indicative Commitments	Indicative Payments	Revenues and Repayments	Impairments/ Called Guarantees	Administrative expenditure ⁷
Risk Sharing debt instruments (CEF)	RS	New	Reg. (EU) N° 670/2012; 1316/2013	DG MOVE ENER CONNECT	EIB	Stimulate capital market financing for infrastructure projects in transport, energy, broadband networks	Infrastructure Projects	Transport, Energy, Broadband	EUR 3,300.00 mln	n/a	n/a	See CEF Equity Instruments (row 2)	See CEF Equity Instruments (row 2)	n/a	n/a	n/a
NCFF	RS	New	Reg. (EU) N° 1293/2013	DG ENV CLIMA	EIB	Promote the preservation of natural capital	Infrastructure Projects	Environment	EUR 60.00 mln	n/a	n/a	EUR 20.00 mln	EUR 16.00 mln	n/a	n/a	n/a
EU SME Initiative	RS	New	Reg (EU) N° 1287/2013; 1291/2013; 1303/2014	DG REGIO RTD ENTR AGRI	EIF	Enhance SMEs financing	SMEs	SMEs with no specific sector focus	up to EUR 815 mln	n/a	n/a	EUR 12.00 ¹⁵ mln	EUR 20.00 ¹⁶ mln	n/a	n/a	n/a
FCP-FIS (PMF FCP-FIS)	DIV	Old	Dec N° 283/2010/ EU	DG EMPL ECFIN	EIF	Increase access to microfinance	Micro-enterprises/ Households	Micro-finance/ no specific focus	EUR 80.00 mln	EUR 80.00 mln	EUR 63.43 mln	not applicable	EUR 8.2 mln ¹⁷	n/a	none	EUR 3.08 mln
Marguerite	DIV	Old	Reg. (EC) N° 680/2007	DG MOVE ECFIN	M.A. ¹⁸	Support infrastructure investment: transport, energy, renewables sectors	Infrastructure Projects	Transport, Energy, Environment	EUR 80.00 mln	EUR 80.00 mln	EUR 28.52 mln	not applicable	EUR 16.10 mln	n/a	none	EUR 4.31 mln
EEEF	DIV	Old	Reg. (EU) N° 1233/2010	DG ENER	Deutsche Bank	Invest in energy efficiency, renewable energy, clean urban transport	Infrastructure Projects	Energy	EUR 146.34 mln	EUR 146.3 mln	EUR 55.8 mln	not applicable	EUR 20.00 mln	n/a	none	EUR 3.17 mln

¹⁵ 6 million under COSME and 6 million under H2020

¹⁶ 6 million under COSME and 6 million under H2020 + payments from 2014: 4 million under COSME and 4 million under H2020

¹⁷ Note: Total for the completion line 04 03 53 (also including other activities)

¹⁸ Marguerite Adviser

	Organization					Policy			Implementation			Draft Budget 2015		Financial Accounting Data		
Financial Instruments	Type	New /Old	Basic Act	DG in charge	IB ⁶	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope	Aggr. Commitment 2007-213	Aggr. Payment 2007-13	Indicative Commitments	Indicative Payments	Revenues and Repayments	Impairments/ Called Guarantees	AdminExpenditure ⁷
Guarantee Facility under the WBEDIF¹⁹	EnC ²⁰	Old	Reg. (EC) N°1085/2006	DG ELAR	EIF	Create the preconditions for the emergence and growth of innovative and high-potential companies	SMEs	SMEs with no specific sector focus	EUR 21.90 mln	EUR 21.90 mln	EUR 21.90 mln	****	****	n/a	n/a	EUR 1.35 mln
ENEF under EDIF	EnC	Old	Reg. (EC) N°1085/2006	DG ELAR	EIF	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	EUR 11.00 mln	EUR 11.00 mln	EUR 10.40 mln	****	****	n/a	n/a	n/a
ENIF under EDIF	EnC	Old	Reg. (EC) N°1085/2006	DG ELAR	EIB, EIF, EBR-D, KfW	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	EUR 21.20 mln	EUR 21.20 mln	EUR 21.20 mln	****	****	n/a	n/a	n/a
EFSE	EnC	Old	Reg. (EC) N°1085/2006	DG ELAR	EIF	Extend loans to local comm.banks and micro-finance institutions in the Western Balkans	Micro-enterprises/ Households	Micro-finance/ no specific focus	EUR 83.90 mln	EUR 26.20 mln	EUR 26.00 mln	EUR 0.00 mln	EUR 0.00 mln	n/a	n/a	EUR 0.53 mln
GGF	EnC	Old	Reg. (EC) N°1085/2006	DG ELAR	EIF	Provide dedicated financing for energy efficiency and renewable energy	Micro-enterprises/ Households	Energy	EUR 38.60 mln	EUR 19.58 mln	EUR 19.58 mln	EUR 0.00 mln	EUR 0.00 mln	n/a	n/a	EUR 0.31 mln
SME Recovery Support Loan for Turkey	EnC	Old	Reg. (EC) N°1085/2006	DG ELAR	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	EUR 30.00 mln	EUR 30.00 mln	EUR 30.00 mln	not applicable	EUR 0.00 mln	n/a	n/a	EUR 0.36 mln

¹⁹ Western Balkans Enterprise Development and Innovation Facility

²⁰ Enlargement countries

	Organization					Policy			Implementation			Draft Budget 2015		Financial Accounting Data		
Financial Instruments	Type	New /Old	Basic Act	DG in charge	IB ⁶	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope	Aggr. Commitment 2007-213	Aggr. Payment 2007-13	Indicative Commitments	Indicative Payments	Revenues and Repayments	Impairments/ Called Guarantees	AdminExpenditure ⁷
NIF**	NDC ²¹	Old	Reg. (EC) N° 1638/2006	DG DEV-CO	EFI ²²	Mobilise investments to support prosperity and good neighbourliness	Infrastructure Projects, SMEs	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	EUR 789.42 mln	EUR 777.42 mln	EUR 422.46 mln	***	***	n/a	n/a	EUR 10.76 mln
IFCA & AIF	NDC	Old	Reg. (EC) N° 1905/2006	DG DEV-CO	EFI	Promote investments and key infrastructure	Infrastructure Projects	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	EUR 145.56 mln	EUR 145.57 mln	EUR 31.01 mln	***	***	n/a	n/a	EUR 3.04 mln
LAIF	NDC	Old	Reg. (EC) N°1905/2006	DG DEV-CO	EFI	Promote investments and infrastructures	Infrastructure Projects, SMEs	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	EUR 196.65 mln	EUR 196.65 mln	EUR 78.88 mln	***	***	n/a	n/a	EUR 3.52 mln
Support to FEMIP	NDC	Old	Reg. (EC) N°1638/2006	DG DEV-CO	EIB	Provide capital to the private sector of Mediterranean partner countries	SMEs	Private Sector	EUR 224.00 mln	EUR 224.00 mln	EUR 192.00 mln	***	***	EUR 3.43 mln	EUR 5.99 mln	EUR 18.75 mln
GEEREF	NDC	Old	Reg.(EC) N°1905/2006	DG DEV-CO	EIB, EIF	Promote energy efficiency and renewable energy	SMEs	Energy	EUR 76.10 mln	EUR 76.10 mln	EUR 75.00 mln	***	***	n/a	n/a	EUR 0.48 mln

General Remark: in heading 1a, most of existing instruments under the 2007-2013 programmes are referred as "not applicable" in DB 2015 indicative commitment column as no commitment can be done after the legal act has expired.

*The executed budget is computed including EFTA contributions and third countries contribution paid by Participating Countries and/or regularised interest.

**Compared to Art.38,5, the executed budget includes also EUR 12 million stemming from the regional programme in the Neighbourhood for Sustainable Urban Demonstration Projects of which part is implemented through NIF

*** The level of commitments and payments for 2015 for the financial instruments concerned is not yet known. Currently the discussions concern the annual budgetary allocations for different blending facilities (regrouping various financial instruments) for 2014. Financial instruments being regrouped in blending facilities are financed via the regional envelopes of the different instruments (e.g. DCI, ENI) and currently the regional Annual Action Plans are being prepared to be submitted to the different Committees.

²¹ Neighbourhood and other partner countries

²² Eligible Finance Institutions

	Organization					Policy			Implementation			Draft Budget 2015		Financial Accounting Data		
Financial Instruments	Type	New /Old	Basic Act	DG in charge	IB ⁶	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope	Aggr. Commitment 2007-213	Aggr. Payment 2007-13	Indicative Commitments	Indicative Payments	Revenues and Repayments	Impairments/ Called Guarantees	AdminE xpense ⁷

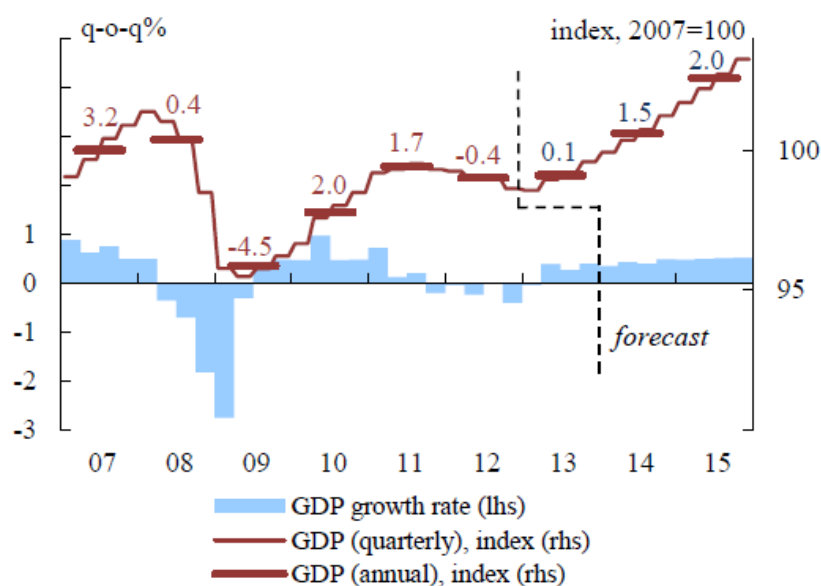
**** EDIF (Enterprise Development and Innovation Facility) comprises the Guarantee Facility, ENEF and ENIF. EUR 20 million is indicatively foreseen in CA and PA for the EDIF under the DB 2015.

IV. GENERAL CONTEXT

4. The EU Economic Environment in 2013

While GDP growth has turned positive in the second quarter of the year, increasingly driven by domestic demand, the legacy of the financial crisis – deleveraging, financial fragmentation, elevated uncertainty and rebalancing needs – has continued during 2013 to weigh on EU and EA growth (+0.1% and -0.4%, respectively) and on unemployment rates (10.9% of the EU labour force). EU GDP is now expected to rise by 1.5% in 2014 and 2.0% next year, while GDP growth in the euro area is expected to be 1.2% in 2014 and 1.8% in 2015.

Graph 1: Real GDP, EU



Figures above horizontal bars are annual growth rates.

Source: European Commission "Winter Economic Forecast," 2014

Insofar as debt in several sectors of the economy remains too high, unemployment is at record levels and the adjustment of previous imbalances is incomplete, EU growth risks remaining stuck in low gear. Labour market conditions have stabilised in mid-2013, and employment appears to have turned the corner. Yet rather slow growth and the usual lags imply that unemployment has still remained close to its peak levels.

On the public finance side, after years of front-loaded fiscal consolidation, the aggregate fiscal stance has gotten close to neutral, although efforts are still required in a number of Member States. Headline fiscal deficits are set to shrink further in 2014 (to around 2.7% of GDP in the EU and 2.5% of GDP in the euro area) before stabilising in 2015 assuming no policy change.

After lacklustre 2013, economic activity outside the EU is expected to accelerate to about 4% this year and 4.5% in 2015. Global trade is forecasted to rise more than GDP, with world

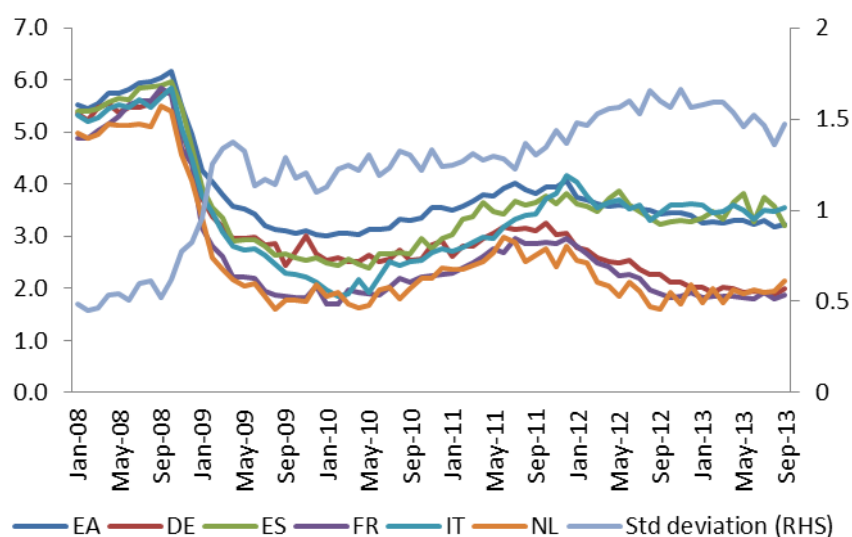
import growth doubling from 2.5% in 2013 to about 5% in 2014 and rising to 6% in 2015, reflecting both the strengthening of the global recovery and the impetus from trade-intensive sectors.

Over the forecast horizon, oil prices are assumed to continue declining, supported by adequate supply. The nominal exchange rate of the euro against main trading partners (based on the technical assumption of unchanged nominal exchange rates) is now projected about 2% higher than last autumn.

On the financial side, financial markets in Europe have gone through a significant process of stabilisation over recent months. The reasons are several: a global reassessment of risk, some redirection of funds from emerging markets, a still accommodative monetary policy and firmer views on the economic situation and outlook.

Funding conditions have thereby improved considerably, due in particular to the progressive repair of bank balance sheets and the reduction in sovereign spreads of more vulnerable Member States.

Graph 2: Euro Area interest rates on loans to non-financial entities (1-year maturity)



Source: European Commission

However, the prospect of a gradual normalisation of benchmark interest rates and liquidity coexist with financial market fragmentation across Member States, which in 2013 has 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.

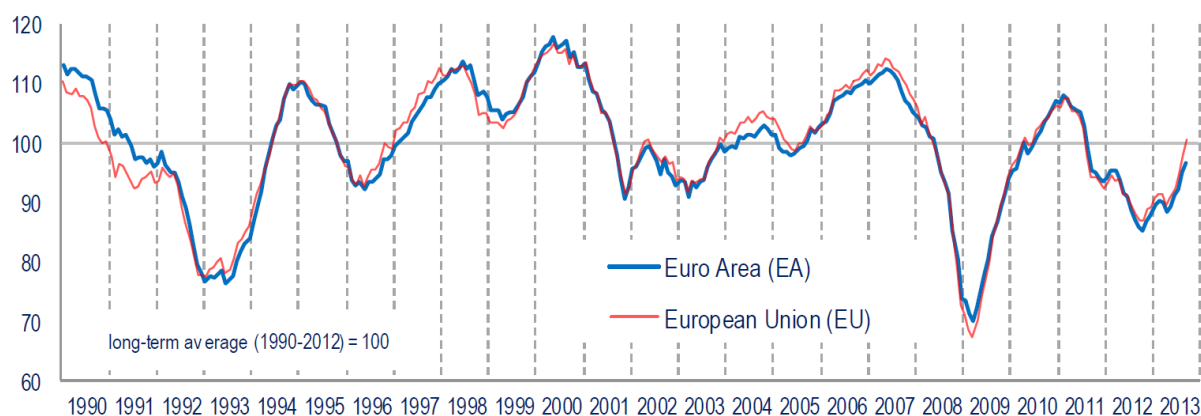
It is also because of financial fragmentation that credit growth and lending conditions, as well as Venture Capital provision for the private sector in general, and SMEs in particular, have not yet fully incorporated the change in the business climate and financial stability. So far, the recovery has remained essentially creditless.

Looking ahead, credit growth could remain anaemic if the implementation of the Banking Union and the Asset Quality Review (AQR) and stress tests fail to clean up balance sheets and restore confidence, in addition to the still high deleveraging needs in the private sector.

The resulting prolonged weakness of credit supply would impose a limit on the recovery of investment.

Looking at the conditions of the real economy (non-financial businesses and consumers), the Economic Sentiment Indicator (ESI) reveals an increase in economic confidence throughout the year, to reach a value for the EU index of 103.5 in December, overshooting its long-term average of 100 for the first time since July 2011.

Graph 3: *Economic sentiment indicator (s.a.)*



Source: *European Commission services*

The Euro area Business Climate Indicator also signals an overall increase in business confidence throughout 2013. Business data, however, portray a more nuanced, if overall similar, picture. The data for 2013 indicate a slow recovery of industrial production in the EU, as expectations in manufacturing have become more optimistic since the beginning of 2013. Overall, services have been hit less badly than the construction, manufacturing and mining industries. Market services, information, & communication, and real estate activities have continued to grow during the crisis. Demand expectation for services closely follows that of manufactured goods. The indicator for services has been positive since early 2013 showing that the majority of service industries that participate in the survey believe that demand will increase in the coming months.

The most recent business surveys indicate that expectations of demand in services have been even more optimistic since summer 2013.²³

5. Strategic Target Groups

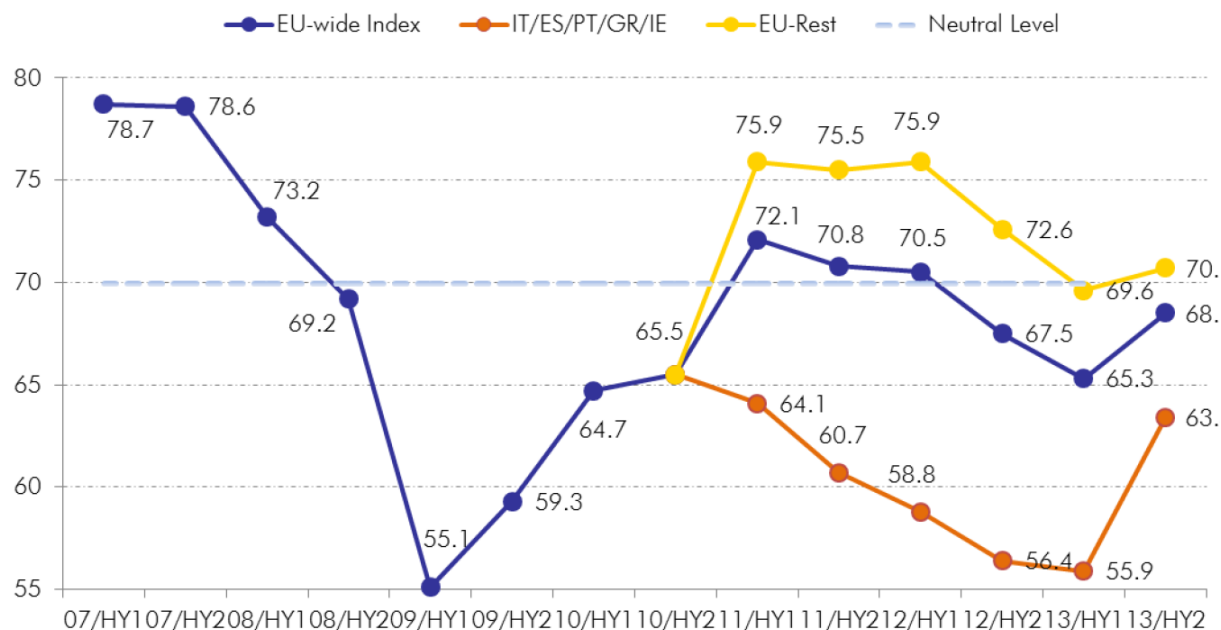
The EU has identified recipients in the business sector characterised by a firm size, taking into account a threshold of 250 employees.

²³ European Commission (2014a).

5.1. EU SMEs²⁴

According to the UEAPME SME Business Climate Index, the overall business environment for European SMEs, which was deteriorating for four consecutive semesters, improved at the end of 2013 by more than 3%. The index (68.5%) for the second half-year of 2013 still stands below its neutral level of 70%, but it has already left the previous one of 65.3%, which represented the low point of the entire recession so far.

Graph 4: SME Business Climate Index



Source: EIF Small Business Finance Outlook, December 2013 (based on UEAPME Study Unit, 2013)

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’s EU Craft and SME Barometer.

The trend for the EU is rising, which could indicate that European SMEs are on their way out of the current recession. Remarkable progress can be noticed especially in the more vulnerable Member States. The SME Business Climate Index for these countries has increased by 7.5 % in the second half-year of 2013, which is higher than the increase in “the

²⁴ 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)

rest of the EU” (1.1 %). As a result, the imbalance between the two diverse country groups has diminished again, with the current gap equal to 7.3% (UEAPME Study Unit, 2013).

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. In some large funding markets, such as in Spain or Italy, there is hardly any clear trend of business lending rates falling. Corporate lending rates are on average still around 4% in Spain or 3.5% in Italy. Not only have these rates hardly fallen over recent months and in Spain have even risen, but they remain in clear contrast with corresponding conditions in countries like Germany or France, with annual interest rates below 2%. In addition, using small loans (up to EUR 1 million and up to EUR 0.25 million) as a proxy for the financing cost of SMEs, it can be shown that financing conditions remain persistently tighter for SMEs than for large firms (ECB, Monthly Bulletin, May 2014), as a consequence of a supposed divergence in firm-specific risks.

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: lending to enterprises is stagnating in Germany and France, and still falling by around 6% annually in Italy and Portugal and even more so in Spain. Using again small loans (below EUR 1 million) as a proxy, SME loan volumes decreased continuously by 36% from their April 2009 peak until June 2013, and are today 20% below their 2003 levels. Also small loans up to EUR 0.25 million (data available only since June 2010) are still in a declining trend. In comparison, large loans stand today 6% above their 2003 levels.

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.²⁵

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 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.²⁶

5.1.1. 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 EU's small and medium sized 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 Commission and European Central Bank.

About one third of the SMEs surveyed have not managed to get the full financing they had planned for during 2013 and 15% of survey respondents see access to finance as a significant

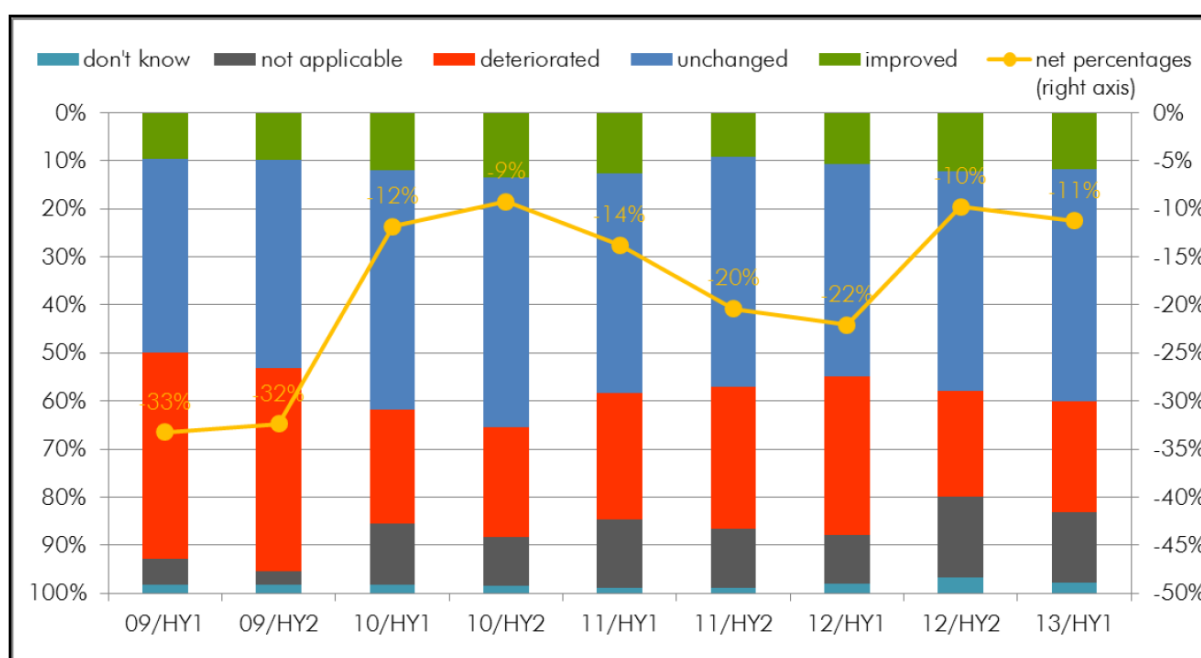
²⁵ European Commission (2013a).

²⁶ IDEA (2013).

problem for their companies. 13% of SMEs loan applications were rejected and 16% of companies received less than they applied for. In addition, 2% declined the loan offer from the bank because they found the conditions unacceptable and 7% of SMEs were even too discouraged to ask, because of anticipated rejection. 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 possible 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 rejected outright. The highest rejection rate was among micro companies employing fewer than 10 people (18%) and among SMEs, which had been active for less than 2 years (28%). In general, companies believe that bank-financing conditions have worsened during 2013, with respect to interest rates and collateral requirements. Fig. 1 illustrates the change in availability of bank loans for SMEs in the euro area.

Graph 5: *Change in availability of bank loans for euro area SMEs*
(over the preceding 6 months; % of respondents)



Source: EIF Small Business Finance Outlook, December 2013 (based on ECB-European Commission: SAFE Survey, November 2013)

Based on Commission analysis,²⁷ it can be estimated that up to 10% of EU SMEs that have had difficulty in accessing loan finance²⁸ are in fact financially viable, in the sense that have experienced a positive turnover growth in the previous six months. The problem is

²⁷ European Commission (2013b).

²⁸ 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.

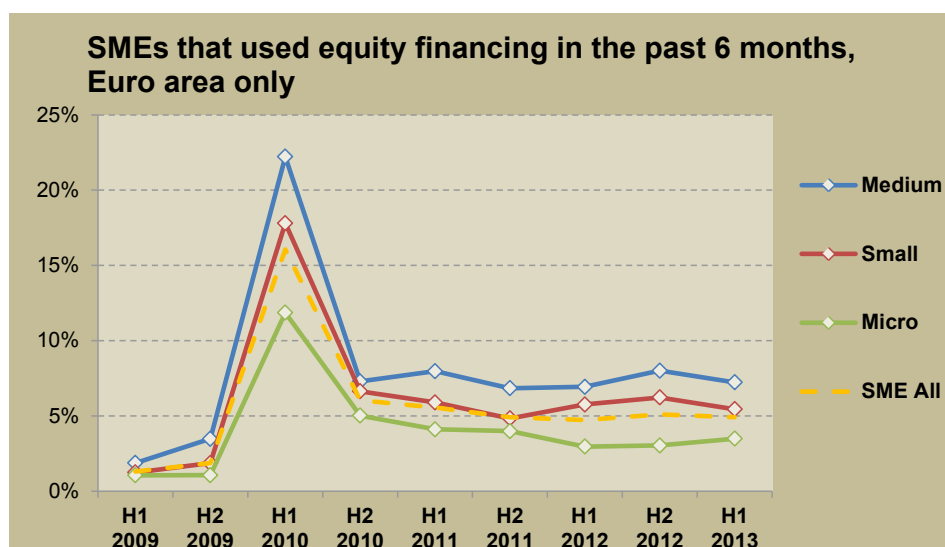
compounded by the fact that a majority of SMEs look at external financing as their only source of financing, and bank loans are the primary external funding source for 32% of SMEs.

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.

5.1.2. Access to equity finance of EU SMEs

5.1.2.1. SMEs and the European Equity Market

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 only 5% of EU SMEs used equity financing in the last six months in 2013, registering a decrease from the 7% measured in the 2011 wave. Access to equity financing is nearly twice as common among larger businesses (9% of those with 250+ employees) in the EU, reflecting SMEs' difficulties in accessing this specific financial instrument. Only 16% of EU SMEs were able to provide an opinion about the willingness of investors to invest in equity in the past 6 months, the great majority of SMEs considering this as not applicable to their firm. Among those EU SMEs expressing an opinion, most reported no change (12%), 2% reporting both an improvement and deterioration (overall net balance of -1%). This represents a small improvement on 2011 levels (-3%).



Source: EIF Small Business Finance Outlook, December 2013 (based on ECB-European Commission: SAFE Survey, November 2013)

Among the different opportunities of equity financing for SMEs, a crucial role is played by **Venture Capital financing**. Spanning from the seed to 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 to SMEs.²⁹

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.

5.1.2.2. 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, as described in the Bain and Company 2013 report, 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 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 the EVCA 2013 European Private Equity Activity report point to the following trends in the European Venture Capital sector:

a) Fundraising

- Venture Capital fundraising in Europe totalled EUR 4 billion in 2013 which represents an increase of 4% compared to the EUR 3.9 billion raised in 2012 and is broadly in line with the lower volumes recorded since 2009. Government agencies remained the most prominent provider of funding, representing more than 38% of the total funds raised (compared to 14% in 2007).
- As regards the geographic breakdown, 47% of the funding came from France and Benelux region (Belgium, the Netherlands and Luxembourg), followed by 15% from the UK and Ireland and 13% from North America.

b) Investments

- The total amount of Venture Capital invested in 2013 reached EUR 3.4 billion, up 5% from the total investment volume of EUR 3.2 billion recorded in 2012. 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 3,000 companies were backed by Venture Capital funds in 2013. Start-up companies were at the centre of Venture Capital funds' attention, as they received 55% of the total amounts invested and represented 59% of the total number of supported companies.
- As regards sectors, life sciences, computer and consumer electronics, communications and energy, and environment accounted for more than 70% of all Venture Capital investments.

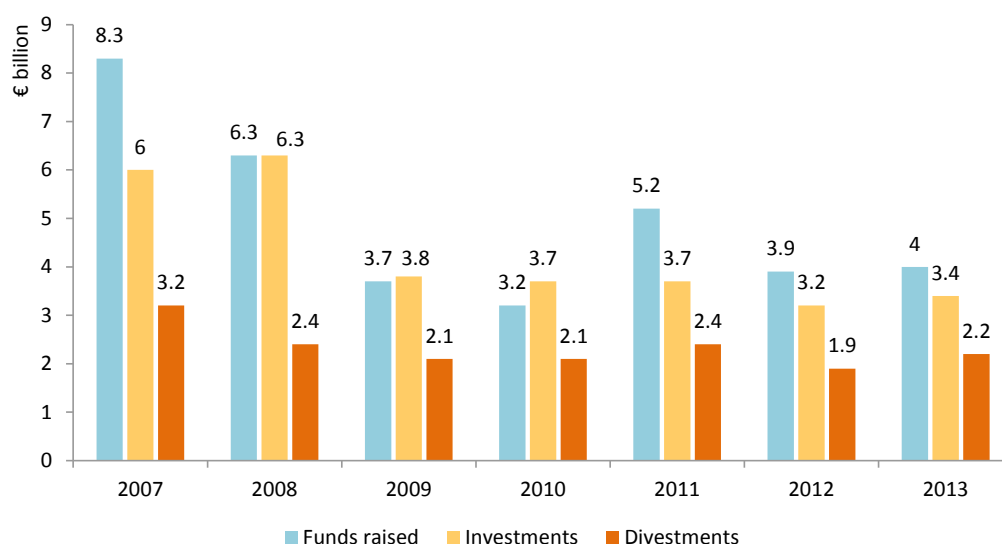
²⁹ EVCA (2014). Note that EVCA identifies SMEs as enterprises having less than 250 employees, without any considerations concerning turnover and/or total assets.

- In terms of geographic breakdown by equity amount invested in 2013, most of the Venture Capital funds' investment went to the France and Benelux region and to the DACH region (Germany, Austria and Switzerland), each receiving approx. EUR 1 billion of investments, followed by the UK and Ireland with EUR 0.7 billion.

c) Divestments

- Venture Capital divestments reached EUR 2.2 billion in 2013, up from the EUR 1.9 billion in 2012 but still well within the range of EUR 1.9 to 2.4 billion recorded since 2008. Trade sales were the most common exit routes, representing 54% of all divestments.
- The number of exited companies stood just below one thousand.
- The highest financial volumes earned in exits were realised in life sciences, computer and consumer electronics, and financial services.

Graph 6: Overview of the Venture Capital Market



Source: European Commission (2014), based on EVCA (2014)

In addition, while Seed/Start-up/Early Stage funds invested 98% of their capital in SMEs (representing 99% of their target group),³⁰ Private Equity funds operating in the *Growth* stage only invest 55% of their capital in SMEs (which still constitute 84% of their target group).

Moreover, in 2012, just under 40% of funding for Venture Capital came from government agencies, according to EVCA (2012 EVCA Yearbook), and the total amount raised from such agencies for Venture Capital funds in Europe was just under EUR 1.2 billion with government agencies significantly stepping up investments over the past few years. However, such efforts usually only target national Venture Capital markets, thus contributing less to the emergence

³⁰ EVCA (2014).

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.³¹

5.1.2.2.1. Equity Financing Gap for Innovative SMEs

A recent study commissioned by the European Parliament's Committee on Industry, Research and Energy (ITRE)³² 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.

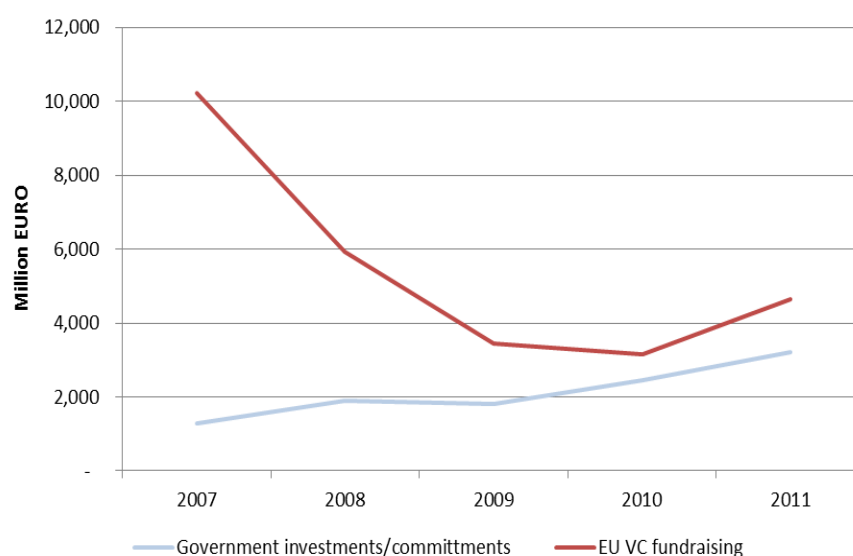
The study found that the supply of Venture Capital is low in Europe because many institutional investors either withdrew from the Venture Capital market following losses from the bursting of the dot.com bubble and have not returned, or, in the wake of the financial crisis, have ceased to invest in Venture 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 compensate³³, with government agencies significantly stepping up investments over the past few years:

³¹ European Commission (2013a).

³² 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>).

³³ Note: In 2012, just under 40% of funding for Venture Capital came from government agencies, according to EVCA (2012 EVCA Yearbook), and the total amount raised from such agencies for Venture Capital funds in Europe was just under EUR 1.2 billion.

Graph 7: Government investments and Venture Capital fundraising in EU



Source: EVCA

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 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.

³⁴ Economisti Associati (2011).

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.

5.2. EU Midcaps³⁵

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.

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 (ECB's January 2014 Bank Lending Survey) indicates that credit standards for loans to corporations, including mid-caps, continued to tighten albeit at a slowing pace, while for SMEs the situation improved for the first time since mid-2007, although in absolute terms still remaining worse than for mid-caps.

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.

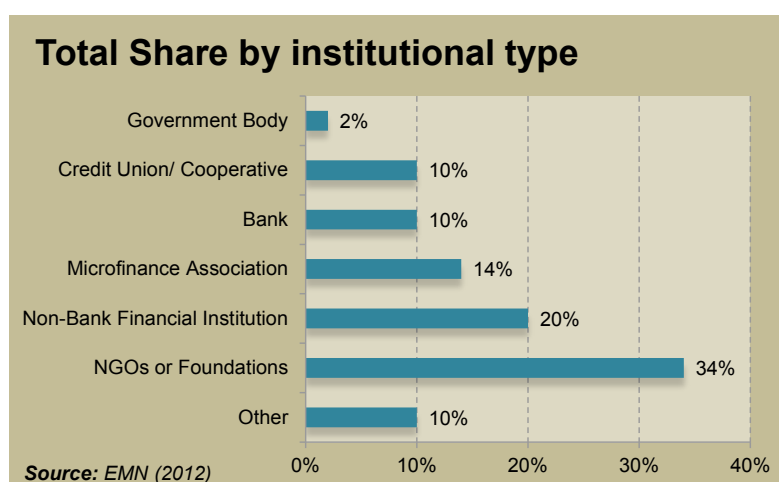
Characteristically mid-sized or mid-cap companies benefit from better name recognition, longer credit history and better product track record than SMEs. In case of mid-sized companies with a stable growth trajectory, this reduces information asymmetries and allows them to have better access to finance 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.

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).

5.3. EU Micro-enterprises³⁶

5.3.1. The European micro-finance market

The European microfinance market is as diverse as its actors. To a large extent this diversity of institutional forms is connected to national differences in the legal environment for loan provision and microenterprise promotion. The main institutional forms are Non-Governmental Organizations (NGOs) or foundations, Non-bank financial institutions, Microfinance Associations and banks. A recent increase in the market share of banks (from 8 to 10%) and credit unions/cooperatives denotes increased institutional diversification of the market.



The European microfinance sector is characterised by a large diversification of the products offered. The majority of the European MFIs provide their microloans as individual loans (92%), 27% of which are individual stepped loans. Unlike the international microfinance market, group loan approaches so far play only a minor role in the European market.

Based on a recent EIF survey among 35 microfinance institutions across the EU28, the average micro loan was reported to have featured an interest rate in the range of 8% - 10.7% and maturity in the range of 3.2 – 5.2 years. However, as previously stated, there are significant differences in the average micro loan pricing between banks, promotional institutions and non-bank MFIs.

The European microfinance sector consists mainly of microloans (up to EUR 25,000) tailored to micro-enterprises (92% of all European businesses).³⁷ In 2011, all MFIs covered by the EMN³⁸ Overview Survey disbursed 204,080 microloans (including personal loans) amounting

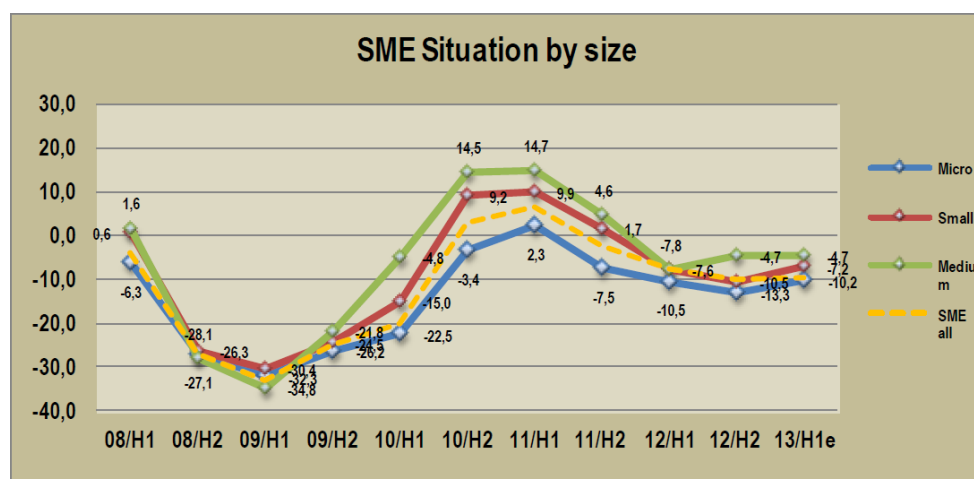
³⁶ Note: Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. (Commission Recommendation, 6 May 2003, C(2003/1422), OJ L124/36, 20.05.2003).

³⁷ 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).

³⁸ European Microfinance Network

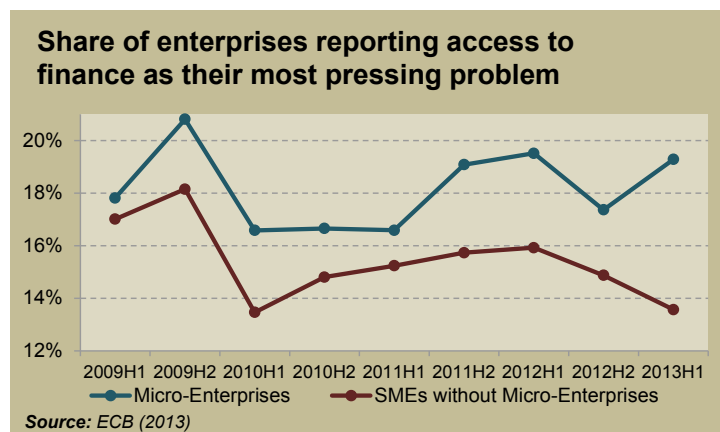
to a total volume of around EUR 1,047 million. The EU-based organisations surveyed alone reported 122,370 loans with a total volume of EUR 872 million. The scale of microcredit provision in the EU continues to grow, mainly as a result of various enhancing measures in some national contexts (e.g. favourable regulatory frameworks, improved funding through EU initiatives, banks downscaling into microfinance).

When looking at the business climate of micro-enterprises, the EU Craft and SME barometer shows that, on balance, micro-enterprises assessed their overall situation less favourably than other SMEs in the first half of 2013. However, micro-enterprises, on balance, expected some improvement in their business situation in the second half of 2013 (a decline of 7.5% compared to a decline of 17.9% in the first half of 2013). Similar results were reported for the survey questions on turnover, employment and orders in the first half of 2013. Overall, micro-enterprises will continue facing more difficulties than other SMEs.



Source: UEAPME (2013)

Data from the latest ECB SAFE (Survey on the Access to Finance of SMEs in the Euro area) show that micro-enterprises reported “access to finance” as the second of their most pressing problems, while it is in fourth place of the “most pressing problems” 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 decreased for all enterprises except for micro-enterprises.



5.3.2. Assessment of the European micro-finance market

National aggregate results from the latest EMN Overview Survey 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. At the level of general supply of microfinance in Europe, commercial banks are expected to continue 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.

Results from Evers & Jung (2014, forthcoming) show that the aggregated 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.

Political attention on the sector has been high in the past two years, especially in Western Europe, where microfinance is positioned as an important instrument to counteract the effects of the ongoing crisis in job creation and access to finance. The EMN foresees a decline of the general public support for microfinance provision in the coming years, due to budget restrictions and high deficits at national and regional levels.³⁹ MFIs plan to react to this by developing more efficient and lean processes as well as by 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.

6. 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

³⁹ EMN (2012).

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. 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.

6.1. 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.⁴⁰

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.

6.2. 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.

⁴⁰ European Commission (2014a).

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 network⁴¹ (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) regulation⁴², adopted in December 2013 laid down a financial envelop for the period 2014-2020 of EUR 33 billion, of which EUR 26 billion are allocated for the transport sector. The CEF regulation established detailed provisions for the design and implementation of financial instruments in support of TEN financing needs.

In January 2014, the Commission adopted a Communication and a delegated act setting the transport funding priorities for the CEF implementation 2014-2020. 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 (ERTMS for railways, 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

⁴¹ 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.

⁴² 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

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:⁴³

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.⁴⁴ Public funding of the basic transport 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 is 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.⁴⁵ 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.

⁴³ European Commission (2014b).

⁴⁴ 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 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.

⁴⁵ Note: PPP hereby includes also concessions as the common model of financing motorways in certain of Member States and airports in general.

6.3. 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. Since the Commission's Communication on energy infrastructure priorities for 2020 and beyond, adopted on 17 November 2010,⁴⁶ 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 regulation⁴⁷ 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)⁴⁸ in addition to the normal replacement of assets, estimated at EUR 76 billion to 2035.⁴⁹ 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 partially 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 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).⁵⁰

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.

⁴⁶ European Commission (2010a).

⁴⁷ Regulation (EU) 347/2013.

⁴⁸ ENTSOE (2012).

⁴⁹ IEA (2011).

⁵⁰ 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.

6.4. 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 Mbps⁵¹ 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. 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 some extent by alternative telecom carriers and municipalities. Along with these actors, a number of alternative investors and investment models have been recently emerging.

One 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.

The variation of NGA investment costs with customer density and population across Member States gives rise to a specific issue: a large part of the population lives in areas situated between urban clusters (where there is a clear business case for commercially-driven roll-out) and very rural regions where broadband deployment without public support is nowadays hardly conceivable. 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.

⁵¹ Megabits per second (referring to the speed of data transfer)

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 elevated levels of 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. 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.

6.5. Social Enterprises

Traditionally, the European social model has always been characterised by the prominent role played by a variety of organisations that differ both from private corporations and from public institutions. These are private organisations, which typically pursue goals other than profit. Their main purpose is not to generate financial gains for their owners or stakeholders but to provide goods and services either to their members or to the community at large.

These organisations, 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, 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. Most recent studies highlight the correlation (and at some point the causality) relationship between social capital and economic growth.⁵² Moreover, the recent crisis has pointed out the fragility of an economic and financial system merely based on the profit maximization benchmark.

⁵² Beugelsdijk and van Schaik (2005).

Based on available evidence, it is estimated that the social economy in Europe (measured as the aggregate of cooperatives, mutuals, associations and foundations) engages over 14.5 million paid employees, equivalent to about 6.5% of the working population of the EU-27 and about 7.4% in EU-15 countries.⁵³ These figures also include a high number of social enterprises, as they contain all social enterprises using social economy legal forms, such as social cooperatives and entrepreneurial associations. Interestingly, the social economy has increased more than proportionately between 2002-03 and 2009-10, increasing from 6% to 6.5% of total European paid employment and from 11 million to 14.5 million jobs. Incidentally, this is a phenomenon that is not confined to Europe but is gathering strength around the world, as exemplified by the data on cooperatives published in the recent World Cooperative Monitor by Euricse and the International Cooperative Alliance.

The EU role, subsidiary to national interventions, entails promoting a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions, possibly using financial instruments.

6.6. 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*.⁵⁴ 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.⁵⁵ 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.

⁵³ Solidar (2014).

⁵⁴ European Commission (2010c).

⁵⁵ European Commission (2014)

- 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.

7. 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.

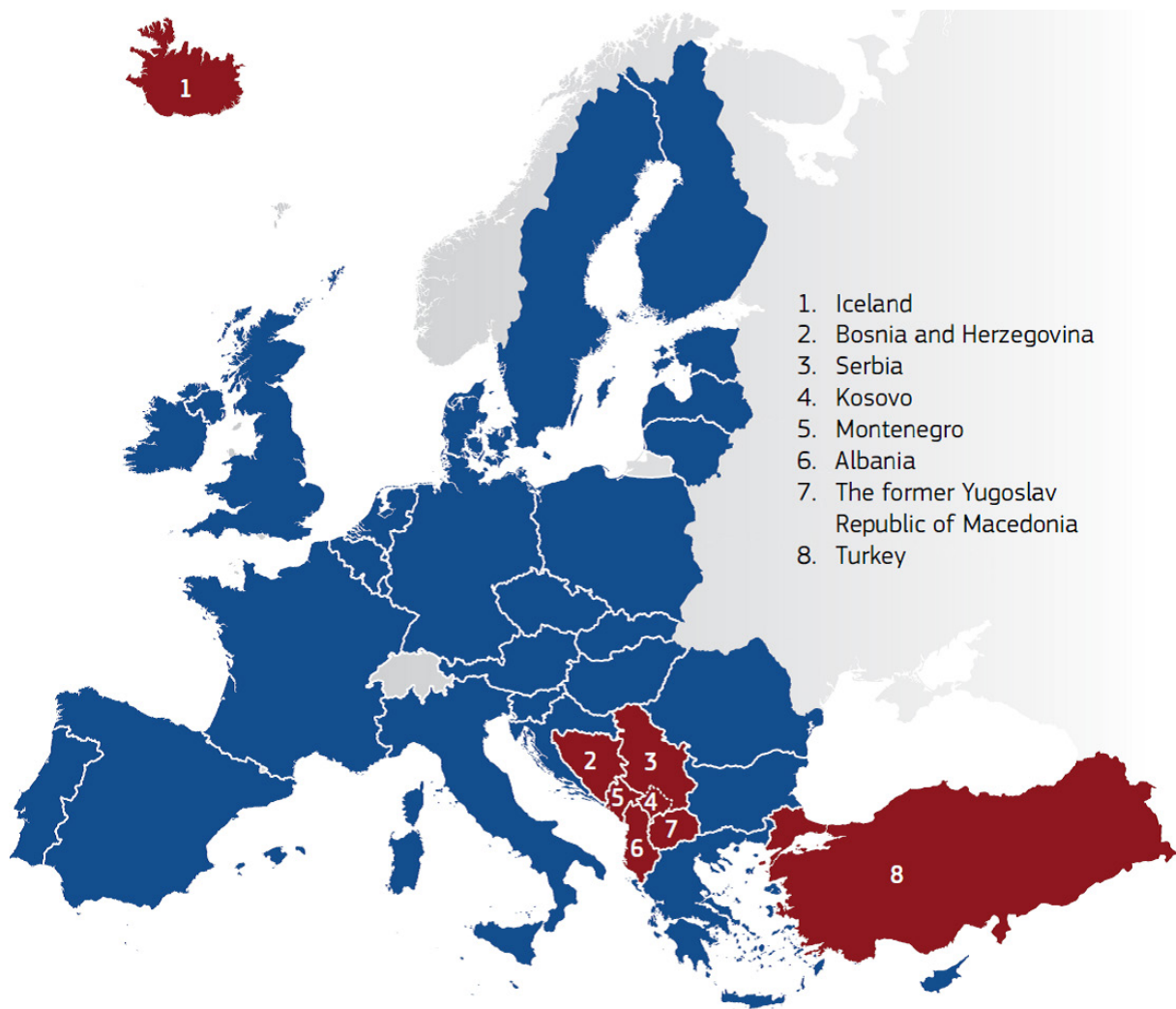
Besides this, the EU international role is particularly important to prepare access to the Union to Enlargement countries, through economic, technical and administrative support.

7.1. Enlargement Countries

Enlargement countries are composed of five Candidate countries⁵⁶ and three Potential candidates.⁵⁷

⁵⁶ Note: Still negotiating / waiting to start (The former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia, Turkey, Albania).

⁵⁷ Note: Prospect of joining when they are ready (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 process whereby these countries will – at various stages – join the European Union, under the guidance of the Commissioner for Enlargement, may pose challenges, due to compliance with all the EU's standards and rules. These require, inter alia, "a functioning market economy and the capacity to cope with competition and market forces in the EU", as well as "the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union."⁵⁸

For the Western Balkans, additional conditions apply, mostly related to regional cooperation and good relations with neighbouring countries (the so-called 'Stabilisation and association process conditionality'). 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 countries by providing finance and supporting strategic investments, particularly in infrastructure, energy efficiency, private sector development including SMEs, and technical assistance.

⁵⁸ Note: These are part of the so-called Copenhagen criteria.

7.2. Neighbourhood Countries

Neighbourhood countries are those situated on the eastern border and the North African, and the Middle Eastern countries bordering the Mediterranean Sea.

Economic and financial EU relations with these countries, also through trade and international financial cooperation, are crucial in view of economic and political stability and job creation in the area. Notably the signature of the Association Agreements including the Deep and Comprehensive Free Trade Agreements with Georgia, Moldova and Ukraine are important steps towards market integration with the EU. A comprehensive and robust European assistance intervention aims at fostering sustainable and inclusive growth, thus setting the conditions for a democratic transformation and civil society consolidation.

In the Southern Mediterranean countries, average GDP growth in 2013 is still below 2005-2010 averages. Moreover, recent disruptive political events, such as 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 situation in Libya also underline the need for effective partnerships in view of democracy and shared prosperity between the EU and Neighbourhood countries.

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

Governments and other public donors's funds are far from sufficient to cover all substantial needs in EU partner countries..

The strategic role of the EU in sustainable social and economic growth of these countries as a condition 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 also due to their increasing share in world growth. Financial instruments contribute to achieving EU development policy objectives in line with regional and national priorities of partner countries. By 2015, 90% of world growth is expected to be generated outside Europe, with a third from China alone. Both developing and emerging countries are likely to account for nearly 60% of world GDP by 2030, compared to less than 50% today. The EU has maintained its 17.5% share in world trade on average over the last decade despite the rise of other economies.

The changing world order, as established by the new outstanding influence that China, India and Brazil are exerting on the global economy, stimulates the EU to be an active partner in shaping global policies. In particular, the SME and infrastructural sectors – that the EU already supports domestically – represent targets of interest also in DCs to reduce poverty and foster economic growth.

8. Conclusion

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.

9. Annex - Additional Information on the European Equity Market

9.1. 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 **Error! Reference source not found.**:

Box 1: Equity investment stages

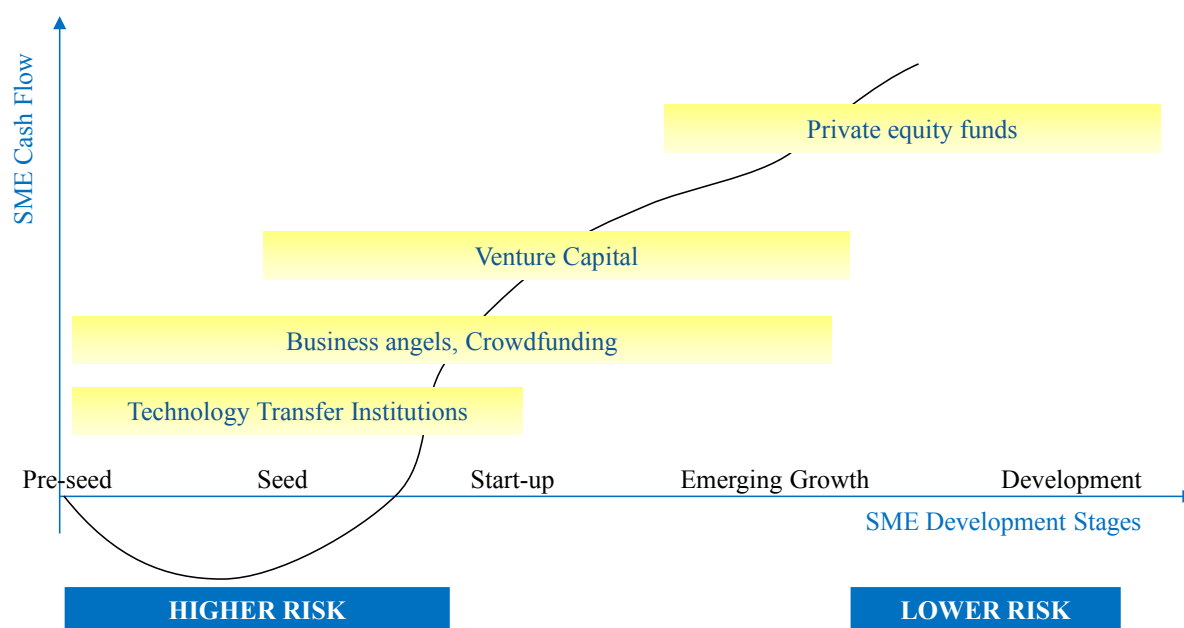
1. Pre-Seed/Seed: in this phase the major focus of the company's activities is on research activities and product development, so as to transfer the new idea into usable results, and set up a functional prototype. It is at this stage that company founders need to prepare a sustainable business plan in 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 **Error! Reference source not found.**, 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.

Graph 6: Different stages of SME's development and most typical financial sources.



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

Error! Reference source not found. 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 organisations⁵⁹ 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

⁵⁹ European Commission (2004).

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.

9.2. 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 Regulation⁶⁰ (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).

After a domestic registration process, a fund manager can market EVCF-qualified funds⁶¹ 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.

⁶⁰ Regulation (EU) No.345/2013 (OJ L115/1, 25.04.2013)

⁶¹ Note: Funds must meet certain requirements, such as that 70% of commitments are invested in SMEs.

- 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 report⁶² 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 problems⁶³ 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 guidelines⁶⁴ 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.

⁶² European Commission (2010d).

⁶³ European Commission (2012).

⁶⁴ OJ C19, 22.01.2014

V. THE RATIONALE FOR THE FINANCIAL INSTRUMENTS

Access to finance for SMEs remains challenging in many MS which risks undermining the economic recovery. At the same time, infrastructure investment needs for transport, energy and broadband networks are estimated at EUR 1 trillion over 2020. Hence, the risk of a funding gap in Europe remains acute, against the backdrop of continuing deleveraging pressures and still significant market fragmentation.

In this context, *real economies* in the Union and beyond can benefit from several EU financial instruments, which attempt to alleviate financial market failures while at the same time leveraging on the positive effects of EU-wide actions.

With the experience gained in the course of implementation, and in the context of programme evaluations and audits, 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 on the design of the new generation of financial instruments.

First, more consistency has been achieved in the governance, supervision and control of the new financial instruments. An appropriate regulatory framework has been established, in particular through the introduction of a specific chapter in the revised Financial Regulation and its Rules of Application. This framework contains detailed reporting obligations, prohibits the unnecessary parking of funds on fiduciary accounts and ensures strict limitation of risk. Further, streamlined implementation modalities with standardised contractual arrangements (Financial and Administrative Framework Agreements, Template for Delegation Agreements, etc.) regulating management structures, fees, reporting etc. and largely supported by the Financial Instruments Inter-service Expert Group at the Commission level⁶⁵ 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 instruments to respond flexibly to market needs, based on demand-driven implementation.

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 will be achieved through fees and incentives, and risk sharing.

In parallel, the Commission has been in close contact with a wide range of stakeholders, including the network for European promotional financial institutions and business

⁶⁵ Commission-internal group established for the purpose of cross-policy coordination among Commission services in view of the design and management of new financial instruments

organisations, as well as guarantee and venture capital associations, to explore further ways to: i) increase the usefulness and effectiveness of financial instruments in response to market developments, ii) enhance their contribution to the achievement of the Europe 2020 objectives and iii) increase their impact on the real economy.

Finally, new Financial Instruments are launched only following a detailed ex ante evaluation in particular in order to determine market failures to be addressed in a precise way and to demonstrate respect of the subsidiarity and proportionality principles.

Although the Union financial instruments have been designed as policy responses to market failures and not primarily as crisis response mechanisms (with the exception of the SME Initiative), the relevance of these instruments has been demonstrated even more during the crisis. The set of potential recipients, as outlined below, 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.

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

10. Equity Instruments

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

A - Description

Programme summary

Policy DG in charge:	DG ENTR, 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 31/12/2013***:	Commitments: EUR 625.20 million Payments: EUR 338.93 million

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

** According to information available as at 3 March 2014, 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, according to market needs, therefore leading to a lower current overall programme budget for GIF, compared to the initial situation.

*** Including EUR 19.5 million EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest.

(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)⁶⁶

⁶⁶ (OJ L 310/15, 9.11.2006)

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

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.

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).

As regards duration, the commitment period for GIF ends on 31 December 2013 but the instruments will exist until the end of the GIF facility period, i.e. until after 2026.

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).

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.

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.

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.

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

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 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')⁶⁷ 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 call for expression of interests.

B - Implementation

(d) The aggregate budgetary commitments and payments from the budget⁶⁸

Aggregate budgetary commitments as at 31/12/2013	EUR 625,197,747
Aggregate budgetary payments as at 31/12/2013	EUR 338,930,937

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

For the period 2007-2013, EUR 1,275.08 million of commitment appropriations⁶⁹ were made available for the CIP financial instruments, of which EUR 625.20 million for GIF. The appropriations were fully committed.

Out of the amount committed, EUR 338.93 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 2013, 46 deals had been approved by the Commission with respect to the Financial Intermediaries (venture capital funds) for a total of EUR 587.1 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 99.7% of commitments available for deals. Out of the fore-mentioned 46 funds, 30 funds have a multi-country focus and the remaining 16 funds target investments in specific countries. 13 venture capital funds are investing in eco-innovation, supported by approved EU investments for a total amount of EUR 217.7 million⁷⁰. By the end of September 2013, 340 investees had received equity finance facilitated by financial support provided under GIF⁷¹

⁶⁷ A list of intermediaries can be found at <http://europa.eu/youreurope/business/funding-grants/access-to-finance/>.

⁶⁸ Note: Including EUR 19.5 million 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 for 2013 not yet calculated nor recovered on the fiduciary account at writing date).

⁶⁹ Note: Including EFTA contributions and third countries contributions paid by Participating Countries as well as regularized interest generated on the trust accounts until 31/12/2012 (relevant interest for 2013 not yet calculated nor recovered on the fiduciary account at writing date).

⁷⁰ Note: Investments in currencies other than EUR are valued at the exchange rate of the reporting date.

⁷¹ EIF (2013a).

As at the end of 2013, the EIF had signed agreements with 41 of the 46 funds approved for a total amount of EUR 523.5 million.

The CIP market-oriented instruments under GIF and SMEG have shown high efficiency and relevance in addressing the current market conditions, dominated in the recent years by a tightening of credit conditions and more difficult access to finance for SMEs. The GIF is a venture capital facility focused and targeted on a relatively limited number of companies that have the potential to achieve high growth, to bring innovation to the market and to create high added-value jobs.

For the entire period as of 31 December 2013 (latest available figures as at time of writing), GIF programme achievements were as follows:

- Number of final recipients: 349
- Actual intermediary size (size of investment funds who further invest into SMEs): EUR 2,768.3 million
- Number of employees at final recipients at date of first investment: 6,844 (data from Employment Report as at 31/12/2012)
- Number of jobs created or maintained: the information is available on the number of employees at the initial and final date, namely:
 - i. GIF number of employees at date of first investment: 6,844 (data from Employment Report as at 31/12/2012)
 - ii. GIF number of employees at the assessment date): 9,908 (data from Employment Report as at 31/12/2012)

The estimated number of jobs created under GIF is over 3,000⁷²; the number of employees in GIF-final recipients as at 31 December 2012 was 9,908⁷³.

Under the venture capital facility – GIF – the support is much more focused and targeted on a relatively limited number of companies that have the potential to achieve high growth, to bring innovation to the market and to create high added value jobs. By December 2013, 349 such investees had received equity finance facilitated by financial support provided under GIF.

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

As at the end of 2013, the Commission approved a total of EUR 587.1 million in net commitments from the Union budget with respect to Financial Intermediaries (venture capital funds). In addition, EUR 36.3 million are reserved for management fees and eligible expenses, leading to a total budget used of 623.5 million.

⁷² EIF (2012b).

⁷³ EIF (2012b).

Comparing the total budget used of 623.5 million to the aggregate budgetary commitments of EUR 625.2 million (which includes the amount of EUR 19.5 million returned to the instrument as reported under point (h)) implies that more than 90% of EUR 19.5 million has been used for the venture capital transactions under the instrument.

(g) The balance of the fiduciary account

Aggregate balance of the fiduciary account as at 31/12/2013 EUR 117,341,627.83

(h) Revenues and repayments

Aggregate additional resources as at 31/12/2013 EUR 19,474,357

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

As of 30 September 2013 a total of EUR 143.3 million⁷⁴ of the GIF had been invested in final recipients, and that investment has an investment valuation of EUR 141.4 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 31/12/2013 EUR 2,687,022

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

No further budgetary commitments have been made by the Commission since the end of the commitment period, i.e. 31 December 2013.

The aggregate budgetary commitments for 2007-2013 amounted to EUR 625.2⁷⁵ million. The leverage effect on GIF is expected to be 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.

The achieved leverage effect for CIP GIF (Actual intermediary size / GIF net approved capital) is around 5.3⁷⁶.

⁷⁴ EIF (2013b).

⁷⁵ Note: Including EUR 19.5 million EFTA contributions and third countries contributions paid by Participating Countries as well as regularized interest generated on the trust accounts until 31/12/2012 (relevant interest for 2013 not yet calculated nor recovered on the Trust Account at writing date).

⁷⁶ EIF (2013a).

C - Strategic importance/relevance

- (I) 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 diversification⁷⁷**

The impact of the EU's Financial Instruments for SMEs

In 2013 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 results⁷⁸, summarised hereafter, concerning relevance, effectiveness, efficiency, utility, sustainability and European added value.

As regards *Relevance*, the 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 is that the funds are getting through to the intended recipients and have the desired effects in terms of innovation, growth and employment. The CIP Decision specified an anticipated number of 32 funds and of 1,200 recipients to be supported. By the end of 2013, the Designated Service had approved 46 funds and 349 recipients were already supported⁷⁹. 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 in general stakeholders have the impression that the instruments are administered efficiently and that money is not wasted. An evaluation of financial instruments by the Court of Auditors concluded that 88% of financial intermediaries agreed that the operational instruments provided by EIF were clear. Furthermore 98% of the intermediaries stated that the EIF is always willing to provide further information to clarify operational issues.

⁷⁷ Bain & Company, IIF (2013); Go4Venture Advisers (2013); IPSOS Mori (2013); Kraemer-Eis, Lang and Gvetadze (2013); Unquote" and SL Capital Partner (2013).

⁷⁸ CSES (2011).

⁷⁹ Note: Only venture capital funds signed in 2007 and 2008 have normally ended their investment period.

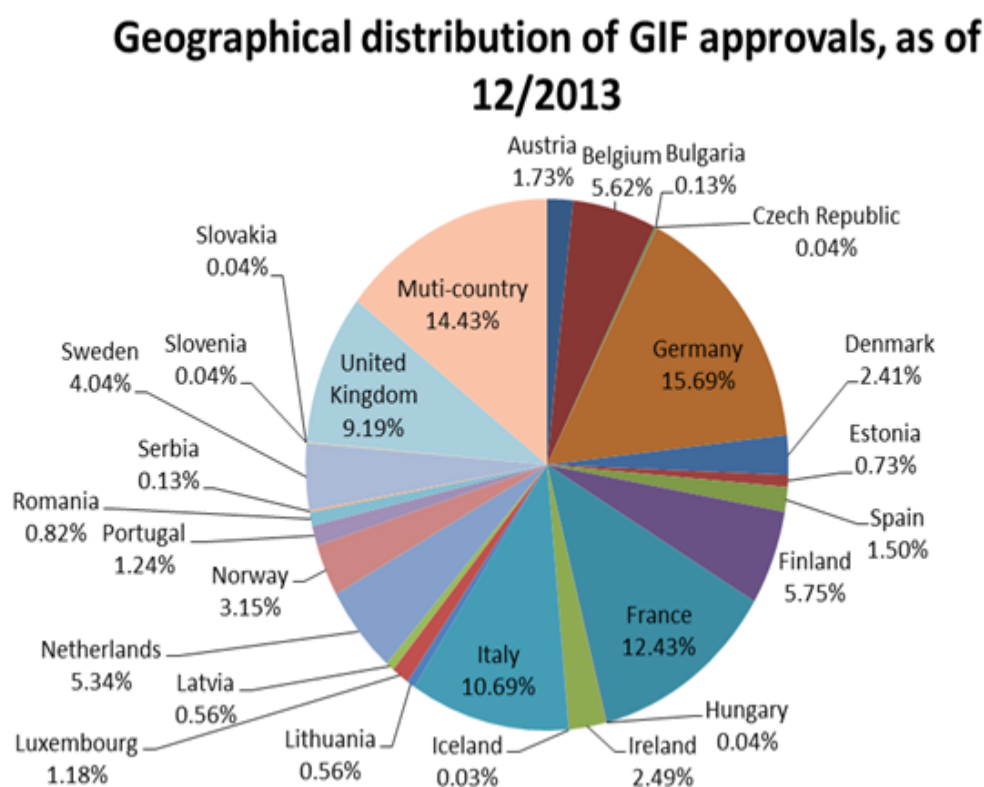
As regards *Utility*, a large part of GIF recipients indicated that the financial support received was the only option for obtaining the funds needed.

As regards *Sustainability*, the evaluators noted that possible improvements raised by EIPC members and representatives of business organisations, related only to more general issues 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 have a broader geographical focus and 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 2013.

Graph 7 : Geographical distribution of approvals by the Designated Service under GIF



D - Other key points and issues

- 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.

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.

- The monitoring visits carried out for GIF during 2013 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 as per Q32013 did not indicate major deviations.
- The European venture capital market has shown promising signs of maturation in 2013. The number and quality of start-up companies has improved, benefiting from the development of local and national venture capital ecosystems. The market gap for start-up financing, at least in the capital efficient segments, seems to have stabilized. There is however a huge gap for companies in their post start-up phase who need significant equity to grow and scale. At the same time, this presents a significant financial opportunity for investors, as witnessed by the increasing number of successful European exits which have a lighthouse effect.

In case of the funds investing in SMEs in their growth and expansion phases, during 2013, lukewarm signs of a European-wide market improvement have been recorded. Nevertheless, overall investment activity was still impacted by the macro-economic uncertainty during the first half of 2013. However, fundraising traction for growth capital and buyout funds improved significantly compared to last year. Together with the material improvement recorded in the exit environment, this seems to suggest that a more stable recovery of growth and buyout investment activity can be expected to emerge gradually.⁸⁰

Nevertheless, in 2013 only 105 European venture capital funds held closings (down from 117 the previous year). The EUR 4 billion raised showed an increase of 4% compared to 2012, and the contribution of government agencies remained stable at 38%. The total amount of European venture capital invested into companies increased in 2013 by 5% to EUR 3.4 billion. More than 3,000 companies were venture-backed, with start-up stage investments accounting for the majority of venture capital activity by amount (55%) and number of companies (59%).⁸¹

The funding environment for entrepreneurs in Europe appears to be improving and is more positive and better balanced than in the recent years. There are more funds available from a greater variety of sources for early-stage ventures and a higher level of confidence to invest in later stages.⁸²

⁸⁰ EIF (2013d).

⁸¹ EVCA (2013).

⁸² EY (2014).

Taking into account these recent market developments, GIF benefited from a strong pipeline, in excess of budgetary appropriations, up to the end of the commitment period on 31 December 2013. This shows in the use of 99.7% of the budgetary appropriations (including the amounts reserved for the entrusted entity's fees and eligible expenses).

E - Summary

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 99.7% of its allocated budget of EUR 625.2 million, with a leverage ratio of 5.3 to 1. It invested in 46 venture capital funds, therefore supporting 349 final recipients and creating more than 3,000 jobs as of December 2013.

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.

10.2. CEF Equity Instrument

A - Description

Programme 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
Implementing Body in charge:	EIB
Initial Overall Budget Envelope:	Not available

Current Overall Budget	Not available
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(a) Identification of the financial instrument and the basic act

Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility⁸³

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

CEF financial instruments

Under the Connecting Europe Facility, the Commission will launch a new generation of the financial instruments for the period 2014-2020. The overall contribution from the Union budget to the financial instruments shall not exceed 10% of the overall financial envelop of the CEF, which amounts to around EUR 33 billion.

The objective of the financial instruments under the Connecting Europe Facility is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage. They shall help finance projects of common interest with a clear EU added value, and to facilitate greater private sector involvement in the long-term financing of such projects in the field of transport, energy and telecommunications, including broadband networks. Actions in third countries may also be supported.

The financial instruments shall bring benefit for projects with medium- to long-term financing needs and shall produce greater benefits in terms of market impact, administrative efficiency and resource utilisation.

In addition, these instruments shall provide to infrastructure stakeholders such as financiers, public authorities, infrastructure managers, construction companies and operators a coherent market oriented toolbox of EU financial support.

The CEF regulation establishes that the financial instruments will consist of:

(a) an instrument for loans and guarantees facilitated by risk-sharing instruments, including credit enhancement mechanisms to project bonds ('Debt Instrument') - to be introduced in December 2014;⁸⁴ and

(b) an instrument for equity ('Equity Instrument'), which shall help to overcome market constraints by improving the financing and/or risk profiles of the infrastructure investments - to be introduced at a later stage.

The finalisation of the design of the Debt and Equity Instruments will be done in the light of the results of the ex-ante assessment that the Commission has recently concluded. The merger of the financial instruments established for the period 2007-2013 (LGTT and PBI

⁸³ (OJ L 348/129, 20.12.2013)

⁸⁴ See the section 9.3.

Pilot Phase) with the CEF Debt Instrument will be carried out as foreseen in the CEF regulation and in the light of the results of the ex-ante assessment.

CEF Equity Instrument

The goal of the Equity Instrument shall be to contribute to overcoming the deficiencies of European capital markets by providing equity and quasi-equity investments to European projects. The instrument will be designed at a later stage. However the main elements are already defined in the basic act.

The maximum amounts of the Union contribution shall be limited as follows:

- 33 % of the target equity fund size, or
- the co-investment by the Union in a project shall not exceed 30 % of the total equity of a company.
- With regards to its implementation, it is envisaged to be done through Entrusted Entities selected in accordance with the Financial Regulation.
- The Union contribution shall be used:
 - towards equity participations, and
 - to cover agreed fees and costs associated with the establishment and management of the Equity Instrument, including its evaluation, which have been determined in line with the Financial Regulation and market practice,
 - for directly related support actions.

The last tranche of the Union contribution to the Equity Instrument shall be committed by the Commission no later than 31 December 2020. The actual approval of equity investments by the entrusted entities or the dedicated investment vehicles shall be finalised by 31 December 2022. The actual winding-down of the instrument will probably take place after 2032.

(c) The financial institutions involved in implementation

The EIB and other entrusted entities (cf. Annex I, Part III of the CEF Regulation)

B - Implementation

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

Not applicable. According to Article 14(2) of the CEF Regulation, the overall contribution from the Union budget to the financial instruments shall not exceed 10 % of the overall financial envelope of the CEF, which amounts to around EUR 33 billion.

(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 or risk-sharing instruments, and on called guarantees for guarantee instruments

Not applicable

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

The 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 - shall be expected to range from 6 to 15, depending on the type of operations involved (level of risk, target beneficiaries, and the debt financing concerned).

The expected leverage of the Equity Instrument - defined as the total funding (i.e. the Union contribution plus all contributions from other investors) divided by the Union contribution - shall be expected on average to range from 5 to 10, depending on market specificities.

C - 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 basic act (Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013) provides a detailed description of the parameters of the debt and equity instrument under the CEF in Annex 1, Part III. The overall objective of the equity instrument under the CEF is to contribute to overcoming the deficiencies of European capital markets by providing equity and quasi-equity instruments.

More details on the design of the instrument will be available in 2015 after the completion of the ex-ante evaluation and the launch of the instrument.

D - Other key points and issues

Not applicable

E - Summary

The goal of the Equity Instrument under the CEF shall be to contribute to overcoming the deficiencies of European capital markets by providing equity and quasi-equity investments to European projects. While the basic act already includes the main parameters of the instrument, its detailed design will only be made at a later stage.

10.3. Equity Facility under COSME

A - Description

Programme summary

Policy DG in charge:	DG ENTR
Implementing DG in charge:	DG ENTR
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 662 ⁸⁵ million*
Expected Overall Budget:	EUR 633 ⁸⁶ million**

* Appropriations as approved in the Basic Act

** Including any changes in the course of the programme, as included in the multi-annual financial programming (2014-2020). Only appropriations to be approved by the Budgetary Authority. Decrease as compared to initial overall budget due to the financing of the EIF capital increase.

(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

⁸⁵ Note: 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 LGF and 48% for EFG, based on the distribution between the loan guaranteed and equity facility in the legislative financial statement.

⁸⁶ Note: This amount, based on the assumption that the distribution between the COSME financial instruments is 52% for LGF and 48% to 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.

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/EC⁸⁷

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

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 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.

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.

In line with the above, the Equity Facility for Growth (EFG) shall provide 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.

The EFG shall be implemented as a window of a single Union equity financial instrument supporting EU enterprises' growth, research and innovation from the early stage, including seed, up to the growth stage. It shall focus 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. In the latter case, the investment from EFG shall not exceed 20% of the total EU investment except in cases of multi-stage funds, where funding from EFG and the equity facility for RDI will be provided on a pro rata basis, based on the funds' investment policy. The Commission may decide to amend the 20% threshold in light of changing market conditions.

Support shall be 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 will ensure that the EGF 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.

⁸⁷ (OJ L 347/33, 20.12.2013)

From a technical point of view, the EIF will be 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).

(c) The financial institutions involved in implementation

The implementation of the EFG is entrusted to the EIF and the respective Delegation Agreement has been signed on 22 July 2014.

B - Implementation

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

The overall budget available on budget line 02 02 02 'Improving access to finance for small and middle-sized enterprises (SMEs) in the form of equity and debt' for the budgetary year 2014 is EUR 140.7 million for commitments, out of which EUR 51.7 million are foreseen to be committed for the EFG.

The overall budget available on budget line 02 02 02 for payments amounts to EUR 66.7 million and will be used for both payments under EFG and LGF. Actual payments will be based on substantiated disbursement forecasts to be provided by the entrusted entity once the EFG is up and running.

(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 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 indicated in the COSME legal base is in the 4 to 6 range for the equity instrument over the lifetime of the programme, with an overall value of venture capital investments mobilised by the Union contribution ranging from EUR 2.6 billion to EUR 3.9 billion.

Based on the above leverage targets, it is estimated that the cumulative total amount of venture capital investments mobilised for 2014 would range from EUR 207 million to EUR 310 million. These numbers refer to investments made during the lifetime of venture capital funds in which COSME investments were authorised under the 2014 budget.

C - 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.

The COSME programme shall contribute to the following general objectives, paying particular attention to the specific needs of SMEs established in the European Union and of SMEs established in third countries participating in the COSME programme pursuant to Article 6:

- 1) strengthening the competitiveness and sustainability of the Union's enterprises, particularly SMEs;
- 2) encouraging entrepreneurial culture and promoting the creation and growth of SMEs.

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.

In line with 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 shall 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 following indicators / long term (2020) targets have been established for the EFG:

- Number of venture capital investments from the COSME programme and overall volume invested: overall value of venture capital investments ranging from EUR 2.6 billion to EUR 3.9 billion and number of firms receiving venture capital investments ranging from 360 to 540;
- Leverage ratio: 4 to 6, with EUR 1 from the Union budget resulting in EUR 4 to 6 in equity investments over the lifetime of the COSME programme
- Additionality: increase in the proportion of final recipients that consider the EFG to provide funding that could not have been obtained by other means compared to the baseline set by the predecessor of this programme⁸⁸ (62%)

D - Other key points and issues

- The EFG under COSME is built on the experience of the High Growth and Innovative SME Facility (GIF) of the Competitiveness and Innovation framework Programme (CIP) 2007 – 2013. However, substantial changes to the implementation requirements will have to be made to satisfy legal requirements stemming from the Financial Regulation, which includes a full chapter on Financial Instruments.

A number of the changes will impose additional requirements (e.g. need for declarations and additional verifications) on Financial Intermediaries, Financial Sub-intermediaries and Final Recipients and it remains to be seen whether the additional requirements will have a negative impact on the take-up of the Financial Instruments (i.e. perceived additional administrative burden). Furthermore, some of the new requirements (e.g. publication requirements) may conflict with national legislation (e.g. on banking secrecy).

- The call for expression of interest for the EFG has been published early August 2014 but it is too early to have a precise view at this time on the demand of the market. However, judged by demand for the predecessor facility, it is expected that the total budget available for 2014 will be committed.

E - Summary

The EFG, foreseen to be implemented by the EIF on behalf of the Commission, will provide enhanced access to risk capital and support the development of a pan-European risk capital market. The aim is to reduce the persistent market gap in the area of SME financing in Europe.

⁸⁸ Note: The High Growth and Innovative SME Facility (GIF) under the Competitiveness and Innovation Framework Programme (2007-2013).

The EIF shall invest on a *pari passu* basis with other private and public investors. Target final recipients of the equity instrument are SMEs of all sizes without a specific sector focus.

10.4. InnovFin SME Venture Capital (Horizon 2020)⁸⁹

A - Description⁹⁰

Programme 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.

(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/EC⁹¹

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 1906/2006⁹²

⁸⁹ 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.

⁹⁰ 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.

⁹¹ (OJ L 347/104, 20.12.2013)

⁹² (OJ L 347/81, 20.12.2013)

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/EC⁹³

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

This facility succeeds and refines the GIF-1 scheme under CIP⁹⁴, 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.

The European Investment Fund (EIF)⁹⁵ 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.

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.

⁹³ (OJ L 347/965, 20.12.2013)

⁹⁴ European Commission (2013c).

⁹⁵ 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.

B - Implementation

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

EUR 430 million indicatively foreseen for the period 2014-2020; in 2014, an indicative budget allocation of EUR 40 million is foreseen.

(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.

C - 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 commitment⁹⁶:

By 2014: 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 proposed⁹⁷ 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

⁹⁶ European Commission (2010b).

⁹⁷ Note: For Horizon 2020, see European Commission (2011a) and European Commission (2011b). For COSME, see European Commission (2011c).

challenges, with a focus on activities such as piloting, demonstration, test-beds and market uptake.

D - 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 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 profitability⁹⁸.

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 teams⁹⁹.

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 forms¹⁰⁰, 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 VC¹⁰¹. In many Member States, however, with pressure mounting to reduce budget deficits, the relatively modest returns achieved by some VC operations

⁹⁸ See, for example, Mina with Lahr (2011), and Ernst & Young (2011).

⁹⁹ EIF (2012a).

¹⁰⁰ For more examples, see European Parliament (2012).

¹⁰¹ Capital for Enterprise Ltd, (2012).

backed with public funds, coupled with the significant management costs involved, may undermine support for future initiatives¹⁰².

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).

E - Summary

The InnovFin SME Venture Capital succeeds and refines the GIF-1 scheme under CIP¹⁰³, 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**.

11. Guarantee Instruments

¹⁰² For example, see National Audit Office (2009).

¹⁰³ European Commission (2013c).

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

A - Description

Programme summary

Policy DG in charge:	DG ENTR, 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 31/12/2013***:	Commitments: EUR 649.9 million Payments: EUR 259.7 million

* Initial voted commitments (SMEG 506 million EUR).

** According to information available as at 3 March 2014, 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.

(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)¹⁰⁴

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

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.

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

¹⁰⁴ (OJ L 310/15, 9.11.2006)

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 (section 1.1).

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. 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.

Regarding the sustainability and European value-added, 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')¹⁰⁵ 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.

¹⁰⁵ A list of intermediaries can be found at <http://europa.eu/youreurope/business/funding-grants/access-to-finance/>.

B - Implementation

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

Aggregate budgetary commitments¹⁰⁶ as at 31/12/2013 EUR 649,886,744.07

Aggregate budgetary payments¹⁰⁷ as at 31/12/2013 EUR 259,654,006.83

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

For the period 2007-2013, EUR 1,275.08 million of commitment appropriations¹⁰⁸ 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 2007-2013, out of the EUR 598.58 million made available for the CIP financial instruments, EUR 259.65 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.

For the entire period as of 31 December 2013 (latest available figures as at writing date), SMEG achievements under CIP were as follows:

- number of signed agreements (with 51 financial intermediaries): 66;
- number of final recipients (supported SMEs): 311,633;
- total underlying loan amount: EUR 16,108.5 million;
- number of employees at final recipients (supported SMEs) at inclusion date: 1,094,609;
- number of jobs created or maintained: 311,633¹⁰⁹.

By the end of December 2013 (latest available figures as at writing date), deals with Financial Intermediaries from 25 countries had been approved by the EC, with a total of EUR 605.3 million guarantee cap from the Union budget for direct and counter-guarantees. By the end of December 2013, 311,633 SMEs had received debt finance facilitated by financial support provided under SMEG¹¹⁰, through nearly 369,962 loans.

As at December 2013, the EIF had signed agreements with 51 financial intermediaries¹¹¹, for a cumulative total amount guaranteed of EUR 11,461.2 million¹¹² (under the existing

¹⁰⁶ Note: 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.

¹⁰⁷ Note: Idem 73

¹⁰⁸ Note: Idem 73

¹⁰⁹ 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.

¹¹⁰ EIF (2013c).

¹¹¹ EIF (2013c).

¹¹² Cumulated 'Actual Utilisation' of all agreements under the Facility (Source: EIF SMEG 2007 report as of 30/12/2013).

direct guarantee and counter-guarantee agreements). The loans associated with that guaranteed amount account for EUR 16.1 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. By end December 2013, the number of supported SMEs had nearly reached the expectations foreseen in the ex-ante assessment. As the number of supported SMEs is still growing with additional loans being included into the SMEG covered portfolio, these numbers are very likely to be exceeded by the end of the Programme as 311,633 SMEs were already supported by the end of the year 2013.

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

For the period 2007-2013, 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.

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2013 EUR 126,016,724.18

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

Aggregate additional resources as at 31/12/2013 EUR 12,089,883.88

(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

Called guarantees as at 31/12/2013 EUR 116,554,339

(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 around 31¹¹³.

¹¹³ EIF (2013c).

C - Strategic importance/relevance

(I) 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 latest evaluation of the CIP 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.¹¹⁴

Moreover, SMEG07 is a cost-effective financial instrument; compared to grants, where 1 EUR of budgetary resources provide 1 EUR of financing, the SMEG07 is expected to support 33 EUR of finance to SMEs for 1 EUR of budgetary contribution.

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 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 significant¹¹⁵:

- 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, SMEG07 has a wide geographical coverage. The instrument involves 51 financial intermediaries, which have been providing finance to SMEs in 22 participating countries.

The CIP market-oriented instruments under GIF and SMEG have shown high efficiency and relevance in addressing current market conditions, dominated in recent years by a

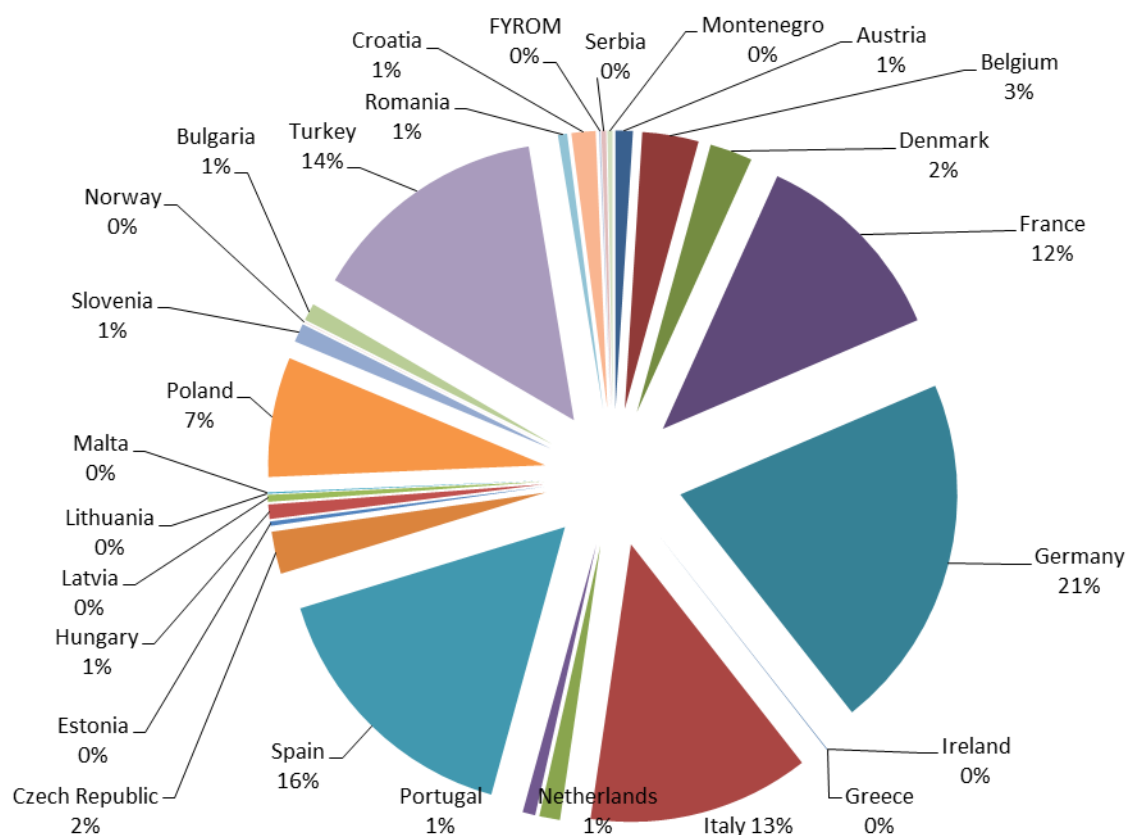
¹¹⁴ CSES (2012).

¹¹⁵ CSES (2011).

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 throughout 2013.

Graph 8: *Geographical distribution of SMEG Approvals (as of 31/12/2013), million EUR*



D - Other key points and issues

- 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 SMEG07 during 2013 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). Compliance reporting covering the situation as per Q32013 did not indicate major deviations.
- Regarding SMEG07, which is a counter-cyclical instrument, there was a high demand for guarantees by financial intermediaries in 2013; indeed, the share of the SMEG instrument in the total CIP budget (SMEG+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 SMEG's successor is the Loan Guarantee Facility (LGF) under COSME, further detailed in this document (section 2.2).

E - Summary

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 SMEG07 is expected to support 33 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 51 financial intermediaries, which have been providing finance to SMEs in 22 participating countries.

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. By end December 2013, the number of supported SMEs nearly reached the expectations as foreseen in the ex-ante assessment. As the number of supported SMEs is still growing with additional loans being included into the SMEG covered portfolio, these expectations are very likely to be exceeded by the end of the Programme, as 311,633 SMEs were already supported by the end of the year 2013.

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

A - Description

Programme 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 31/12/2013:	Commitments: EUR 23.8 million Payments: EUR 17.5 million*

* including regularized interest of EUR 0.2 million

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

Decision No 283/2010/EU of the European parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion¹¹⁶

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

The aim of the European Progress Microfinance Guarantee Facility is to enhance access to microfinance by reducing microfinance providers' risk. This feature allows microfinance providers to reach out to groups, who could normally not be served; for instance, because persons from these groups could not provide sufficient collateral or because the interest rates would have to pay in accordance to their actual risk profile are too high.

¹¹⁶ (OJ L 87/1, 7.4.2010)

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).

The financial contribution from the Union budget to the EPMF Guarantee Facility for the period from 1 January 2010 to 31 December 2013 amounts EUR 23.8 million.

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

The Facility seeks to promote a balanced geographic distribution and the set target is to cover at least 12 Member States until 31 December 2016.

The EPMF Guarantee Facility shall remain in full force and effect until 31 December 2020.

(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.

B - Implementation

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

Aggregate budgetary commitments as at 31/12/2013	EUR 23,806,291
Aggregate budgetary payments as at 31/12/2013	EUR 17,506,291

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

The EPMF Guarantee Facility was launched on 1 July 2010 following the conclusion of a Fiduciary and Management Agreement (FMA) between the Commission and the European Investment Fund.

As of 31/12/2013, from the start, the Commission had already paid some EUR 17.5 million for guarantees to EIF (including an amount of EUR 206,000 from additional resources such as interest, treasury investments, commitment fees etc.)

As of 31/09/2013, 19 Guarantee Agreements have been signed in 13 Member States for a total guarantee cap amount of EUR 14.08 million, with a clear geographical balance between Eastern and Western Europe.

For the entire period as of 30 September 2013 (latest data available as at writing date), EPMF achievements for the Guarantee Facility component of the programme were as follows:

- Number of micro-loans: 6,716
- Total amount of micro-loans: EUR 68 million
- Total number of employees (in the supported micro-enterprises): 8,684¹¹⁷

¹¹⁷ EPMF FMA Semi-annual Implementation Report – 2014; June 30, 2013.

(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 31/12/2013 EUR 15,125,159

(h) Revenues and repayments

Aggregate additional resources as at 31/12/2013 EUR 206,291

(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

Called¹¹⁸ guarantees as at 31/12/2013 EUR 1,348,740

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

As of 30/09/2013, based on the signed Guarantee agreements, the total guarantee cap amounts to EUR 14.08 million and the target volumes of micro-loans to final recipients are estimated to EUR 165.74 million that brings the potential leverage effect to 11.77 which is much higher than the minimum targeted leverage estimated at 6.67.

As for achieved leverage until 31/12/2013, the total guarantee cap amount of EUR 14.08 million has supported so far EUR 68 million of new micro-loans, implying a leverage of 4.8.

C - 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 impact of the EU's Financial Instruments for micro-entrepreneurs SMEs (The economic environment for micro-finance¹¹⁹).

¹¹⁸ Note: No available figures of recoveries

¹¹⁹ Bendig, Unterberg and Sarpong (2012); Convergences (2013); Evers&Jung (2014, forthcoming); EMN (2012); Kraemer-Eis, Lang and Gvetadze (2013); UEAPME (2013).

At the aggregate EPMF Facility level, the gender breakdown for the 4323 natural persons benefitting from loans under the Facility show that considerable outreach to females was achieved (37.06% 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 (51.96%). Further, a clear majority (58.14%) of micro-enterprises, which received financing under the Facility, was 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 (44.78%). Nevertheless, EPMF continues to be of importance in serving the financing needs of individuals with more substantial education beyond the secondary level (39.47%).

Regarding 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 (15.56%).

D - Key points and issues

- In terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2013, 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 especially when EIF asked Intermediaries to pass the EPMF benefit to the final recipients through price reduction.

Another issue that has to be taken into account in the design of the new instrument is the complementarity of the microfinance facility in countries where national microfinance schemes already exist, since there is often reluctance among potential microfinance providers to take on EU-level instruments such as under EPMF.

Finally, critical is the increase of the budgetary allocation in the new EaSI Microfinance Guarantee Facility – the budgetary commitment of EUR 23.8 million for the current EPMF Facility will be 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 55 million.

- 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.

- As of 30 September 2013, the European Progress Microfinance Facility including both Guarantees and Funded instruments provided 13,850 micro-loans to final recipients reaching the volume of EUR 133 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.

Based on forecasts subject to variations a further EUR 80.5 million in microloans is expected to benefit from the Guarantee facility in 2014.

In 2014, the demand from microfinance providers will remain significant and the new EaSI Guarantee microfinance facility should be ready to cover fast and effective the needs of the microfinance market.

The envisaged EPMF-G successor is EaSI microfinance guarantee facility (section 9.3).

E - Summary

The EPMF Guarantee Facility is 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 April 7, 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 30/09/2013, EIF has signed 19 guarantee agreements in 12 member states for a total amount of EUR 14.08 million and EUR 165.74 aggregate volume of micro-loans. During the implementation of the Facility, 6,748 micro-enterprises and vulnerable persons have been supported and 8.684 jobs have been created.

Currently the market demand exceeds the original budgetary allocation of EUR 23.8 million. An increase of this budget in the envisaged EaSI microfinance guarantee facility, the successor of the EPMF-G (section 2.3), will be most likely fully utilised.

11.3. EaSI Microfinance and Social Enterprise

A - Description

Programme summary

Policy DG in charge:	DG EMPL
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	The Implementing Body has not been yet selected. The criteria for the selection of fund managers and the entrusted entity will follow the Guidelines for the selection of entrusted entities and DIV managers for new financial instruments.
Initial Overall Budget Envelope:	EUR 193 million
Expected Overall Budget:	EUR 193 million

(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 inclusion¹²⁰

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

EaSI Microfinance and Social Enterprise aim at fulfilling the following objectives:

¹²⁰ (OJ L 347/238, 20.12.2013)

- 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

- 1) **Vulnerable people** are 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)
- 2) **Micro-enterprise** means 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 enterprise, regardless of its legal form¹²¹.

(c) The financial institutions involved in implementation

The list of financial institutions can be provided once the decision on the implementation is made. These institutions may include the EIB and the EIF.

¹²¹ 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.

B - Implementation

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

Not yet applicable

(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. The financial instrument is not 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

For Microfinance a leverage effect of 5 to 7 is indicatively envisaged, for Social Entrepreneurship a leverage of 5 to 8.

C - 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' has indicated that "in 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 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.

D - Other key points and issues

- 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 will serve as ex ante evaluations.

- The main risks for the microfinance financial instrument are similar to those already identified under the Progress Microfinance and related to the heterogeneity of the microfinance providers. 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.

- Based on the experience with the Progress Microfinance and its current levels of implementation, we expect an initial slower take up followed by significantly higher levels of implementation in the next years.

E - Summary

As has been shown by ex-ante evaluations, it is essential to provide financial instruments for microfinance and social enterprises in order to successfully achieve the objectives of the EaSI programme. As these instruments are currently being designed, specific information which could be provided at this stage is only limited. In line with the outcome of ex ante evaluations, debt finance, risk-sharing instruments, and equity investments are likely to be used.

It remains to be seen which will be the Implementing Body in charge and how will this impact the design, expected leverage and co-investments.

11.4. Loan Guarantee Facility under COSME

A - Description

Programme summary

Policy DG in charge:	DG ENTR
Implementing DG in charge:	DG ENTR
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 717 ¹²² million*
Expected Overall Budget:	EUR 686 ¹²³ million**

* Appropriations as per Basic Act

** Including any changes in the course of the programme, as included in the multi-annual financial programming (2014-2020). Only appropriations as approved by the Budgetary Authority. Decrease as compared to initial overall budget due to the financing of the EIF capital increase.

(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/EC¹²⁴

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

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.

¹²² Note: 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 LGF and 48% for EFG, based on the distribution between the loan guaranteed and equity facility in the legislative financial statement.

¹²³ Note: This amount, based on the assumption that the distribution between the COSME financial instruments is 52% for LGF and 48% to 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.

¹²⁴ (OJ L 347/33, 20.12.2013)

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.

In line with the above, the Loan Guarantee Facility (LGF) will provide

- 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 will consist 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 shall be 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 shall be calculated in relation to the amount of the guaranteed portfolio risk and shall be negotiated, together with the period of time to build up such new portfolio, individually with each originating institution.

The LGF will, except for loans in the securitised portfolio, cover loans up to EUR 150,000 and with a minimum maturity of 12 months. The LGF shall 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, and with a minimum maturity of 12 months. The LGF shall be designed in such a way that it will be possible to report on SMEs supported, both in terms of number and volume of loans.

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 will be instructed to provide capped portfolio guarantees to the financial intermediaries to cover a portion of expected losses of a portfolio of newly generated SME transactions with a higher risk profile.

In as far as securitisation transactions are concerned, the EIF will be instructed to provide guarantee coverage on a part of the mezzanine tranche of a securitisation transaction.

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 will be kept broad so as to not discriminate amongst the SME population.

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 will also contribute to the financial instruments to be deployed under the joint SME initiative as endorsed by the October 2013 European Council. This contribution may take the form of uncapped portfolio guarantees or securitisation operations and cover, in combination with resources from ESIF, Horizon 2020 and the EIF, the mezzanine tranche of the portfolio.

(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.

B - Implementation

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

The overall budget available on budget line 02 02 02 'Improving access to finance for small and middle-sized enterprises (SMEs) in the form of equity and debt' for the budgetary year 2014 is EUR 140.7 million for commitments, of which, EUR 89 million are foreseen for the LGF (including the amounts to be allocated to the SME Initiative).

The overall budget available on budget line 02 02 02 for payments amounts to EUR 66.7 million and will be used for both payments under EFG and LGF. Actual payments will be based on substantiated disbursement forecasts to be provided by the entrusted entity once the LGF is up and running.

(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 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 indicated in the COSME legal base is in the 20 to 30 range for the debt instrument over the lifetime of the programme, with an overall value of financing mobilised by the Union contribution ranging from EUR 14.3 billion to EUR 21.5 billion.

Based on the above leverage targets, it is estimated that the cumulative total amount of financing mobilised for 2014 would range from EUR 1.7 to EUR 2.6 billion. These numbers refer to new SME loan portfolios built during the whole availability period of individual deals with financial intermediaries authorised under the 2014 budget.

C - 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.

The COSME programme will contribute to the following general objectives, paying particular attention to the specific needs of SMEs established in the European Union and in third countries participating in the COSME programme pursuant to Article 6:

1. strengthening the competitiveness and sustainability of the Union's enterprises, particularly SMEs;
2. encouraging entrepreneurial culture and promoting the creation and growth of SMEs.

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

In line with the specific objective for the financial instruments under COSME, the LGF will provide capped guarantees for a portfolio of SME transactions which have a perceived higher risk or which lack sufficient collateral. Only newly generated transactions falling into the higher risk categories will be covered through the capped guarantees to ensure additionality of the Financial Instrument.

The following indicators / long-term (2020) targets have been established for the LGF:

- Number of firms benefiting from debt financing: value of financing mobilised ranging from EUR 14.3 billion to EUR 21.5 billion with the number of firms receiving financing which benefit from guarantees from the COSME programme ranging from 220,000 to 330,000;
- Leverage ratio: 20 to 30, i.e. each EUR 1 from the Union budget should generate EUR 20 to 30 in financing over the lifetime of the COSME programme;
- Additionality: increase in the proportion of final recipients that consider the LGF to provide funding that could not have been obtained by other means compared to the baseline set by the predecessor of this programme¹²⁵ (64%).

D - Other key points and issues

- The LGF under COSME is built on the experience of the SME Guarantee facility of the Competitiveness and Innovation framework Programme (CIP) 2007 – 2013.

However, substantial changes to the implementation requirements will have to be made to satisfy legal requirements stemming from the Financial Regulation, which includes a full chapter on Financial Instruments.

A number of the changes will impose additional requirements (e.g. need for declarations and additional verifications) on financial intermediaries, financial sub-intermediaries and final recipients and it remains to be seen whether the additional requirements will have a negative impact on the take-up of the financial instruments (i.e. perceived additional administrative burden). Furthermore, some of the new requirements (e.g. publication requirements) may conflict with national legislation (e.g. on banking secrecy).

- The call for expression of interest for the LGF has been published early August 2014 but it is too early to have a precise view at this time on the demand of the market. Nevertheless, judged by demand for the predecessor facility, it is expected that the total budget available for 2014 will be committed.

E - Summary

The capped portfolio guarantees under the Loan Guarantee Facility (LGF), which is envisaged to be implemented by the EIF on behalf of the Commission, is structured such

¹²⁵ The SME Guarantee Facility (SMGF) under the Competitiveness and Innovation Framework Programme (2007-2013)

that Financial Intermediaries are encouraged to create financing products for SMEs which in the absence of the guarantee they would not be willing to offer because of the perceived higher risk or of insufficient collateral.

The guarantees for the mezzanine tranche of the securitisation transactions offered under the LGF will be aimed at providing liquidity and/or capital relief to Financial Intermediaries so that these are able to enter into new SME financing with a view to providing improved access to finance for SMEs.

Both of these measures are aimed at reducing the market gap, which persistently exists in the area of SME financing in Europe.

<p>11.5. Risk-sharing Instrument (RSI) 2012-2013 - Pilot guarantee facility for R&I-driven SMEs and Small Midcaps and its successor InnovFin SME Guarantee 2014-2020 under HORIZON 2020</p>
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A - Description

Programme summary

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Implementing Body in charge:	EIF
Initial Overall (2012-2013) Programme Budget:	EUR 270 million for the pilot phase 2012/2013
Expected Overall (2014-2020) Programme Budget:	EUR around 1 billion * (minimum)

** 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.*

(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/EC¹²⁶

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

¹²⁶ (OJ L 347/104, 20.12.2013)

2020 - the Framework Programme for Research and Innovation (2014-2020)" and repealing Regulation (EC) No 1906/2006 (OJ L 347/81, 20.12.2013)

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 (OJ L 347/965, 20.12.2013)

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

For innovative SMEs and small midcaps (companies with up to 499 employees), it is difficult to obtain sufficient access to loan finance for riskier investments in innovative products and processes which bear a considerable technology or application risk.

The InnovFin SME Guarantee addresses this financing gap through the provision of direct guarantees for loans or leases provided by banks or other financial intermediaries, or through counter-guarantees provided to guarantee institutions which in turn provide guarantees to banks and other financial intermediaries lending to innovative SMEs or Small Midcaps.

Loans to innovative SMEs or Small Midcaps, eligible under this loan guarantee instrument, may range from EUR 25,000 to 7.5 million, thus covering the spectrum of typical investment finance needs of smaller, innovative companies.

The EU, through its budgetary contribution, will allow risk sharing between the EU and the EIF who will provide guarantees or counter-guarantees to financial intermediaries, in support of loans to innovative SMEs and Small Midcaps.

It is expected that with a total Horizon 2020 contribution of around EUR 1 billion for the period 2014-2020 a guarantee volume of around EUR 4,500 million can be provided by the EIF. Taking into account that EIF guarantees under this instrument would cover up to 50% of each underlying loan to innovative SMEs or Small Midcaps, a total loan volume of around EUR 9 billion could be mobilized, thus achieving a leverage of 10 for the initial Horizon 2020 contribution and high added value for the EU.

The InnovFin SME Guarantee is based on the pilot guarantee scheme RSI (Risk-Sharing Instrument) supported under FP7 for the period 2012-2013.

(c) The financial institutions involved in implementation

The EIF will continue implementing 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.

B - Implementation

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

The aggregate 2012-2013 budgetary commitments and payments from the budget are EUR 270 million.

The indicative aggregate 2014-2020 budgetary commitments and payments are around EUR 1 billion. This budget might be increased by EFTA Appropriations and Third Countries' contributions during the period 2014-2020.

(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. In only two years' time, these financial intermediaries now cover 19 countries in the European Union and Associated Countries.

During the pilot phase of the RSI, from early 2012 until 2013, the total number of SMEs transactions is 602, which amounts to EUR 374.8 million committed to final recipients.¹²⁷

(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 balance of the fiduciary account as of 31 December 2013: EUR 275,903,252

(h) Revenues and repayments

For the period 2012-2013, the following revenues and repayments were received by the EU on the EU RSI Account:

Total operating revenues: EUR 501,635

¹²⁷ EIF report for the 2nd half of 2013 from April 2014.

Repayments: none

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

Not applicable

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

By 31/12/2013, an amount of EUR 12.565 million was included in the Economic Outturn Accounts for the RSI and RSFF, as part of the financial statements for the RSI and the RSFF for the year 2013 made by the EIF and the EIB, for provisions set aside for the RSI to cater for guarantee call claims made to the EIF by financial intermediaries.

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

The achieved leverage for the RSI is 5 as regards the volume of guarantees and counter-guarantees provided by the EIF to banks and guarantee societies (EUR 1.59 billion divided by the Union contribution). For the InnovFin SME Guarantee the target leverage is also 5 as regards the volume of guarantees provided by the EIF, and 10 as regards the volume of underlying loans and leases extended by financial intermediaries to final SME and Small Midcaps recipients.

C - 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 will make 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 will be put 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 will make 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.

D - Other key points and issues

- 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 EU (represented by DG RTD) and EIF will allow for flexibility as regards product development for the period 2014-2020.

- No particular risks
- 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.

E - Summary

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 will offer, notably in the form of risk-sharing and capital relief for banks, guarantee institutions and other financial

intermediaries, this instrument should be 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 billion in support of innovative companies and their investments in RDI.

11.6. The Cultural and Creative Sectors Guarantee Facility

A - Description

Programme summary

Policy DG in charge:	DG EAC
Implementing DG in charge:	DG EAC
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 121 million* (Note: this figure does not include circa EUR 2 million in expected recoveries from the MEDIA Production Guarantee Fund)
Expected Overall Budget:	EUR 121 million** (Note: this figure does not include circa EUR 2 million in expected recoveries from the MEDIA Production Guarantee Fund)

* Appropriations as per the Basic Act

** Including any changes in the course of the programme, as included in the multi-annual financial programming (2014-2020). Only appropriations to be approved by the Budgetary Authority

(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/EC¹²⁸

¹²⁸ (OJ L 347/221, 20.12.2013)

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

The general objective of the Cultural and Creative Sectors Guarantee Facility, a guarantee facility under the Creative Europe programme, is in line with those of the Creative Europe Framework Programme which is to foster the 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 specific objective of Cultural and Creative Sectors Guarantee Facility is to strengthen the financial capacity of the cultural and creative sectors.

(c) The financial institutions involved in implementation

European Investment Fund

B - Implementation

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

Commitments

EUR 1 million for 2015 (indicative: this amount will come from recoveries from the preceding financial instrument, the MEDIA Production Guarantee Fund (MPGF).

EUR 121 million for 2015-20 (indicative)

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

Payments

No payment foreseen for 2014

EUR 1 million for 2015 (to be sourced from expected recovery from MPGF).

EUR 14,828,833 for 2015-16 (indicative: this amount includes expected further recoveries (circa EUR 1million) from the MPGF);

(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 (guarantee fund)

(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 targeted leverage is 5.7

C - 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

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 grows quickly yet suffers from negative stereotypes when it comes to assessing their economic performance. Hence the issues Creative Europe will strive to address are: i) difficulties experienced by cultural and creative SMEs and projects in accessing bank credits and ii) limited dissemination of expertise among financial institutions in the area of financial analysis of projects submitted by cultural and creative SMEs throughout the EU.

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 institution 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.

D - Other key points and issues

- 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.

- 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 in 2016 after a capacity-building period in 2015.

E - Summary

The Cultural and Creative Sectors Guarantee Facility seeks to make EUR 121 million of guarantees to support easier access to credit for cultural and creative SMEs, with an expected leverage of 5.7. The guarantee scheme will begin in 2016 after capacity building activity in 2015, which will be funded by the recoveries from the preceding financial instrument, the MEDIA Production Guarantee Fund (MPGF).

11.7. Student Loan Guarantee Facility

A - Description

Programme summary

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

(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/EC¹²⁹

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

The objective of Erasmus + Master Student Loan (a guarantee facility under the Erasmus+ programme, is to incentivise commercial/retail banks, promotional banks, student loan

¹²⁹ (OJ L 347/50, 20.12.2013)

bodies and other financial intermediaries (“Intermediaries”) to extend loans 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 granting access to the Master’s programme through effective portfolio credit risk transfer (via a guarantee or a counter-guarantee) by the EIF on behalf of the Commission.

(c) The financial institutions involved in implementation

European Investment Fund

B - Implementation

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

Commitments

EUR 28.35 million foreseen for 2014

EUR 489 million for 2015-20 (indicative)

Payments

EUR 7 million foreseen for 2014

EUR 33.5 million for 2015-16 (indicative)

(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 (guarantee fund)

(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 targeted leverage is 5.7

C - 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

To support mobility, equity and study excellence, the Student Loan Guarantee Facility will enable 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.

D - Other key points and issues

- 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
- The number of loans supported through the instrument are sufficient to meet student demand.
- 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 2014-15.

E - Summary

The Erasmus+ Master Student Loan seeks to make EUR 0.5 billion (EUR 29 million in 2014) 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 favourable terms for mobile students, with an expected leverage of 5.7. The main priority in 2014 is to establish the legal framework so that students will be able to access loans supported through the facility in 2015.

11.8. Private Finance for Energy Efficiency Instruments (PF4EE)

A - Description

Programme summary

Policy DG in charge:	DG CLIMA
Implementing DG in charge:	DG CLIMA
Implementing Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 80 million
Expected Overall Budget:	EUR 80 million

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

Article 17 (1) of the 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)¹³⁰

Repealing Regulation (EC) No 614/2007 and the Commission Implementing Decision of 19 March 2014 notified under document C(2014)1709 on LIFE Multiannual Work Programme (MAWP) 2014-2017

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

The implementation of the PF4EE instrument will be entrusted to the EIB by means of indirect management.

The PF4EE instrument will provide (i) a risk participation mechanism (Risk Sharing Facility) for private sector financial institutions and (ii) expert support for financial intermediaries (Expert Support Facility) combined with iii) EIB long-term funding (EIB Loan for Energy Efficiency):

- The PF4EE would provide a Risk Sharing Financial Instrument with functioning mechanics comparable to **capped guarantee** to share the risk between the Commission (as funder) and financial intermediaries (as lenders).
- The RS Facility is designed to reduce the credit risk faced by financial intermediaries when lending to the EE sector and to encourage their participation. The impact will depend on the market conditions and specific characteristics of the projects. The RS Facility is expected to increase lending activity, access to

¹³⁰ (OJ L 347/185, 20.12.2013)

finance and/or better financing conditions to the final recipients, including lower pricing, longer maturities, lower collateral or others.

- The 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

EIB

B - Implementation

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

Not applicable

(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 or risk-sharing instruments, and on called guarantees for guarantee instruments

Not applicable

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

The estimate leverage of the value of the loan portfolio to the LIFE provision is 6 fold. Taking into account the possible contribution of final recipients to project costs in the order of 25%, the leverage of total investment to the LIFE provision could be at up to 8 fold.

C - Strategic importance/relevance

(I) 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 PF4EE contributes to meeting the general objectives of the LIFE Regulation as set out in Article 3 and further specified in the priority area “climate change mitigation.”¹³¹ In particular the PF4EE:

- Addresses a major climate policy issue, contributing to the achievement of the Europe 2020 objective to secure energy savings and the associated reduction in emissions;
- Provides the necessary level of piloting and demonstration of a new policy instrument, with major potential to deliver EU added value;
- Complements and supports Member States’ responsibilities under the National Energy Efficiency Action Plans (NEEAPs);
- Offers the potential to improve the cost-effectiveness of the LIFE Programme through leverage and complementarity;
- Builds longer term capacity in a sustainable commercial finance activity, thereby ensuring continuing and long-term support for sustainable development;
- Supports solidarity and burden sharing; and
- Offers the potential to mainstream the initiative into Member State programmes (through NEAAPs and potentially other programmes and initiatives).

D - Other key points and issues

- The PF4EE instrument envisages 6-10 financing agreements (EIB loans for EE and Risk Sharing/Expert support Facilities) signed with financial institutions over the first four years, with the potential to extend to 14-20 financing agreements in seven years. The PF4EE needs to be operational for as long as underlying loans covered by RS Facility remain outstanding. Maximum tenor to be allowed under the RS Facility will be 20 years. Therefore the PF4EE will be in place for up to 20 years after the end of the implementation period (2042).

E - Summary

The instrument will begin to be implemented by end 2014.

12. Risk Sharing Instruments

¹³¹ Note: Also see in annex IV 'the adaptation budget'

12.1. Risk-Sharing Finance Facility (2007-2013) and its successors InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee (2014-2020)

A - Description

Programme summary

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Implementing Body in charge:	EIB
Initial Overall (2007-2013) Programme Budget for Risk-Sharing Finance Facility (RSFF):	EUR 960.73 million
Expected Overall (2014-2020) Programme Budget for Loans Service for R&I under Horizon 2020:	EUR 1,060 million*

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

(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/EC¹³²

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 1906/2006¹³³

Council Decision of 3 December 2013 establishing the specific programme implementing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)¹³⁴

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

A Union-level Debt facility for R&I is needed to increase the likelihood that loans and guarantees are made and R&I policy objectives achieved. The current gap in the market between the demand for and supply of loans and guarantees for risky R&I investments,

¹³² (OJ L 347/104, 20.12.2013)

¹³³ (OJ L 347/81, 20.12.2013)

¹³⁴ (OJ L 347/965, 20.12.2013)

addressed by the Risk-Sharing Finance Facility (RSFF), is likely to persist, with commercial banks remaining largely absent from higher-risk lending. 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 new financial instruments, namely InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee continue and refine the Risk-Sharing Finance Facility (RSFF) under FP7,¹³⁵ and offer loans and hybrid or mezzanine finance.

InnovFin Large Projects delivers loans and guarantees from EUR 25 to 300m for R&I projects emanating from larger firms; universities and public research organisations; 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).

InnovFin MidCap Growth Finance offers long term senior, subordinated or mezzanine loans from EUR 7.5 to 25m for innovative larger midcaps (up to 3000 employees), but also SMEs and small midcaps.

InnovFin MidCap Guarantee provides guarantees and counter-guarantees on debt financing of up to EUR 50m, in order to improve access to finance for innovative midcaps (up to 3000 employees) which are not eligible under the InnovFin SME Guarantee. This will be rolled out through financial intermediaries such as banks, other financial institutions. Under InnovFin MidCap Guarantee, financial intermediaries will be guaranteed against a portion of their potential losses by the EIB.

.They aim 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 will be eligible as final recipients.¹³⁶

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. 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.

¹³⁵ EIB (2013).

¹³⁶ Note that for research infrastructures, support can be given, under certain conditions, to projects or organisations in which non-EU or non-Associated Country entities participate, including cases where the location of the infrastructure and the investment is outside the EU or an Associated Country.

There is a gap in the market between the demand for and supply of loans and guarantees for risky R&I investments for undertakings of all sizes, with banks remaining largely absent from higher-risk lending. Where capital is available, banks are often not offering acceptable lending conditions in terms of loan maturities, collateral required, and price. The demand for debt financing by innovative midcaps exceeds the available supply of suitable offerings, based on a survey and interviews with public investors.

In terms of Union added value, the Debt facility will help remedy market deficiencies that prevent the private sector from investing in R&I at an optimum level. Its implementation will enable the pooling of a critical mass of resources from the Union budget and, on a risk-sharing basis, from the financial institution(s) entrusted with its implementation. It will stimulate firms to invest more of their own money in R&I than they would otherwise have done. In addition, the Debt facility will help organisations, both public and private, to reduce the risks of undertaking the pre-commercial procurement or procurement of innovative products and services.

(c) The financial institutions involved in implementation

The EIB will continue implementing this instrument, which will be delivered both directly by EIB and in the period 2014-2020 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 will ensure 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.

B - Implementation

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

Under RSFF, the 2007-2013 aggregate budgetary commitments and payments from the budget were EUR 960.73 million.

For 2014-2020 under its successor, the aggregate budgetary commitments and payments are not yet known. The initial Union Contribution from Horizon 2020 is supposed to be

EUR 1,060 million that may be increased during the period 2014-2020 by EFTA Appropriations and Third Country contributions.

For the year 2014, the initial Union Contribution from Horizon 2020 is supposed to amount to EUR 108 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 117 RDI operations, which were signed, and loan volume of EUR 11,313.2 million, and 98 disbursed operations (EUR 9,556.1 million).¹³⁷

The aggregate 2014-2020 results are not yet known.

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

Not applicable for 2014 (not yet available).

(g) The balance of the fiduciary account

The balance of the fiduciary account as of 31 December 2013 is: EUR 1,307,753,000.

Further information: Total assets: EUR 1,307,753,000

of which

- Total non-current assets: EUR 789,093,000
- Total current assets: EUR 518,660,000 including Total cash & cash equivalents of EUR 103,400,000.

(h) Revenues and repayments

For the period 2007-2013, the following revenues and repayments were received by the EU on the EU RSFF Account:

Total operating revenues: EUR 95.03 million

Of which expected loss recovery: EUR 17.31 million

(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

¹³⁷ EIB quarterly report 2013 from February 2014.

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

The 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). Moreover, together with the EIB window of the Facility, the reached loan volume of EUR 11,313.2 million under RSFF implies a leverage of 10 to 11.

C - 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 will offer loans and hybrid or mezzanine finance of 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 will be 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 will be available.

The EIB will implement this instrument, which will be 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 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. 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) will be 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 will 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 will help addressing financing gaps in the market through risk sharing and mobilize additional financing, notably from private sources.

D - Other key points and issues

- 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 will 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).

- 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 support 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 10 billion can be expected.

E - Summary

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 will help address 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 will offer 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.

12.2. Loan Guarantee Instrument (LGTT)

A - Description

Programme 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

(b) Identification of the financial instrument and the basic act

Regulation (EC) (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks (TEN Regulation)¹³⁸

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),¹³⁹ and Regulation (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks (Amending regulation)

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

The LGTT is a debt instrument for project finance in transport infrastructure jointly established by the Union and the EIB under the Cooperation Agreement of 11 January 2008, as currently amended. Risk-sharing in this context means that both partners share financial risk, to accelerate and implement TEN-T infrastructure projects.

The "LGTT facilities" are guarantee facilities provided by the EIB under LGTT to the project companies involved in traffic-risk TEN-T transport projects. Such facilities can be drawn in the case of traffic-risk related underperformance of the project during the first years of the project life. This way the facilities enhance the credit rating of the senior debt involved in financing the projects, making such debt available and more affordable.

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 LGTT instrument was designed in 2008, prior to the global financial crisis. Since then, revenue based projects have become less common due to the reluctance of the private sector to take on traffic demand risk.

The original legal base sets the Union Contribution to the LGTT instrument at EUR 500 million, where the EIB is required to provide an equal amount. Upon entry into force of the Amending Regulation and finalisation of the amendment n°1 to the Cooperation Agreement, EUR 200 million from the funds dedicated to the LGTT may be redeployed to the pilot phase of the Project Bonds Instrument.

After agreement with the EIB, EUR 50 million has been redeployed into the TEN-T Programme for grant funding. Therefore, the total amount of the Union contribution currently available to support LGTT projects is 250 million EUR, out of which EUR 205 million was committed up to the end of 2012 and EUR 45 million was committed in

¹³⁸ (OJ L 162/1, 22.5.2007)

¹³⁹ (OJ L 204/1, 31.7.2012)

2013.

The modification of the risk sharing model from *pari passu* to portfolio based risk sharing between the Commission and the EIB has been decided by the co-legislators in the Amending Regulation and has been guided by the following rationale:

- Under the "portfolio approach", the risk is divided into two tranches. A Portfolio First Loss Piece, to which the EU contributes 95% and the EIB 5% and a senior tranche which the EIB covers entirely. This allows for moving most of the EIB contribution to LGTT out its Special Activities sector, which for 2012 was limited to 8.3% of the Bank's lending.
- On a long-term perspective a higher leverage of the Union contribution can be achieved through a portfolio effect, depending on the number of transactions and granularity of the portfolio;
- the maximal EU risk exposure cannot exceed the Union contribution to LGTT independent of the risk sharing model chosen.

The actual approval of guarantees by the EIB board is to be finalised by end of 2014. 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. Therefore the instrument will be wound down at the latest by the end of 2028. LGTT is available for transactions approved by the EIB of Directors by end of 2014 with financial close until 2016.

(c) The financial institutions involved in implementation

EIB; Procurement launched by the procuring authority in the Member States; Project signed by the project promoters;

B - Implementation

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

<i>In EUR million</i>	Total
Commitment	250
Payment	155
Payment to the LGTT account of EU revenues 2008-2012	6.88⁽¹⁾

Note: ⁽¹⁾ At the end of 2013, regularised interests and revenues representing a net profit of EUR 7 million have been added to the LGTT account bringing the total Commission contribution to EUR 162 million.

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

As of December 2013, the LGTT provides guarantees to six TEN-T projects through a total LGTT guarantee of EUR 497 million. The supported projects represent a cumulated capital cost of EUR 11,716 million.

LGTT signed operations					
	Signed LGTT projects	LGTT amount (EUR) (EIB and EU contribution)	approval date of the facilities	senior debt provided by the EIB	debt provided by the national public and private banks
Germany	AUTOBAHN A5	25	12.2007	200	200
France	LGV SUD (EUROPE ATI ANTIQUE)	200	7.2008	800	2343
Spain	EIX TRANSVERSAL C-25 PFP	70	4.2008	200	287
Portugal	BAIXO ALENTEJO MOTORWAY	25	11.2008	200	190
Germany	AUTOBAHN AUGSBURG ULM A8	60	12.2009	180	149
United Kingdom	LONDON GATEWAY PORT (TEN)	117	11.2009	117	494
		497		1697	3663

Source: Annual Reports to the Commission and the European Investment Bank

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

DG MOVE has added an amount of EUR 6.88 million to the LGTT account in 2013, based on the audited financial statements of 2012.

The non-audited net income for 2013 is expected to be of around EUR 0.6 million. The resource provided by the regularization of the EUR 6.88 million of net income was included in the amount of funding required for the change of the risk-sharing pattern from *pari passu* to a Portfolio First Loss Piece (PFLP) as of 1 January 2014.

(g) The balance of the fiduciary account

The balance at the LGTT Account amounts at EUR 163 million at end 2013.

(h) Revenues and repayments

In accordance with the Cooperation Agreement, LGTT has the following sources of revenue and repayments:

- interests earned and other income from treasury operations from the LGTT Account;
- revenues from the risk margin of the instrument;
- repayments of unused amounts on LGTT Account and repayment of principal.

Regulation (EU) N°680/2007, Annex I, heading "trust account" point 2 stipulates that interests and other revenues are added to the trust account, unless the Commission decides, in accordance with the procedure of Art 15(2) of that Regulation to return them to the TEN-T budget line.

In 2013, the Commission has regularised the interests and revenues related to the LGTT for the years 2007-2012, which have been added to the LGTT account in December 2013.

<i>In EUR million</i>	2008-2013
Interests from Treasury operations	11.65

Revenues from the risk margin	2.34
Repayments	nil

(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 31.12.2013

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

Until 2013, EUR 155 million have been paid to the EIB; this has resulted into a total amount of LGTT guarantees of EUR 497 million supporting six investments into TEN-T projects worth a cumulated capital cost of EUR 11,716 million.

The Total Leverage of LGTT can be broken down into two elements:

- the Project Leverage, which expresses a ratio between the total investment of a project and the size of the LGTT facility (PL= total investment/ LGTT facility)
- and the Instrument Leverage, which expresses a ratio between the LGTT facility and the total 'Commission contribution at risk' plus expensed gross costs (IL= LGTT facility/ total Commission contribution at risk plus expensed gross costs).

The Total Leverage is a multiplication between the Project and the Instrument Leverage.

As for end of 2013 the **Project Leverage was 24 (11,716/497)** and the **Instrument leverage was 11 (497/45 – total LGTT guarantee of EUR 497 million /the amount of the 'Commission contribution at risk',¹⁴⁰ EUR 38.7 million plus the gross expensed costs of EUR 6.5 million)**, resulting in a **Total Leverage** between Commission contribution and total investment of **259**. This means that every euro from the Union budget has supported 259 euros of investment in TEN-T projects.

The Amending Regulation (EU) 670/2012 of the European Parliament and of the Council modified requires a change of the risk sharing pattern from *pari passu* to a Portfolio First Loss Piece (PFLP).

This change to the risk sharing as of January 2014 will initially increase the share of the Commission contribution at risk compared to the amount of guarantees and therefore reduce the Instrument and the total Leverage, but not the Project Leverage. The Instrument leverage will decrease to a multiple of 3x, resulting in a Total Leverage of 70.

¹⁴⁰ Maximum amount, which the Commission's exposure to the instrument could account for in terms of the Union budget at a given date.

C - Strategic importance/relevance

(I) 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

LGTT instrument has been successful in the first years after its signature in 2007/2008, however due to changing market conditions and the financial crisis, the project promoters did not want to engage in projects substantially dependent on the revenue streams generated from the traffic (demand-based revenue schemes).

In 2013, the Commission has launched a comprehensive ex-post evaluation of the LGTT instrument with regard to its performance on the effectiveness (contribution to achieve EU policies on the trans-European transport networks), efficiency (administrative and financial performance) and EU value added.

The main findings of the ex-post evaluation and recommendations for future instruments risk-sharing instruments are summarized below:

Relevance

- The LGTT had a very narrow application from the beginning – even more so after the financial crisis as traffic-risk projects were postponed or abandoned. The key issue today, is that governments are not promoting transport projects generally – the ‘deal flow’ of potential transport projects has slowed considerably following economic difficulties. Not only is there a general lack of potential projects, PPPs are used to a lesser extent.
- Private sector respondents have different views on the relevance of the LGTT while some see value in the instrument others deem the scope of the LGTT to be too narrow. The fact that the LGTT has never been used independently of EIB senior loans makes it difficult to isolate and assess the value of the LGTT as a stand-alone facility
- Overall, the link between market needs and the objectives of the LGTT needs to be clarified. There is no common understanding of what specific needs the LGTT is supposed to address. Given that markets evolve, needs assessment (and review) should be an on-going process. There is no evidence of a particular “market failures” at the time of the development of the LGTT, although there were obstacles to financing transport infrastructure projects.

Implementation

- To handle the narrow scope of the LGTT, the EIB has made adaptations to the instrument within the legal basis to attempt to make it more applicable. It would appear that a pilot phase for the LGTT could have facilitated the roll-out of the instrument. On the other hand, the financial crisis coincided with the launch of the instrument, altering the context for potential transport projects significantly.
- It would be expected that the costs associated with publicly-funded instruments like the LGTT should be made available to the public. EIB’s selection and evaluation procedures, and its cost calculations (what it charges for the facility and its costs of

administration) should be made more clearly understandable to potential clients.

- Stakeholder awareness – beyond the direct recipients – of the LGTT is relatively low. Stakeholders currently involved in PPP projects have a general understanding of the LGTT, but lack knowledge about the details of the instrument.

Effects

- It is difficult to establish clear attribution effects when it comes to linking the LGTT to its intended outcomes and impacts. While the initial data analysis suggests that the LGTT has helped to facilitate the financial close of some of the projects on which it was applied and has had a general credit enhancement effect, evidence of its direct effect on debt pricing and increasing the attractiveness of demand-based transport projects is inconclusive.
- The cost of debt was reported by a number of respondents to be a secondary driver in the financing decisions taken during the turbulent times at the peak of the financial crisis. Credit availability and willingness to lend were important factors given the adverse market conditions, and several respondents reported that the LGTT helped maintain them. Three of the respondents on LGTT signed projects specifically pointed out that the LGTT helped support originally-intended debt to equity (D/E) ratios.
- It is not possible to extrapolate the identified/confirmed outcomes to the larger intended impacts of the LGTT such as the acceleration of private sector investment in TEN-T financing or the development of more revenue-based PPP projects in TEN-T.
- Given the small sample of projects signed with the LGTT and the substantial influence of contextual factors on the trends in the narrow range of projects eligible under the guarantee, it is reasonable to conclude that the LGTT has had a positive impact where it was applied, but not a sufficient effect to achieve its broader objectives.

Efficiency

- There are no indications that the LGTT has had an important impact on the realisation of TEN-T priority projects. Given the narrow scope of the LGTT and the observed challenges in its implementation, it is reasonable to believe that the instrument will have only a limited effect on stimulating private sector participation in development of the TEN-T core and comprehensive network in the new financial framework 2014-2020.

Administrative efficiency

- Value for money has been assessed qualitatively. Given the small sample of projects on which pricing was discussed it is difficult to provide a straightforward answer to the question of whether the LGTT provided value for money or whether it was considered prohibitively expensive. The administrative mark-up applied by the EIB appears to vary significantly.

Main recommendations

- 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.

- Potential implications on the future implementation of the instrument:
As a product financed by the Union budget and sold by a European institution, all aspects of information about the LGTT should be transparent, understandable and made available to the public. This includes e.g. the conditions on draw-down, pricing and calculation of the administrative mark-up. Consideration should be given to how the LGTT might fit better with corporate finance type structures. The demand for a product like the LGTT among stakeholders in the relevant sectors should be further investigated.

D - Other key points and issues

- As described above, the ex-post evaluation pointed out narrow scope of application of the TEN-T risk-sharing instrument, based on the revenues generated from the traffic.
- The Commission's visits to the Member States and the EIB's assessment of the pipeline show that there is still scope for some projects to be financed through the LGTT guarantee scheme, possibly in combination with the EIB senior debt and commercial bank's debt.
- The recommendation for the 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 Union contribution under LGTT is available for transactions approved by the EIB of Directors by end of 2014 and which reach financial close before end 2016. While complying with the specification principle and the other provisions of the Financial Regulation, the Commission is currently assessing the possibility of merging the portfolios of existing risk-sharing financial instruments (LGTT and the Project Bond Initiative) with the CEF financial instruments, which would maximize the number of projects that can be supported by the EU funds.

E - Summary

LGTT is a guarantee scheme set up in 2007/2008 and is a risk sharing facility for revenue based projects. To date, six projects have been signed using almost EUR 500 million of guarantees and attracting EUR 4 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 currently assessing the possibility of merging the portfolios of existing risk-sharing financial instruments (LGTT and the Project Bond Initiative) with the CEF financial instruments, which would maximize the number of projects that can be supported by the EU funds.

12.3. Pilot Phase of the Project Bond Initiative (MFF 2007-2013) & Risk sharing debt instrument under the Connecting Europe Facility (CEF), (including the successor to the pilot phase of the Project Bonds Initiative (2014-2020)

A - Description

Programme 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
Implementing Body in charge:	EIB
<i>Pilot Phase of the Project Bond Initiative (PBI)</i>	
Initial Overall Budget Envelope:	230 million EUR
Current Overall Budget	230 million EUR
<i>Debt instrument under the CEF, including the successor to the pilot phase of the PBI</i>	
Initial Overall Budget Envelope:	Up to EUR 3.3 billion
Expected Overall Budget	Up to EUR 3.3 billion

(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)¹⁴¹, and Regulation (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks¹⁴²

¹⁴¹ (OJ L 204/1, 31.7.2012)

¹⁴² (OJ L 162/1, 22.5.2007)

Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility

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

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, which is investable for institutional investors. This way, the Project Bond Initiative intends to open up new sources for infrastructure financing to complement constrained public budgets and restricted bank lending for infrastructure projects with long-term maturities.

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).

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

The debt instrument under the CEF, including the successor to the pilot phase of the PBI, will be developed in line with Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility. In line with Article 1 of the above Regulation, the instrument will target projects of common interest in the sectors of transport, telecommunications and energy infrastructures.

Individual debt operations can be approved by the EIB or other entrusted entity before 31.12.2022. As for the pilot phase of the PBI, 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).

The overall contribution from the Union budget to the financial instruments shall not exceed 10% of the overall financial envelope of the CEF (Art 14.2 Regulation N 1316/2013). The precise amount dedicated to the debt instrument under the CEF under the overall commitment period has not yet been decided. With regard to the Project Bond Initiative, it shall start up progressively within a ceiling of EUR 230 million during the years 2014 and 2015.

The financial instrument will be carried out in indirect management mode. In the initial phase (2014), the entrusted entity will be the EIB. Other entrusted entities or dedicated investment vehicles may be selected in the future. The governance structure will be established in a future Delegation Agreement and is expected to include the establishment of a Steering Committee to supervise the implementation of the instrument.

The precise number of trust accounts will be determined in the future delegation agreements. The delegation agreement with the EIB and other possible entrusted entities for launching the Debt Instrument is expected to be concluded before end 2014.

(c) The financial institutions involved in implementation

EIB

B - Implementation

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

Pilot phase of the Project Bonds Initiative (not cumulated)

In EUR million	2012	2013	Total
TEN-T sub-account			
Commitment (TEN-T appropriations)	100	100	200
Payments (TEN-T appropriations)	50	0	50
TEN-E sub-account			
Commitment (TEN-E appropriations)	0	10	10
Payments (TEN-E appropriations)	0	10	10
ICT sub-account			
Commitment (ICT appropriations)	0	20	20
Payments (ICT appropriations)	0	7	7

Debt instrument under CEF, including successor to the pilot phase of the PBI

For the time being, the Work Programmes for TEN-T, ICT, and TEN-E under the CEF do not include a specific amount for financial instruments.

However, the Commission is expected to amend these Work Programmes and include the following amounts for the debt instrument under the CEF for 2014: EUR 70 million for TEN-T, EUR 10 million for ICT and EUR 40.77 million for TEN-E.

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

The EIB has been working on transactions in the three sectors. To date, four projects have been signed (at the end of July 2014):

- two energy projects, i.e. 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,¹⁴³ and the Greater Gabbard offshore transmission project (OFTO), signed in November 2013. The size of the project bond-credit enhancement for the latter 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.
- one transport project, which is a greenfield project for the construction of A11 Motorway in Belgium. The transaction was financed through a EUR 578 million-project bond, while the amount of the Union contribution under TEN-T is EUR 115.58 million;
- one broadband project, 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 Project Bonds have been subject to an interim independent evaluation commissioned by the Commission. The evaluation has outlined that, despite the small number of projects signed to date, the instrument 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 EIB and the 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.

Despite these achievements, the market for Project Bonds still requires further development, in particular, more work is needed to familiarise public procuring authorities with the solution because these players may, but are not obliged to, suggest suitability of the Project Bonds at the bidding stages of procurement. 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 Commission is assessing a number of improvements to the PBI and the possible extension of project bond solutions to other infrastructure sectors, including sustainable transport, renewable generation and smart grid assets. Practical arrangements for

¹⁴³ Note: As a result of seismic activity in the area, in September 2013 the Spanish Authorities decided to halt the project to perform additional technical studies on its impact.

possible contributions by other EU and national funding sources may also be examined.¹⁴⁴

Debt instrument under CEF, including successor to the pilot phase of the PBI

Not applicable

(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

No amount was returned to the instrument yet.

Debt instrument under CEF, including successor to the pilot phase of the PBI

Not applicable

(g) The balance of the fiduciary account

Pilot phase of the Project Bonds Initiative

The balance on the fiduciary accounts amount overall to EUR 68.88 million as per the audited financial statements of the project bond instrument at 31.12.2013, broken down as follows:

- Cash and cash equivalent: EUR 101,000
- Current Financial Assets: EUR 31,957,000
(= EIB Unitary Fund Investments + Total Available for Sale portfolio)
- Non-current Financial Assets: EUR 36,827,000
(= Available for Sale portfolio + FLP remuneration receivables)

Debt instrument under CEF, including successor to the pilot phase of the PBI

Not applicable

(h) Revenues and repayments

Pilot phase of the Project Bonds Initiative

Article 1.8 of the Cooperation Agreement with the EIB states that the credit risks and associated revenues for each Portfolio will be shared between the Commission and the EIB.

The revenues generated by the Union contribution as stated below may be subject to revisions following the receipt of the audited financial statements at the end of March 2014.

▪ Revenues

¹⁴⁴ European Commission (2014c).

Under the pilot phase of the Project Bond Initiative (PBI), there are two main sources of revenues: 1) treasury income and 2) risk related income. As at 31.12.2013, the revenues amounted to EUR 1.9 million.

▪ Repayments

No repayments took place so far.

Debt instrument under CEF, including successor to the pilot phase of the PBI

Not yet applicable

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

Not applicable

(j) The accumulated figures on impairments¹⁴⁵ of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments

Pilot phase of the Project Bonds Initiative

No impairments have been recorded so far for ICT, TEN-E, and TEN-T sub-accounts.

Debt instrument under CEF, including successor to the pilot phase of the PBI

Not yet applicable

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

For 2007-2013 instruments: Pilot phase of the PBI

As at the end of 2013, one PBI operation in the TEN-E sector reached financial close (another project bond transaction was carried out by the EIB without Union budget support). The size of the project bond credit enhancement 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. Hence, the leverage effect exceeded 40.

For 2014-2020 instruments: Debt instrument under CEF, including successor to the pilot phase of the PBI

The CEF Regulation provides that the leverage effect of the debt instrument under the Connecting Europe Facility (defined as total funding divided by the Union contribution) shall be expected to range between 6 and 15.

¹⁴⁵ Note: 'Impairment of Assets' seeks to ensure that an entity's assets are not carried at more than their recoverable amount (IAS36).

C - Strategic importance/relevance

- (I) 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 is to contribute to the Europe 2020 strategy by stimulating capital market investments in infrastructure projects of EU interest in the transport, telecommunications, and energy sector. 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 available for eligible infrastructure projects. It was initially estimated that 5-14 projects could be supported during the pilot phase. The actual number of projects will mainly depend on size and market acceptance.

The following indicators have to be applied as per the legal base:

- *The number of TEN-T, TEN-E and broadband projects having received EIB financing under the initiative:* 3 projects have benefited of the instrument at the end of March 2014, 2 energy projects (of which 1 project without Union budget support) and 1 transport project.
- *The achieved multiplier effect, cumulative and per sector.* The expected multiplier effect is up to 15-20 in terms of Union budget support compared to the total financing raised for the projects supported under the initiative. In the case of the energy operation concluded in 2013 benefitting from the Union contribution, the leverage exceeded 40. The leverage currently achieved by the financing of the A11 project is lower (i.e. approx. 5), due to the fact that this is the first transaction in the transport sector added to the portfolio during the ramp-up phase. Leverage for the first PBI broadband project was around 13, somewhat below the expected range also by virtue of being the first addition to the PBI ICT portfolio. However, a more robust indication of the achieved leverage can only be reported after the conclusion of other operations, in particular after the end of the ramp-up period of the PBI.

According to the interim independent evaluation, the main achievements of the pilot phase at the end of 2013 was that the PBI has served as a catalyst to attract debt capital markets investment in targeted infrastructure projects. This is demonstrated by the interest from a large pool of investors that has been attracted to the three PBI pilot phase projects that have reached financial close to date.

The evaluation reports that the PBI is viewed positively by a majority of stakeholders. In

particular, stakeholders hint at the increasing importance of bond as opposed to bank financing for infrastructure projects, and this is supported by the significant increase in bond-financed infrastructure deals that occurred in 2013.

As has been demonstrated in the three bond issuances supported by the Project Bond Credit Enhancement (PBCE) to date, of which two with Union budget, the instrument has been successful in both bringing debt investors to perceived risky projects as well as expanding the pool of capital for more solid projects. The obtained pricing and other terms on the debt compared favourably with alternative financing options.

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.

Debt instrument under CEF, including successor to the pilot phase of the PBI

The basic act (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.

The ex-ante evaluation of the CEF debt instrument was not completed at the time of preparation of the document on Art.140 of the Financial Regulation. More details on the design of the instrument will be available in 2015 after the completion of the ex-ante evaluation and the launch of the instrument.

D - Other key points and issues

Recommendations and lessons learnt

The level of Union funding available for the pilot phase in the energy sector was very limited and sufficient for one operation only. From a risk management perspective, the way in which the Union funding for PBI pilot phase is managed appears inefficient because of the structure of multiple, isolated portfolios and trust accounts. Merging these portfolios into a single cross-sector portfolio under the CEF would improve the risk characteristics and reduce the amount of EU funds needed for risk provisioning for a given set of operations;

- Greater efforts should be made to develop a clear pipeline of potential projects for the project bond instrument. In this respect, the interim evaluation has demonstrated

that there is sufficient liquidity in the market for infrastructure projects of investment grade, but that the number of projects which are mature enough to tap this capital market segment is very limited, in spite of the high investment needs in the transport, telecommunications and energy sectors;

- The instrument should be flexible in its implementation to adapt to the financing needs of projects, for instance as regards the size of the subordinated tranche, or the coverage of different needs in the construction and operational phase of greenfield projects;
- Some clarifications could be useful as regards the design of the instrument (e.g. components facilitating the bonds issuance could be further enhanced by the instrument)

E - Summary

Implementation of the pilot phase of the Project Bond Initiative started at the end of 2012 with 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, PBI structures were used in four projects in this limited time-frame, in line with the targeted number of projects supported by the instrument. In addition, 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.

Looking ahead, the focus should be on developing a more robust project pipeline to absorb the liquidity available on capital markets and improving the maturity of projects.

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 by other EU and national funding sources, will be examined by the Commission in 2014.

12.4. Natural Capital Financing Facility (NCFF)

A - Description

Programme summary

Policy DG in charge:	DG ENV/DG CLIMA
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Implementing DG in charge:	DG ENV/DG CLIMA
Implementing Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 60 million
Expected Overall Budget:	EUR 60 million

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

Article 17 (1) of the 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)¹⁴⁶ repealing Regulation (EC) No 614/2007 and the Commission Implementing Decision of 19 March 2014 notified under document C(2014)1709 on LIFE Multiannual Work Programme (MAWP) 2014-2017

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

The NCFE will finance upfront investment and operating costs for revenue-generating or cost-saving pilot projects, which promote the conservation, restoration, management, and enhancement of natural capital¹⁴⁷ for biodiversity, and adaptation benefits, including ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste. The NCFE combines direct and indirect financing of projects through debt and equity.

Given that the projects supported by the NCFE will be projects that the EIB normally does not invest in, either because they are too small or because their perceived high risk is not compatible with the AAA rating of the bank, the facility will include a risk sharing mechanism whereby the EU funds would absorb first losses in case of project failure.

The precise implementation mechanism will be established in a delegation agreement between the Commission and the EIB, which will also define precise exclusion/selection criteria for projects, ensuring that the correct priorities are built in the selection process and that there is sufficient sectorial and geographical coverage.

An expert support facility will be provided in order to ensure that projects reach a sufficient stage of maturity for financing. The implementation of the NCFE will be entrusted to the European Investment Bank (EIB) by means of indirect management.

The management of the financial instrument will be carried out by the EIB. A Steering Committee will review, on a regular basis, the progress on the implementation of the

¹⁴⁶ (OJ L 347/185, 20.12.2013)

¹⁴⁷ Note: Natural capital is defined as the stock of natural assets in an ecosystem which interacts to yield a flow of goods and/or services – Source: Information documents accompanying the Commission implementing decision on the adoption of the multiannual work programme for 2014- 2017 (LIFE).

Financial Instrument. The Steering Committee comprises appointments made jointly by the Commission, including line Commission services such as DG ENV, DG CLIMA, DG ECFIN, and the EIB, supported by a secretariat provided by EIB.

A monitoring and reporting mechanism will be set up and the information shared with the LIFE Committee. Monitoring of the financial instruments will be in line with the requirements laid down in the Financial Regulation (Article 140) and the Delegated Regulation¹⁴⁸ (Article 225) and subsequently as interpreted in the Financial and Administrative Framework Agreement (FAFA) with EIB and consequent Delegation Agreement.

The EIB would be responsible for monitoring the implementation of activities under the financial instrument and for producing performance and financial reports in accordance with a format, content and periodicity to be agreed (initially on quarterly basis), to include regular and ad-hoc reports; site visits; audits. Performance Indicators for reporting from financial institutions to EIB would be used.

(c) The financial institutions involved in implementation

The implementation of the NCFF will be entrusted to the European Investment Bank (EIB). The EIB may invest through other financial intermediaries.

B - Implementation

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

Not yet applicable

(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

¹⁴⁸ C(2012) 7507 final

(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 is in the range of 2 to 4 during the pilot phase.

C - 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 financial instrument will contribute to meeting the LIFE objectives, in particular for the priority areas “nature and biodiversity” under LIFE Environment and “climate change adaptation” under LIFE Climate Action by financing upfront investment and operating costs for revenue-generating or cost-saving pilot projects which promote the conservation, restoration, management and enhancement of natural capital for biodiversity and climate change adaptation benefits, including ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste.

The NCFE is a new policy instrument for innovative pilot projects. It offers the potential to improve the cost-effectiveness of the LIFE Programme through leverage and complementarity. It contributes to building longer term capacity in an innovative, sustainable commercial finance activity. The NCFE complements and supports Member States’ policy objectives in the field of biodiversity and climate change adaptation.

More specifically:

- Regarding nature and biodiversity, the NCFE contributes to implementing Union policy and legislation in the area of biodiversity, including the Union Biodiversity Strategy to 2020, Directive 2009/147/EC and Directive 92/43/EEC, in particular by applying, developing, and testing projects and demonstrating their viability. It also supports the further development, implementation and management of the Natura 2000 network set up in Article 3 of Directive 92/43/EEC, and increases its resilience through protecting and restoring ecosystems also outside the network. However, some types of projects may not apply in Natura 2000 areas.
- Regarding climate change adaptation, the NCFE contributes to implementing Union policy on adaptation, in particular by developing, testing and demonstrating ecosystem based approaches for climate change adaptation. It also contributes to developing and demonstrating innovative adaptation technologies, systems, methods and instruments that are suitable for being replicated, transferred or mainstreamed.

D - Other key points and issues

- *Critical issues/relevant for further implementation:*
 1. Achieving the demonstration objectives of the facility, i.e. showing that projects can be developed that are at the same time financially viable and have a positive impact on biodiversity and climate adaptation
 2. Ensuring sufficient uptake in a broad range of sectors, in view of future replicability
 3. Ensuring a good geographical spread among Member States, in particular in smaller Member States or where financing constraints are more acute
- Projects will be closely monitored to ensure that biodiversity and climate adaptation objectives are achieved, in line with LIFE Regulation. Alignment of interests with EIB will be incentivised via performance fees in line with investment policy objectives. Low uptake is also a risk, and the role of the pipeline study and the support facility will be important in this context.
- An ex-ante assessment was carried out to estimate the demand for such an instrument. Projections were made on the future market developments for revenue-generating natural capital management projects, covering the period 2010-2020. The yearly market size estimates for 2020 range from EUR 73 million to EUR 288 million, depending on the application of the market growth rate assumption. The estimate of the initial market size is subject to a series of assumptions and limitations in the data and most likely underestimates the market potential for such activities.

In addition, the EIB has launched a study that aims to identify a project pipeline for the NCFF.

E - Summary

The Natural Capital Financing Facility (NCFF) is a new financial instrument to be piloted under both LIFE sub-programmes in order to test and demonstrate innovative financing approaches for projects promoting the preservation of natural capital in the priority areas Nature and Biodiversity and Climate Change Adaptation.

The funds invested will be provided by the EIB and the Commission. The Commission will invest 50 million euros in the pilot phase; the EIB will at least match that amount. The Commission will also provide 10 million euros for technical assistance. The NCFF will provide mainly debt instruments (i.e. loans) to finance upfront project investments and operating costs.

The debt instruments will be self-liquidating through the repayment of principal and interests from the revenues generated by the project and/or the business. Recipients will have the possibility to apply for a support facility to finance project development. Equity investments will also be considered in certain cases where they are more appropriate than debt.

The facility will target projects that the EIB normally does not invest into because of their risky nature, which is not compatible with the AAA rating of the EIB. To address this

barrier the facility will include a risk sharing mechanism whereby the EU funds will constitute a first loss tranche, meaning that it will bear the first losses from the facility. The eligibility criteria, the project selection process and the governance structure will be designed so as to minimise potential failures in selected projects.

The instrument is expected to begin to be implemented by end 2014.

12.5. EU SME Initiative

A - Description

Programme summary

Policy DG in charge:	DG REGIO, DG AGRI
Implementing DG in charge:	DG ENTR AND/OR DG RTD
Implementing Body in charge:	EIB/EIF
Initial Overall Budget Envelope:	EUR 170 million*
Expected Overall Budget:	EUR 16 million under COSME and EUR 16 million under Horizon 2020 over the period 2014-2016**

* Based on the assumption of a maximum MS Contribution of EUR 8.5 billion

**As a % of the MS Contribution. Based on the latest information received from MS, i.e. a maximum MS Contribution of EUR 815 mln)

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

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) ¹⁴⁹

Regulation (EU) No 1291/2013 ¹⁵⁰ 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 and pursuant to the Decision No 2013/743/EU of the Council of 3 December 2013 establishing the Specific Programme implementing Horizon 2020, on 17 December 2013

Regulation (EU) No 1303/2013 ¹⁵¹ 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

¹⁴⁹ (OJ L 347/33, 20.12.2013)

¹⁵⁰ (OJ L 347/104, 20.12.2013)

¹⁵¹ (OJ L 347/320, 20.12.2013)

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 (see specifically article 39 of the CPR)

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

Commission proposal

Against the backdrop of (a) difficult financing conditions for SMEs, (b) an overreliance of European enterprises on bank finance compared to capital market-based finance and, (c) the fragmentation of Euro area financial markets, the Commission/EIB report to the June European Council presented three options to expand joint risk-sharing instruments between the Commission, Member States and the EIB and EIF to leverage private sector capital market investments in SMEs and reduce market fragmentation (the SME Initiative).

The June European Council welcomed this initiative and agreed on the expansion of risk-sharing instruments between the Commission and the EIB to leverage private sector and incentivise capital market investments in SMEs.

At the request of the Economic and Financial Committee (EFC), a High Level Expert Group (HLG) prepared an opinion on the proposed initiative and provided an assessment of the potential market interest. The report endorsed clearly: (a) the value added attached by the private and institutional investors to a European initiative supported politically by Finance Ministers, central bank Governors and Heads of State and Government, (b) the specific added value of the involvement of the EIF and EIB in the structuring of each transaction providing a standard approach and facilitating the investors analysis of each transaction, (c) the potential of such a European initiative for developing European capital market financing and supporting a diversification of corporate financing from banks to capital markets, and (d) its potential in contributing to overcoming fragmentation of the Euro area financial markets and thus contributing to repairing the impaired monetary policy transmission channel.

The Commission proposed an option providing uncapped guarantees (option n°1) and two options for securitisation (option n°2).

An EIB/EIF report on the SME Initiative, which was prepared at the request of the EFC, in parallel to the work of the HLG showed that (a) the EIB/EIF supports the opportunity of such an SME Initiative, (b) all options are workable and complementary to each other, and (c) by and large, the expected leverage ratios included in the Commission proposal were supported.

The EIB/EIF assessment also pointed out important challenges that would need to be tackled in order to ensure a smooth implementation: (a) a timely adjustment of the Common Provision Regulation to allow for a smooth and simple use of structural funds, and (b) a collaboration of national regulatory and supervisory authorities.

The October and December European Councils endorsed the SME initiative and invited Member States to make good use of the opportunities provided. They reiterated their call

to expand risk-sharing financial instruments between the Commission and the European Investment Bank (EIB) to leverage private sector and capital market investments in SMEs, with the aim of expanding the volume of new loans to SMEs across the EU.

Preparation for the rolling-out

Several enabling conditions for this initiative have already been undertaken, in particular:

1. **Legal basis** - To enable the use of ESI funds for this initiative the required amendments to the Common Provisions Regulation have been made;
2. **Ex-ante assessment** - Following the Commission and EIB proposal for the SME Initiative, Member States requested some additional analysis to be carried out in an ex-ante assessment examining SME financing needs at the level of individual Member States. Political agreement notably on the scope of this ex-ante was reached at the trilogue on the Common Provisions Regulation in October 2013. The ex-ante assessment was finalised by the Commission at the end of November and was distributed to the European Parliament, the Council and the Committee for the Regions. It was also shared with the Economic and Financial Committee and the ECB and was discussed in detail at the Structural Actions Working Group and in the Rural Development Committee. While the ex-ante assessment, as foreseen in Article 39 of the CPR, is a Commission Staff Working Document, benefited from substantial input by the EIF/EIB. It should be noted that the ex-ante assessment carried out was very conservative, so that the identified market gap is most probably underestimated, as loan requests from financially viable SMEs have been excluded from the assessment.
3. **Contractual arrangements** – A template for Funding Agreements, prepared by the Commission in cooperation with the EIB/EIF, has been submitted to COESIF for adoption by comitology. It will serve as a basis for individual Funding Agreements between the EIF and the participating MS's managing authorities.

Application process for Member States

In November 2013, Commissioner Hahn sent a letter to each Permanent representation requesting to inform by his services whether the MS intended to contribute to the initiative, as well as the indicative amount and to which option (uncapped guarantees and/or securitisation).

As of 8 May 2014, the Commission received 2 positive replies from Malta (EUR 15 million) and Spain (EUR 800 million). Some further MS have indicated that they wish to keep open the possibility of joining later.

Although the commitments received so far are below the critical mass (set by the HLG at EUR 3 billion minimum), the Commission, in consultation with the EIB and taking into account the relevant provisions in the Common Provisions Regulations for ESI Funds has taken the decision to proceed with the SME Initiative.

Implementation

The SME Initiative shall be considered as a crisis-response instrument on which MS contribution commitment shall be phased over 2014, 2015, and 2016 with the purpose to build up the new debt finance portfolio by end 2023. In this context, each participating MS and the EIB will cooperate in view of the implementation and the management of a dedicated window of COSME-H2020 providing uncapped guarantee and/or securitisation.

The period of time during which the participating Member State may commit some funds to the EIF shall expire on 31 December 2016.

In the individual Funding Agreement, it is expected that the Managing Authority should receive reports from the EIF on the operational and financial aspects of the SME Initiative's Financial Instrument[s] implemented and namely:

- identification of the Single Dedicated National Programme and of the priority or measure from which MS Contribution is provided;
- description of the Financial Instrument[s] and implementation arrangements;
- identification of the Financial Intermediaries;
- total amount of MS Contribution Paid by priority or measure under the Single Dedicated National Programme;
- total amount of the New Debt Finance originated in the relevant quarter and to date;
- total amount of Management Costs and Fees;
- the performance of the Financial Instrument[s] including progress in their set-up and in selection of Financial Intermediaries;
- total amount of Repayments and Revenues accrued;
- progress in achieving the Leverage Effect;
- contribution of the Financial Instrument[s] to the achievement of the indicators of the priority or measure concerned within the Single Dedicated National Programme;
- number of Final Recipients (total and by Operation).

Alignment of interest

The implementation of the SME Initiative foresees an important alignment of interest between all parties.

The financial intermediaries shall keep a material interest in each and every loan in the portfolio in order to ensure the necessary alignment of interest ("skin in the game"): for option 1, the FIs will therefore retain at least 20% exposure, whereas for option 2 the originator shall retain at least 50% of the First Loss Piece of the securitised portfolio. ..

The alignment shall comply with the risk retention requirement set out in Directive 2013/36/EU and Regulation (EU) No 575/2013.

Added value

In terms of the main added value of the SME Initiative, it could be pointed out that:

- 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 picked up 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 and would enforce the message to markets.

- The SME initiative has the potential to significantly contribute to enhance access to finance of SMEs and would contribute as such to the achievement of the EU objectives. In particular, this initiative will contribute to improve access to finance for SMEs including for innovative SMEs as well as for high risk SMEs by leveraging Horizon 2020 / COSME contribution, in line with the commitments of the Union.
- The SME initiative has been designed with a view to scaling up the available resources and ensuring a more critical impact in the market, for the benefit of SMEs, by pooling resources in a complementary way from the EU (COSME, Horizon 2020, and ERDF-EAFRD), the EIB, the EIF, and – depending on the Option – also national promotional/development/public banks and private investors, to pursue common policy objectives, as foreseen in the Europe 2020 Strategy thus achieving a higher leverage effect.
- The experience of the EU institutions – the Commission, EIB and also the EIF in designing and implementing SME financing schemes is unique. National and local institutions can benefit from EU-level entrusted entities' know-how of the design of financial products, such as uncapped guarantees and securitisation.
- As an EU level instrument defined in accordance with Article 38 (1) (a), the participating Member State could contribute at 100% through the use of ERDF-EAFRD funds without any national co-financing. In addition, the MS request for payment to the Commission shall be made on the basis of 100% of the amounts to be paid by the Member State to the EIB. Therefore, based on the assumption that there are available funds at the Commission level, the SME Initiative will not impact the Member State budget.
- The SME Initiative is designed to complement, (rather than overlap with), existing financial instruments and to address market failure.

(c) The financial institutions involved in implementation

For the implementation of the uncapped guarantee instrument, it is likely that the EIF will select banks (including commercial and/or cooperative banks).

The implementation of the securitisation instrument will involve investment in tranches. The selected bank (originator) will retain a significant amount of the first loss piece.

Both uncapped guarantees and securitisation are open to participation by National Promotional Banks (to cover part of the risks in the case of uncapped guarantees, or as investors in senior tranches in true sale securitisation transactions).

B - Implementation

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

In terms of budget, the Common Provision Regulation foresees a limit of EUR 8.5 billion of aggregate ERDF-EAFRD to be committed under the SME Initiative. In that scenario,

the corresponding COSME and Horizon 2020 contributions were estimated at up to EUR 170 million each over the 2014-2016 period.

To be noted that, with a potential aggregate amount of up to EUR 815 million, the corresponding COSME and Horizon 2020 contributions could be estimated *pro rata* at up to EUR 16 million each over the 2014-2016 period. Depending on the option(s) chosen and on the date of signature of agreements with financial intermediaries, the commitments could be phased as per the following breakdown: EUR 4 million under COSME and EUR 4 million under Horizon 2020 in 2014 and EUR 6 million under COSME and 6 million under Horizon 2020 both in 2015 and in 2016. Nevertheless, due to the schedule, it is very likely that all payments will take place as from 2015 only (no payments in 2014).

(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

(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 or risk-sharing instruments, and on called guarantees for guarantee instruments

Not applicable

(k) The target leverage effect

Overall leverage (expected)	
Option 1	5x the MS contribution
Option 2	7x the MS contribution
Option 3	10x the MS contribution

C - Strategic importance/relevance

- (I) 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**

Strategic objectives

SMEs represent on average more than 95% of all EU enterprises, contribute for more than 2/3 of employment and create approximately 60% of all added value. Hence, the EU economy depends to a significant extent on SME performance.

In parallel, SMEs in Europe are extremely reliant to debt finance in order to finance their investment, their innovation and to increase their competitiveness. In this context, the strategic objectives of the SME Initiative are to: (i) favour European SMEs' access to finance at better conditions in terms of interest rate reduction or/and collateral reduction, which is considered by the ECB as the major issue for a sustainable growth in EU; (ii) reduce as much as possible fragmentation between Member States in terms of SME access to finance; and (iii) foster recovery from the crisis through an increased loan volume, better SME financing conditions and a revitalisation of the SME securitisation market.

SME financing gap

The main gap identified in the ex-ante assessment can be summarised as follows:

The proportion of "financially viable" SMEs that faced problems in accessing bank financing between 2009 and 2012 could be estimated in the interval of 0.7% to 4.1% of all SMEs, i.e. at approximately 154,000-855,000 SMEs. This figure includes all financially viable SMEs that:

- 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.

By multiplying the average SME loan size (EUR 130,000) by the number of financially viable SMEs with problems in accessing loan financing, an EU-wide gap can be quantified within the range of EUR 22 billion to EUR 112 billion, representing the average for the period 2009-2012.

In 2012, based on the latest available figures, the EU-wide gap decreased to a total of EUR 105 billion, comprising EUR 95 billion for non-agricultural SMEs and EUR 10 billion for agricultural SMEs.

The future conditions for SME access to finance in EU28, and impacting upon the SME financing gap, are likely to be affected by several specific factors, notably:

- the EU economic outlook;
- the evolution of the financial conditions of banks;

- the developments of credit guarantee schemes;
- the developments of the SME securitisation market;
- the introduction of measures against late payments;
- the development of alternatives for bank finance;
- the launch of the banking union.

The fraction of the EUR 112 billion SME financing gap that might be covered by new loans generated through the SME Initiative is around 10% for a total Member States' contribution of EUR 3 billion, although with large variations across countries. In the base scenario in which Option 1 is implemented, the estimated amounts covered are presented in the table below.

	Estimated market failure	Estimated MS contribution	Estimated amount covered
Spain	EUR 6 billion – EUR 26 billion (refers to period 2011-2012)	EUR 800 million	EUR 4 billion
Malta	EUR 18 million – EUR 61million (refers to period 2009-2011)	EUR 15 million	EUR 75 million

D - Other key points and issues

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 with a view to generating additional lending to SMEs.

E - Summary

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 has been designed as a joint-instrument with a view to scaling up the available resources and ensuring a more critical impact in the market for the benefit of SMEs, combining EU funds available under COSME and Horizon 2020 and ERDF-EAFRD resources in cooperation with EIB/EIF to generate additional lending to SMEs. The EIF (covered by the "EIB" definition used in the context of CPR) is the entrusted entity for the implementation of this initiative.

The SME initiative has the potential to significantly contribute to the enhancement of access to finance of SMEs and would contribute as such to the achievement of the EU objectives. In particular, this initiative will contribute to improved access to finance for SMEs including for innovative SMEs as well as for high risk SMEs by leveraging Horizon 2020 / COSME contribution, in line with the commitments of the Union.

With a potential aggregate amount of up to EUR 815 million, the corresponding COSME and Horizon 2020 contributions could be estimated *pro rata* at up to EUR 16 million each over the 2014-2016 period. Depending on the option(s) chosen and on the date of signature of agreements with financial intermediaries, the commitments could be phased

as per the following breakdown: EUR 4 million in 2014 and EUR 6 million in each of 2015 and 2016.

13. Dedicated Investment Vehicles

13.1. The European Progress Microfinance FCP-FIS (PMF FCP-FIS)

A - Description

Programme 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 31/12/2013:	Commitments: EUR 80 million Payments: EUR 63.43 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.

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

Decision No 283/2010/EU of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion¹⁵²

EU Microfinance Platform MICROFINANCE PLATFORM (the “Fund”) is structured as a Luxembourg “*fonds commun de placement – fonds d’investissement specialise*” (FCP - FIS) governed by the law of 13 February 2007 relating to specialised investment funds (the “2007 Law”) and launched on 22 November 2010.

¹⁵² (OJ L 87/1, 7.4.2010)

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

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 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 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:

- 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 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 2013 amounts to EUR 80 million.

In accordance with the EPMF FCP-FIS's Management Regulations, the Investment Period ends on April 7, 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.

(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.

The Commission is a founding investor in the Specialised Investment Fund, contributing with 44% (80 million EUR) of the total funding. The European Investment Bank is the other investor with a contribution of 100 million EUR. The Commission has subscribed for junior units, thus bearing the first loss.

B - Implementation

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

Aggregate budgetary commitments as at 31/12/2013	EUR 80,000,000
Aggregate budgetary payments as at 31/12/2013	EUR 63,428,857

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

In 2013, which was the last year of the Union budgetary commitments, the Commission committed EUR 22 million to be deployed by the investment vehicle. No further budgetary commitments have been made by the Commission since the end of the commitment period on 31/12/2013.

The payments made in 2013 amount to a total of EUR 12.43 million for the FCP-FIS. As of 31/12/2013, from the start, the Commission had already paid some EUR 63.43 million for this funded instrument. For 2014, the forecasted budgetary payments amount to EUR 16.6 million.

As of 30-9-2013 the total contributions of the shareholders (Commission and EIB) to the EPMF FCP amounted to EUR 119 million (Commission contribution = EUR 51 million to FLP and EIB contribution to second loss piece = EUR 68 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. On 30-9-2013 the signed agreements between EIF and the Intermediaries amounted to some EUR 98 million (Commission contribution = EUR 42 million and EIB contribution = EUR 56 million) and aimed at leveraging an additional contribution from the intermediaries of EUR 60.6 million, in order to have a total of EUR 158.6 million (target volume) in micro-loans to final recipients.

As of 30/09/2013, 20 Agreements have been signed in 11 Member States including a Union contribution of EUR 42 million, with a clear geographical balance between Eastern and Western Europe.

For the entire period as of 30 September 2013 (latest data available as at writing date), EPMF achievements for the FCP-FIS component of the programme were as follows:

- Number of micro-loans: 7,134
- Total amount of micro-loans: EUR 64.9 million
- Total number of employees (in the supported micro-enterprises): 11,487¹⁵³

(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 available

¹⁵³ EPMF-FCP Semi-annual Implementation Report – 2014, June 30, 2013.

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

Not available

(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 30/09/2013, based on the signed loan agreements the total target volumes of micro-loans to final recipients are estimated to EUR 158.60 million, bringing the potential leverage effect to 3.8 (the target volumes of microloans divided by EUR 42 million of Commission's contribution); this is much higher than the minimum targeted leverage of 2.33.

As for achieved leverage until 31/12/2013, the Commission's contribution of EUR 42 million has supported so far EUR 64.9 million of new mirco-loans, implying a leverage of 1.5.

C - 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 part C above under European Progress Micro-finance Facility – Guarantee under section 11.2.)

D - Other key points and issues

- In terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2013, 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.

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.

Also, the low demand for the equity product offered by the EPMF-FCP indicates the need of more flexible approach in the design of the new financial instrument in order for equity to be more attractive especially to non-bank microfinance providers.

Another issue that has to be taken into account in the design of the new instrument is the complementarity of the microfinance facility in countries where national microfinance schemes already exist, since there is often reluctance among potential microfinance providers to take on EU-Level instruments such as under EPMF.

Finally, the institutional capacity of Microfinance providers, in particular small non-bank microfinance providers, is limited, which negatively affects the disbursement of the agreed micro-loans.

- 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.

- Based on forecasts subject to variations a further EUR 72.75 million in new commitments, mainly senior loans, are expected to be signed with microfinance providers in the course of 2014.

As of 30 September 2013, the European Progress Microfinance Facility including both Guarantees and Funded instruments provided 13,850 micro-loans to final recipients reaching the volume of EUR 133 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.

E - Summary

The EPMF Guarantee Facility 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 30/09/2013, EIF had signed 20 loan agreements in 10 member states including a Commission contribution of EUR 42 million. 6,236 micro-enterprises and vulnerable persons had been supported under the Facility and they had created 11,487 jobs.

13.2. The 2020 European Fund for Energy, Climate Change and Infrastructure – (Marguerite)

A - Description

Programme summary

Policy DG in charge:	DG MOVE
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	Marguerite Adviser (the Fund Manager)
Initial Overall Budget Envelope:	EUR 80 million
Current Overall Budget:	EUR 80 million

(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

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

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 will primarily invest 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 the Commission. The size of the Fund at final close is EUR 710 million.

The Commission's aggregate budgetary commitments: EUR 80 million from the TEN-T budget.

Expected results:

- 30 to 40 % of the total commitments invested in the Transport sector,
- 25 to 35 % invested in the Energy sector,
- 35 to 45 % invested in the Renewables Energies sector,
- at least 3.5 times the EC commitment to be invested into TEN-T eligible projects.

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 initial closing (March 2010) but may be extended for up to two additional one-year periods (up to year 2032).

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 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.

¹⁵⁴ (OJ L 162/1, 22.6.2007)

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.

There is significant added value of the Union contribution to the Marguerite fund both directly and indirectly.

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 nine projects as of December 2013 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.

B - Implementation

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

Aggregate budgetary commitments as at 31/12/2013	EUR 80,000,000
Aggregate budgetary payments as at 31/12/2013	EUR 28,520,000

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

As of 31 December 2013 the Marguerite Fund has committed to invest in nine projects: two projects in TEN-T transport and seven in the renewable energy sector. This represents a total equity commitment of EUR 285 million supporting a total project cost of EUR 4,511 million.

The list of projects can be seen in the table below:

Investment overview (as at 31-12-2013), equity commitment at fund level (100%) ⁽¹⁾ , in EUR thousand		
<u>Project name (Country)</u>	<u>Equity commitment⁽²⁾</u>	<u>Sector</u>
C-Power (Belgium)	39,211	Renewables
Toul (France)	27,182	Renewables
Projects with first investment in 2011	66,392	
Massangis (France)	25,062	Renewables
Aeolus (Poland)	23,144	Renewables
Chirnogeni (Romania)	26,846	Renewables
Autovia Arlanzón (A1) (Spain)	24,605	TEN-T
Projects with first investment in 2012	99,657	
Butendiek (Germany)⁽³⁾	72,387	Renewables
Poznań Waste-to-Energy (Poland)	24,652	Renewables
Zagreb Airport (Croatia)	22,200	TEN-T
Projects with first investment in 2013	119,239	
Total equity commitments (from all investors, including COM)	285,288	

Source: *Quarterly report of the Marguerite Fund to 31 December 2013, p.11*

Notes:

(1) *The Commission has an 11.268% share in the fund*

(2) *Includes contingent equity commitment*

(3) *Net of divestment of 1/3 stake to CDC Infrastructure that occurred in December 2013. Prior to the divestment, the equity commitment to the Butendiek project was EUR 104.7 million*

The Marguerite Fund has a strong pipeline of projects and is expected to close several new projects in the first half of 2014 (in both Transport TEN-T and other sectors). The nine 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 2013, the fund received first dividends from the following projects: Toul, Rosières and Autovia Arlanzon which allowed the fund to cover its operating costs without drawing on investors' capital calls.

(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 based on Capital Calls issued by the Fund

(h) Revenues and repayments

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 31/12/2013, no distribution has taken place.

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

Compared to the value for 31.12.2012 the Net Asset Value of the fund has increased from EUR 19.33 million to EUR 29.41 million. Taking into consideration the increase in cumulated payments from EUR 20.20 million to EUR 28.52 million this implies a change of the assets' Net Asset Value from EUR (-0.87) million to EUR 0.89 million representing an increase of EUR 1.76 million over the year 2013.

Date	31/12/2012	31/12/2013
Cumulated payments by the Commission (COM)	20,200,000.00	28,520,000.00
Fair value of COM stake	19,328,506.88	29,405,155.00

Non-realized capital gain (loss) of COM¹⁵⁵	(871,493.12)	+885,155.00
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(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments

Not available

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

The total of the EUR 80 million of budgetary commitments for the Fund were made available in 2010. With the multiplier of 128 (as estimated in the table below for 2014), the target volumes of project capital cost are likely to reach EUR 10.2 billion, of which circa EUR 4 billion are expected to be allocated to TEN-T transport projects. As of December 2013 the Marguerite Fund committed EUR 285 million to nine transactions representing a capital cost of 4,511 million, supported by cumulated cash capital calls from the EU budget of EUR 28.5 million. The running cumulated achieved leverage effect as of December 2013 is 158x (4,511/28.5); however this ratio is bound to fluctuate going forward as more capital calls relative to the engaged commitments are made and new projects enter the portfolio.

The 2014 multiplier calculations below are based on the expected amount of capital calls for all eligible projects in 2014 made as of 31 December 2013, as per the information received from Marguerite Adviser.

The assumed percentage of Marguerite Fund equity out of the total capital costs of the projects is based for a given year on the ratio for all of the projects in the portfolio until that year inclusive: for example for 2012 the 6.7% ratio corresponds to the first six projects up to the Chirnogeni windfarm (Romania).

Using the prudence principal, the administrative costs covered from capital calls for 2014 are assumed to be at the level of 2012. In 2013, those costs were fully covered by revenues from the existing projects, but this is not certain for 2014E.

Note: there is a timing delay between the time (year) of the capital call and the construction of the asset (representing the Enterprise Value). Sometimes equity is called-in at the beginning of a project, sometimes at the very end; the length of a project construction period can be of up to 4 years or more. Calculating the annual impact of capital calls in terms of project capital cost is therefore an approximation and is only illustrative. Actual values can be only measured in cumulative fashion, once all capital calls relative to a given asset are made and that asset is built.

Multiplier Calculation (in EUR million)

	<u>2012A</u>	<u>2013A</u>	<u>2014E⁽¹⁾</u>
Capital calls made during period by fund	128.9	73.8	170.4

¹⁵⁵ Source of Net Asset Value: Quarterly report of the Marguerite Fund to 31 December 2013, p.8.

(@100%)

less operating costs covered from capital calls (@100%)⁽²⁾

(10.3) - (10.3)

Fund cash invested or on B/S (@100%) (A)	118.6	73.8	160.1
% of capital calls	92%	100%	94%

Marguerite Fund equity as % of Total Enterprise Value of Projects⁽³⁾

6.7% 6.5% 6.5%

Implied Total Enterprise Value of Projects (B)	1,769.6	1,136.0	2,463.1
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Commission contribution

(11.268% of total capital calls) (C)

14.5 8.3 19.2

Multiplier of Commission contribution (B/C)¹⁵⁶	121.9x	136.5x	128.3x
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(1) Estimated values based on capital call size assumption, assumed ratio of Marguerite Fund equity as % of total Enterprise Value of Projects and an assumption on the level of fund operating cost.

(2) Administrative and operational costs

(3) Assumed constant between 2013A and 2014E

C - Strategic importance/relevance

(I) **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 and 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 Union contribution by the end of the investment period, i.e. assuming no extension of the investment period, by December 2016.¹⁵⁷

¹⁵⁶ Source: Services calculations based on historical reported data provided by Marguerite Adviser.

¹⁵⁷ Note: As per the placement memorandum, the investment period can be extended two times by one year, i.e. until December 2018 at the latest.

As of 31/12/2013, the Fund has committed to invest in two TEN-T projects a total of EUR 46.8 million. As of today, the Commission has paid in EUR 28.5 million. The fund commitment for TEN-T projects represents a multiple of 1.6 the amounts paid by the Commission to the fund as of 31/12/2013. This is short 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 31/12/2013, 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.

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.

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.

D - Other key points and issues

- Critical issue/relevant for further implementation:
 1. The December 2012 payment was subject to the 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 Commission's financial regulations. 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, and renewables), and is seen as a way to avoid concentration risk and sectorial correlation. ECFIN currently discusses with other DGs how these findings will affect the future design of financial instruments and how to preserve a maximum grade of diversification and at the same time stay in line with the principle of specification.
 2. For the Marguerite fund, the decision was to create a new bespoke fund with a relatively original structure. While this permitted full respect of the requirements of the initial public sponsors in terms of investment guidelines, the fund was not successful in crowding-in private investors' commitments in 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.

3. 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 to an existing Investment Manager or by investing (or co-investing) alongside an already existing structure.
- 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.

The Fund operates in full compliance with its Investment Guidelines and other governance and operational provisions.

In terms of performance, so far the fund was successful in investing in Renewable Energy projects and in the TEN-T Transport sector. No investments were made to date in the third eligible sector, the Energy sector. As of 31/12/2013, the fund committed EUR 46.8 million to TEN-T transport projects, thus progressing towards the target of EUR 280 million investment (i.e. 3.5x the EUR 80 million committed by the EU).

- 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 the following two transactions:

- N17/N18 road project in Ireland, TEN-T Transport
- Waste-to-Energy project in Ireland, Renewable Energy

Other numerous opportunities are in the medium-to-long-term pipeline.

E - Summary

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 will primarily invest 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. The size of the Fund at final close is EUR 710 million. 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: for the year 2013 each euro invested in the Marguerite fund by the European Union supported a total capital investment of more than 130 euros in infrastructure projects across the EU.

As of December 2013 the Marguerite fund has invested in nine 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 investment volume of EUR 285 million. More projects are currently being developed and the investment pipeline for 2014 plans to proceed with further signings and closings over the course of the year.

13.3. European Energy Efficiency Fund (EEEF)

A - Description

Programme summary

Policy DG in charge:	DG ENER
Implementing DG in charge:	
Implementing Body in charge:	Deutsche Bank as the Investment Manager / EIB
Initial Overall Budget Envelope:	EUR 146,344,644.50
Current Overall Budget:	EUR 146,344,644.50

(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.¹⁵⁸

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

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,

¹⁵⁸ (OJ L 346/5, 30.12.2010)

renewable energy projects, and clean urban transport particularly in urban settings, achieving at least 20 % energy saving or GHG/CO2 emission reduction.

The recipients must be public authorities or public or private entities acting on their behalf, including ESCOs¹⁵⁹.

The Fund was launched on 1st July 2011 with an initial volume of EUR 265 million; in addition to the Union 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’).

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.

In addition, about EUR 20 million of the Union 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. EPEC¹⁶⁰ manages this programme.

In accordance with the amending Regulation, EU funds will have to be allocated to investment projects and Technical assistance (TA) by 31 March 2014. Apart from this, there is no fixed deadline for proposals. The winding down of the instrument will take place probably after 2024.

Fund/Investment Manager

Deutsche Bank (DB) is responsible 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 ad interim until the selection criteria and governing principles are agreed.

¹⁵⁹ Note: 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.

¹⁶⁰ Note: 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.

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 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 Commission (2), the EIB (1) and the CDP (1).

(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 was selected as Investment Manager and was sub-delegated the Management of the Technical Assistance facility.

B - Implementation

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

Aggregate budgetary commitments as at
31/12/2013

in EUR	Fund	Technical Assistance	Total
Initial Commitments	125,000,000.00	21,334,644.50	146,334,644.50

Aggregate budgetary payments as at 31/12/2013

in EUR	Fund	Technical Assistance	Total
Aggregate Payments	49,892,026.95	5,934,251.15	55,826,278.10

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

The project pipeline of the Fund holds out the prospect of promising results in terms of market response and project replication.

An investment structure has been created with balanced governance to ensure the Commission's ability to verify compliance with the investment guidelines. Also, a professional Investment Manager has been recruited and applies to the EEF the same logic it uses in its own activities (planning, monitoring and controlling, risk management with due separation of functions, etc.).

In order to run the EEE F efficiently, the Investment Manager deployed an initial workforce, which is now being increased in response to the need for a faster uptake.

The first operational objective was to make bankable deals and this has been achieved as shown by the case studies. The EEE F seems to be receiving good acceptance by the market.

A number of the projects in the pipeline demonstrate that municipalities and other eligible actors are moving away from a grant approach when deciding to invest in sustainable energy solutions.

However, mature projects in the pipeline are tending to materialise at a slower pace than initially expected. This is partly due to market fragmentation, which represents a major hurdle. Each Member State may have different rules and a different level of advancement regarding their approach to energy efficiency in the various market segments. In particular, the existence of a "grant culture" in certain countries may impede the development of market-based tools and the involvement of market actors (e.g. investors, ESCOs).

As of March 2014, EUR 219 million were allocated to projects and EUR 17.7 million was allocated as technical assistance to support project development services.

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

Not available

(g) The balance of the fiduciary account

As from 28 February 2014, the balance on the Technical Assistance trust Account at the EIB was EUR 1,013,225.36 and of EUR 25,000,000 on the Fund Trust Account.

(h) Revenues and repayments

Not yet available for 2013

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

Not available

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

Not available

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

At the level of the Fund, the EU contribution of EUR 125 million was complemented by EIB, CDP and DB for total fund volume of EUR 265 million at initial closing, reaching a leverage of 2.12. It is however forecast that the Fund will attract additional investors to

grow to up to EUR 700 million (with current C-share value) reaching a fund leverage of 5.6

At the final investment level, as of March 2014, EUR 219 million were allocated to projects for a total investment mobilised of EUR 355 million, achieving a leverage of 2.84 . With a target size of EUR 700 million in the future it could mobilise around EUR 1.2 billion (with current average investment share) for a final leverage ratio of around 9.

C - Strategic importance/relevance

(I) 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 is to establish a specialised investment Fund to reallocate the EEPR uncommitted appropriations leveraging additional contributions. This has been achieved with the support of the European Investment Bank to which the establishment of the Fund and the management of the Union contribution were delegated.

The second objective of the EEE-F is 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 this, the Fund supports the development of a credible energy efficiency market through the provision of non-standard project finance¹² and dedicated financial products (both debt & equity) supporting in particular the development of Energy Performance Contracting.

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 EU 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), and attracting private capital while demonstrating the business case behind these investments and creating a credible track record.

D - Other key points and issues

- Experience with the EEE-F has helped to understand the dynamics of the energy efficiency market, suggesting that:

- Financing instruments for sustainable energy need to be flexible, reflecting local market needs;
 - 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;
 - 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.
- 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 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".

- Overall, the mid-term evaluation (published in November 2013)¹⁶¹ shows some fair first results and a reasonably promising outlook for the Fund.

At present, an increase of the Union financial contribution does not seem justified, *inter alia*, due to the amount still to be allocated. However, once this amount is spent and the Fund reaches its maturity level and proves its attractiveness to the market, additional contributions could be considered, provided there is a large increase in leverage.

E - Summary

At the end of 2010, the European Energy Programme for Recovery (EEPR) was amended to reallocate uncommitted appropriations of EUR 146.3 million to the establishment of a financial facility supporting energy efficiency and renewable energy initiatives.

The European Energy Efficiency Fund (EEE F) was subsequently established on 1 July 2011 through a delegation agreement with the EIB. It includes a EUR 125 million contribution to a newly established Investment Fund vehicle with variable capital (EEE F

¹⁶¹ SWD(2013) 457 final (http://ec.europa.eu/energy/eepr/doc/swd_2013_457.pdf)

SICAV-SIF2) that has so far reached a total volume of EUR 265 million, supported by a Technical Assistance grant facility with a budget of EUR 20 million to provide project development support to potential recipients of the EEE F.

In addition, EUR 1.3 million has been allocated to the European Public Private Partnership Expertise Centre (EPEC) for awareness-raising activities.

As of March 2014, EUR 219 million have been allocated to projects, thus fully allocating the Commission contribution.

14. Financial Instruments in the Enlargement Countries

14.1. Guarantee Facility under the Western Balkans Enterprise Development and Innovation Facility

A - Description

Programme summary

Policy DG in charge:	DG ELARG
Implementing DG in charge:	DG ELARG
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 21.9 million*
Current Overall Budget:	EUR 21.9 million

* Appropriations as per the Basic Act

(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) thereof¹⁶²

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)¹⁶³

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 action¹⁶⁴

¹⁶² (OJ L 210.82, 31.7.2006)

¹⁶³ (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 Financial Instrument of the European Union for the Guarantee Facility (GF) contributes to achieving the objectives of enhancing socio-economic growth of the Western Balkans.

Its major objective is the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument guarantees new SME loans on a portfolio basis. This will entail improving SME access to lending and potentially lowering the cost of borrowing.

Under the instrument, first loss guarantees covering 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 provided. Exact guarantee rate and cap is being determined on a case-by-case basis.

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation (through a Fiduciary and Management Agreement).

The instrument started in 2013 and will guarantee loans with maturity until 2023. The geographical coverage will be the Western Balkans in line with the Common Implementing Regulation.

(c) The financial institutions involved in implementation

Under indirect management, the Commission may entrust implementation tasks to the EIB Group, including the EIF. The Facility is to be 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 include:

WB Beneficiary Economy	Loan volume supported	Guaranteed Portfolio	Guarantee Cap
Bosnia & Herzegovina	20	14	3.304
Kosovo	20	14	3.22
Albania	20	14	3.5
Total	60	42	10.024

More intermediaries will be engaged so that the budgetary allocation of EUR 20 million that has been earmarked for the operations will be totally committed by Q2-2014.

¹⁶⁴ (OJ L 77, 15.3.2014, p. 95)

B - Implementation

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

Aggregate budgetary commitments as at 31/12/2013 EUR 21,900,000

Aggregate budgetary payments as at 31/12/2013 EUR 21,900,000

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

The three operational agreements with the banks were signed on the 18th and 19th of December 2013. The portfolio build-up is envisaged to start within three months from the signature date. The three banks have already started promoting the product.

(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

As at 31/12/2013: EUR 21,216,711

(h) Revenues and repayments

Not available

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

Not applicable

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

Not applicable

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

The financial envelope of EUR 21.9 million (including the EIF management costs of EUR 1.9 million) shall leverage a total investment in excess of EUR 110 million, implying the leverage factor of at least 5.5.

C - Strategic importance/relevance

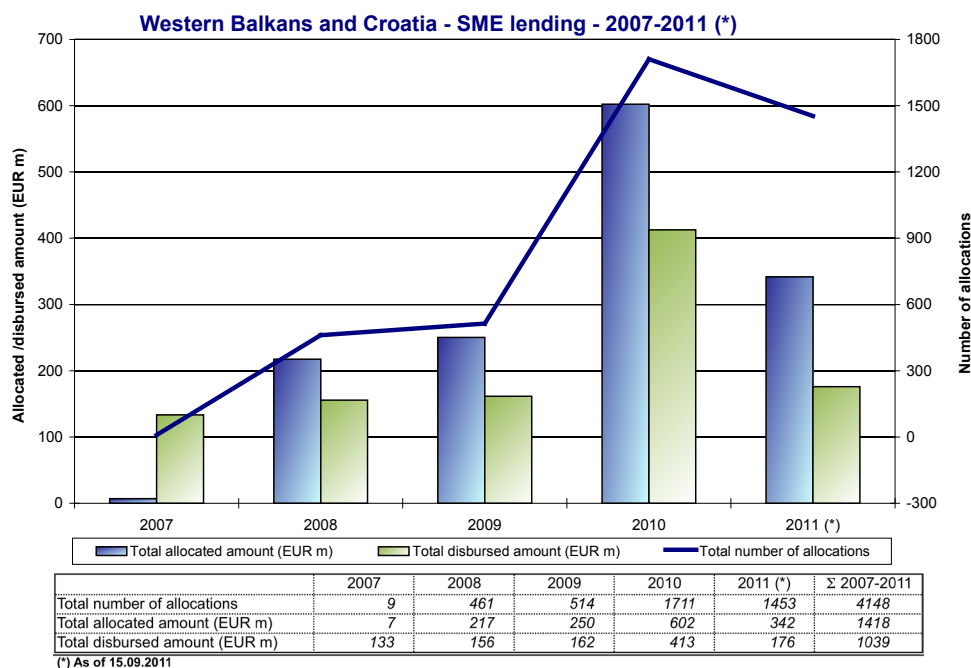
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification

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:



However, there is a segment of the SME market, made of start-up, newly established enterprises, or in general smaller SMEs that do not have the appropriate financial history or are lacking sufficient level of collaterals as well due to unclear ownership issues and thus fall outside the current credit criteria of the commercial banks. The GF instrument will target this market segment in priority. GF will be financed by the Commission.

The benefits from the GF could take a number of forms and thus respond to the key constraints in each recipient. 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.

It is expected that some 1,200 to 1,400 final recipients (considering the currently available data on the estimated average loan amount per portfolio) will directly benefit

from the GF with further upstream and downstream effects to be expected. The demonstration effects of this initiative have the potential to shape the landscape of SME finance in the Western Balkans.

GF is managed by the EIF¹⁶⁵. As Europe's leading developer of risk financing for entrepreneurship and innovation, the EIF delivers a wide spectrum of SME financing solutions through selected intermediaries. Moreover, by sharing the risk in SME development, the EIF promotes the implementation of EU policies, particularly in the field of entrepreneurship, technology, innovation, and regional development).

It is envisaged that the GF guarantees the first loss piece of new loans to targeted SMEs with a guarantee rate of up to 70% and a guarantee cap of up to 25% (exact figures on guarantee cap and guarantee rate to be defined on a case by case basis) in the overall loan portfolio. This will create a leverage effect of at least 5.5 which means that a potential EUR 20 million under GF will mobilise more than EUR 110 million of new loans.

GF Management: GF is managed by EIF. Local banks are invited to participate in the GF under a call procedure and the proposals will be evaluated by the EIF on competitive terms.

D - Other key points and issues

- *Provision of regulatory capital relief*

The regulatory capital relief has been foreseen by the underlying Fiduciary and Management Agreement (FMA) with EIF, as a measure allowing a selected intermediary in the region to expand its loan portfolio without expanding its capital backup as required by the banking regulations.

So far, the guarantee agreements with intermediaries under this Facility did not provide for the capital relief, which is optional in the FMA, but feedback from the market suggests that allowing for it could have positive effects for the Guarantee Facility uptake by a more diversified selection of intermediaries in the region.

This should be viewed in the context of the implementation of the Third Basel Accord that strengthens bank capital requirements. EIF will present this issue to the Commission in accordance to the relevant provisions of the Fiduciary and Management Agreement, which stipulate, “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 will be fully committed to operations by 2014 Q2. It should be noted that under the current call for expression of interest, the aggregate amount under the applications received exceeded the budget available, and even under the signed operational agreements, the allocated budget per intermediary is less than the one requested by the intermediary, thus

¹⁶⁵ Note: The EIF, a member of the EIB Group, is the European Union body specialised in SME risk financing.

leading to the deployment of portfolios of lower volume. The build-up of the loan portfolio of EUR 110 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 Balkans Beneficiary Economies in 2012.

- 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, the EIF may forbid the inclusion of more loans into the portfolio.

- The deadline for the submission of applications is set on the 30 June 2014. As indicated in the call for expression of interest, 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 WB EDIF Guarantee Facility.

The EIF has received nine applications (more than one for some of the WB Beneficiary Economies) and two expressions of interest. The aggregate amount requested by the applications exceeds the available budgetary allocation of EUR 20 million.

E - Summary

The WB EDIF Guarantee Facility guarantees the first loss piece 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 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 are selected through an open call for expression of interest launched in 2013. Three intermediaries have been engaged by the end of 2013 and more intermediaries will be engaged so that the budgetary allocation of EUR 20 million that has been earmarked for the operations will be totally committed by Q2-2014. The leverage effect of the Facility will be at least 5.5 which means that the budget of EUR 20 million will mobilise more than EUR 110 million of new loans.

There is interest that exceeds the original budgetary allocation of EUR 20 million. An increase of the budget will be certainly absorbed. 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 for the deployment of the instrument cannot be overemphasised.

14.2. Enterprise Expansion Fund (ENEF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)

A - Description

Programme summary

Policy DG in charge:	DG ELARG
Implementing DG in charge:	DG ELARG
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 11.0 million
Current Overall Budget:	EUR 11.0 million

(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) thereof¹⁶⁶

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)¹⁶⁷

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 action¹⁶⁸

(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 finances development and

¹⁶⁶ (OJ L 210/82 31.7.2006)

¹⁶⁷ (OJ L 77, 15.3.2014, p. 11)

¹⁶⁸ (OJ L 77, 15.3.2014, p. 95)

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 provided.

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 EIF. The instrument is implemented under indirect management with the implementation tasks entrusted to the EIF.

The investments under the instrument will start in 2014. 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.

(c) The financial institutions involved in implementation

- EIF – acting as a trustee on behalf of DG ELARG’s contribution and investor in ENEF
- EBRD – Investment Adviser of ENEF as well as its investor
- DEG – Investor in ENEF

B - Implementation

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

Aggregate budgetary commitments as at 31/12/2013	EUR 11,000,000
Aggregate budgetary payments as at 31/12/2013	EUR 10,400,000

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

The formal first closing of the Fund and launch of activity is expected to take place within Q2/2014, thus no performance information to report yet.

(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

EUR 10,402,965

(h) Revenues and repayments

Not applicable

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

Not yet available ¹⁶⁹

(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 55 million approximately with initial fund size of EUR 38.5 million. Given the association of ENEF to EBRD's co-financing facility (Local Enterprise Facility) which will always match ENEF investment at a ratio of 1:1, the total leverage factor is 10.

C - 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.

Consequently, the 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 165 million 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.

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

¹⁶⁹ The financial envelope envisaged for the instrument amounts to EUR 11.0 million, of which 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 part. EUR 10.4 million were paid out to the EIF in its function as a trustee in December 2012. As at 31.12.2013, the amount is considered as cash equivalent (fiduciary account) on the Balance Sheet of DG ELARG and not yet financial instrument and it is expected that the instrument will start in 2014.

(EUR 38.5 million initial), potentially associated with an EBRD EUR 55 million co-financing facility.

This co-financing will come from the already established EBRD Local Enterprise Facility (LEF) and will be done on the 1:1 basis for every investment made. Moreover, ENEF builds on the LEF experience in the region and expertise of the EBRD staff on the ground.

Portfolio is to comprise a group of app. 15-20 companies with deals approximately ranging from EUR 1-8 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.

ENEF Management: EBRD shall be the Investment Advisor that will originate, structure, execute and monitor investments. An Independent Investment committee will decide on investment and divestment proposals. The fund will be supervised by the Board of Directors, comprised of EIF, EBRD and DEG. EBRD will manage ENEF through its offices in each beneficiary country.

D - Other key points and issues

- Issues relevant for further 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 less developed economies. Such reliance, however, makes entrepreneurs less educated 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 more developed economies. Thus, it is considered more appropriate to use quasi-equity instruments, which naturally pre-empt an exit route in their structure.

Another consideration would envisage future instruments that 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 difficulties of realising exits due to lack of critical mass of follow-on equity investors.

- **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) it shall be sought to be responsible with the lay-out and implementation of best of industry practices in fund management and selection of the right combination of experts and skillsets 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 of representatives of EIF, DEG, and EBRD.

- Following the first closing of ENEF, it is expected that the EBRD as Investment Adviser will be actively involved in pipeline building. Given its offices set-up on the ground in each beneficiary country and the knowledge of the specific markets it should be expected that ENEF build a sufficient pipeline already within the first 6-9 months of 2014. The EIF has already been supporting the EBRD by referring relevant deals.

E - Summary

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 the 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)
- ✓ Capital deployment: Minority investments in ca. 15-20 portfolio companies, with sales between EUR 5 million and EUR 20 million. Typical investment tickets will be in the range of EUR 1 to 7.5 million, potentially doubled through the LEF co-investment. Investments will be structured using a broad range of instruments, including equity and quasi-equity securities such as preferred shares, convertible bonds, mezzanine, or subordinated debt on a selective basis. Such strategy is closely related to the immaturity of the exit markets, where the scarcity of financial and strategic buyers forces investors to use mainly self-liquidating instruments.

ENEF was formally incorporated under Luxembourgish Law on 14th of February 2014 with EIF (Acting as a trustee of the EC and committing own funds), DEG and EBRD

subscribing a total of EUR 38.5 million towards the end of February. The formal first closing of the Fund and launch of activity is expected to take place within Q2/2014.

14.3. Enterprise Innovation Fund (ENIF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)
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A - Description

Programme summary

Policy DG in charge:	DG ELARG
Implementing DG in charge:	DG ELARG
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 21.2 million
Current Overall Budget:	EUR 21.2 million

(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) thereof¹⁷⁰

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)¹⁷¹

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 action¹⁷²

(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 expansion stage capital in innovative SMEs. Under the instrument, equity and quasi-equity investment can be used.

¹⁷⁰ (OJ L 210/82, 31.7.2006)

¹⁷¹ (OJ L 77, 15.3.2014, p. 11)

¹⁷² (OJ L 77, 15.3.2014, p. 95)

The instrument will start in 2014. Following an investment period of maximum 5 years, its portfolio will be wound up in a subsequent period of maximum 5 years (up to 2023). The geographical coverage will be the Western Balkans in line with the Common Implementing Regulation.

(c) The financial institutions involved in implementation

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 EIB Group, including the EIF. The instrument will be implemented under indirect management, with the implementation tasks entrusted to the EIF:

- EIF – acting as a trustee on behalf of DG ELARG’s contribution and investor in ENIF
- EBRD – Investor in ENIF
- KfW – Investor in ENIF

B - Implementation

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

Aggregate budgetary commitments as at 31/12/2013	EUR 21,200,000
Aggregate budgetary payments as at 31/12/2013	EUR 21,200,000

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

ENIF is expected to be incorporated in mid-2014 thus; no performance information for 2013 is available.

(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

EUR 21,200,000

(h) Revenues and repayments

Not applicable

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

Not yet available ¹⁷³.

(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, implying the leverage factor of 2.

C - 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 the Western Balkans, venture capital is either absent or its availability is very limited. The Market Assessment prepared by EIF and Ventureexchange 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 appr. EUR 20 million 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 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.

¹⁷³ The financial envelope envisaged for the instrument amounts to EUR 21.2 million (of which 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 the equity part) that was committed and paid out to the EIF in its function as a trustee.

As at 31.12.2013, the amount is considered as cash equivalent (fiduciary account) on the Balance Sheet of DG ELARG and not yet financial instrument and it is expected that the instrument will start in 2014.

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 initially an investment portfolio comprising a group of appr. 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.

Funds must be committed by all stakeholders at outset and it 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 took place and an appropriate manager was selected by the European Investment Fund in 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.

D - Other key points and issues

- Issues relevant for further 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 WB 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 WB Region with a view of designing and implementing a dedicated facility in the future.

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 WB 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.

Based on the above, any instruments to be designed should ensure the participation of an anchor investor (ideally International Finance Institution) which acts as a catalyst of other private capital by ensuring expertise and implementation of best industry practice; Without these components it could be presumed that catalysing private capital and achieving high leverage effect will be limited.

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 WB 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 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 difficulties of co-investing stemming lack of sufficient and sizeable follow-on venture capital investors in the region.

- Operational issues:

Fund Management expertise

As outlined above the expertise in the venture capital industry 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) it shall be sought to be responsible with the lay-out and implementation of best of industry practices in fund management and selection of the right combination of experts and skillsets for management of such instruments.

In the case of ENIF, the EIF has been appointed as to select appropriate fund manager and provide support in setting up the fund.

Recipients as investors in the fund

ENIF was initially structured so that each of the recipients will make financial contribution in ENIF corresponding to its GDP. Following internal developments in some recipients in 2014, namely Croatia, Montenegro and Bosnia & Herzegovina, it has become unclear whether the said could be able to respect its commitments to ENIF and become investors in the Fund at its first closing.

Additionally, this could have a side-effect by decreasing the envisaged fund size and potentially triggering domino effect with respect to contributions to ENIF by the remaining recipients. It appears however that these risks have already been largely mitigated in course of the first half of 2014.

- Following the appointment of a Fund Manager of ENIF, the EIF will lead the commercial and legal negotiation process to be finalised with the incorporation and first closing of the fund, expected in mid-2014.

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 WB 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.

E - Summary

ENIF will focus on investing in the WB technology companies with high growth potential:

- ✓ Stage focus: ENIF will invest in companies from seed and early stage to later stage across a spectrum from pre-revenue and very early revenue through companies with established revenues and close to profitability. ENIF shall aim to invest about 30% of the Fund in SMEs with tickets ranging EUR 0.5 to 1 million, however without limiting the possibility for follow-on investments as well as the overall profit-oriented character of ENIF.
- ✓ Sector focus: 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 WB Region.
- ✓ Geographical focus: ENIF will focus on the Western Balkans countries: Albania, Bosnia & Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia and Croatia (all qualifying for EU or Accession Countries). All of the Fund's investments will be in SMEs.¹⁷⁴

¹⁷⁴ in line with the EU SME definition (Commission Recommendation, 6 May2003, C(2003/1422), OJ L124/36, 20.05.2003)

- ✓ Capital Deployment: At target size, the ENIF Manager expects to build a diversified portfolio of around 20-25 companies from the entire WB geography. The average investment per company should be in the range of EUR 1 to 1.5 million (provided in several tranches), targeting a stake at entry of ca. 30%.
- ✓ Seed Pocket: EIF has proposed and the ENIF Manager has agreed to dedicate an amount of EUR 1.5 million within ENIF to be invested exclusively in 25-30 companies in pre-seed and seed companies across the entire WB 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.

The generalist approach of the ENIF Manager in terms of stage and sectors is in line with the WB 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.

Following the appointment of the Fund Manager in early 2014, EIF will concentrate on completing the commercial and legal negotiations whilst supporting the Fund Manager in selecting the most suitable legal jurisdiction where to incorporate the Fund.

At the same time, ELARG and EIF will liaise actively with each of the recipient countries in order to ensure the financial contributions are committed by recipients in a smooth and streamlined way.

14.4. European Fund for Southeast Europe (EFSE)

A - Description

Programme summary

Policy DG in charge:	DG ELARG
Implementing DG in charge:	DG ELARG
Implementing Body in charge:	EIF (as trustee for the Commission)
Initial Overall Budget Envelope:	EUR 47.0 million
Current Overall Budget:	EUR 83.9 million

(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)¹⁷⁵

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)¹⁷⁶

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 action¹⁷⁷

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

The European Fund for Southeast Europe (EFSE) is a form of public-private-partnership. 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. EIF acts as trustee for the DG Enlargement assets, generating impacts at three different levels:

- supporting micro and small enterprises as the backbone of the local economies, and thereby contributing to generating income and creating employment,
- satisfying the basic need of decent shelter,
- strengthening local financial markets.

Duration is foreseen until 2015 – 2017; an extension in time is under consideration.

The total NAV of ELARG C Shares as of December 2013 amounts to EUR 110.9 million as of 31 December 2013, made up of:

- EUR 53.9 million Bosnia C-Shares
- EUR 13.7 million Kosovo C-Shares
- EUR 3.0 million Montenegro C-Shares
- EUR 5.6 million Serbia C-Shares
- EUR 33.3 million Western Balkans C-Shares
- EUR 1.4 million Supra-regional C-Shares.

The total investment in the SEE region is in the order of EUR 580 million.

¹⁷⁵ (OJ L 210/82, 31.7.2006)

¹⁷⁶ (OJ L 77/11, 15.3.2014)

¹⁷⁷ (OJ L 77/95, 15.3.2014)

(c) The financial institutions involved in implementation

The European Fund for Southeast Europe provides sustainable funding to carefully selected, highly respected financial institutions in the region of Southeast Europe (by 31 December 2013 52 in the Fund's Southeast Europe region), including the European Eastern Neighbourhood Region for on-lending to micro and small enterprises and low-income private households with limited access to financial services. EFSE's partner lending institutions include commercial banks, microfinance banks, microcredit organisations, and non-bank financial institutions.

All EFSE partner-lending institutions fulfil the Fund's eligibility criteria. These are based on financial strength, creditworthiness, compliance with EFSE's business ethics, and the entity's corporate governance. The Fund also requires that the institutions lend the granted funds exclusively to the Fund's target group.

B - Implementation of the financial instrument

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

Aggregate budgetary commitments as at 31/12/2013 EUR 26,234,995

Aggregate budgetary payments as at 31/12/2013 EUR 26,029,558

Additional information:

The whole budget of the instrument amounts to EUR 83.9 million of which EUR 26.2 million were directly contracted (EIF as Trustee, including trusteeship fees), financial assets worth EUR 47.0 million were transferred from revolving funds in 2006 and EUR 11.4 million were cash transfers from other funds.

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

Key figures:

EFSE portfolio as of Q4/2013:	
- covering Southeast Europe (SEE): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Romania, Serbia, Turkey) and the European Neighbourhood Region (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine	
1. Total Invested Portfolio	EUR 826.2m of which EUR 579.8m in SEE
3. % Share of Senior Loans	81.1%
2. Number of current Partner Lending Institutions	71
4. Type of Partner Lending Institution	70% Commercial Banks, 22% Microfinance Institutions

5. Reached End Borrowers since inception	472,490
5. Average sub loan outstanding	EUR 5,778
5. Disbursed sub loans since inception	EUR 3.3 billion

(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 available

(h) Revenues and repayments

Not available

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

As at 31/12/2013, the market value of the total Commission shareholding amounted to EUR 110,861,329.42.

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

Not available

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

The amount of EUR 83.9 million as of 31 December 2013 has leveraged a total investment of EUR 580 million, implying the leverage factor of 7.

C - 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

EFSE was subject for Result Oriented Monitoring (ROM) in 2012. Their performance was considered very good in all aspects.

D - Other key points and issues

- At present the EFSE project is well up and running under stable conditions. To make the fund more robust there have been (following relevant regulations, in particular IPA) shifts from National allocations to further Regional allocations.
- There are very limited internal risks in the project. It should however be noted that the C-shares are by definition the first to absorb potential losses. Non-performing loans (NPL) have been limited, as well they are continuously followed by the fund managers.

- The instrument is at present in IPA 2014-2020 Programming phase. The EIF has indicated further needs mainly in the Neighbourhood Region.

E - Summary

EFSE is a public-private-partnership, attracting private capital and thereby leveraging public donor funds. EFSE extends loans to local commercial banks, micro-finance institutions and other non-bank financial institutions in the Western Balkans, Turkey, and Eastern Neighbourhood for on lending to micro and small enterprises and households.

The EIF acts as a trustee for DG Enlargement. The fund has performed well despite the overall financial situation. ROM and monitoring "in situ" gives at hand that the fund has a very high penetration down to the end borrowers, concluding in an AAAAA qualification. NPLs are limited and frequently monitored.

In 2010, the Group of 20 (G-20) selected EFSE as the best worldwide model of catalysing finance for small and medium enterprises (SME) through the online competition "G-20 SME Finance Challenge."

14.5. Green for Growth Fund (GGF)

A - Description

Programme summary

Policy DG in charge:	DG ELARG
Implementing DG in charge:	DG ELARG
Implementing Body in charge:	EIF (as Trustee of the Commission)
Initial Overall Budget Envelope:	EUR 19.6 million
Current Overall Budget:	EUR 38.6 million

(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)¹⁷⁸

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)¹⁷⁹

¹⁷⁸ (OJ L 210/82, 31.7.2006)

¹⁷⁹ (OJ L 77, 15.3.2014, p. 11)

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 action¹⁸⁰
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 Commission. The Fund provides dedicated financing for energy efficiency and renewable energy projects to help the target countries reduce CO2 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 recipients, 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 EU's 20/20/20 energy targets. The activities of GGF are complemented by a Technical Assistance Facility.

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. to supporting 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 the South-East Europe region predominantly through the provision of dedicated financing to businesses and households via partnering with financial institutions and direct finance.

The instrument provides financing to 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. The geographical coverage will be the Western Balkans and Turkey in line with the Common Implementing Regulation.

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.

¹⁸⁰ (OJ L 77, 15.3.2014, p. 95)

The Commission implements the instrument under indirect management; under indirect management, the Commission may entrust implementation tasks to the following multilateral Development Financial Institution: European Investment Fund (EIF).

The instrument started in December 2009. Following an investment period of maximum 6 years, its portfolio will be wound up in a period of maximum 10 years (with the duration until 2025).

(c) The financial institutions involved in implementation

The main investors in the Fund, besides the EC (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), German Federal Ministry for Economic Cooperation and Development (BMZ) (with KfW as Trustee), and the Netherlands Development Finance Company (FMO).

B - Implementation

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

Aggregate budgetary commitments as at 31/12/2013	EUR 19,581,014
Aggregate budgetary payments as at 31/12/2013	EUR 19,581,014

Additional information:

The whole financial envelope of the instrument amounts to EUR 38.6 million that was committed and paid out (of which EUR 5.0 million are for technical assistance, EUR 19.6 million were directly contracted and paid by DG ELARG under centralised indirect management contract and EUR 14.0 million was the contribution made by KfW on DG ELARG behalf).

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

As at end June 2013, EUR 129.4 million were disbursed to financial intermediaries through senior loans and one subordinated loan. In addition, EUR 58.4 million of investments were approved and should be disbursed in 2013 and 2014.

Furthermore, EUR 45 million of these investments were delayed through the approval and resulting negotiation process which has led to reduced income returns vis-à-vis business plan projections.

Despite these delays, 105% of the Fund's committed capital has already been disbursed, committed or approved for investments in Partner Institutions. Taking into account schedules repayments and pending new investments in the Fund itself, the GGF has a sufficient capital to meet these obligations.

During Q2 2013, EUR 1.9 million was disbursed in the European Neighbourhood Region while EUR 3.6 million were repaid from the Southeast Europe Region.

The GGF investment portfolio outstanding exposure has slightly decreased by 1% to EUR 129.4 million in Q2 2013, compared to the previous quarter as investments experienced

delays in approval and closing. The number of active Partner Institutions (PIs) is unchanged at 14.

(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

Not applicable

(h) Revenues and repayments

Not applicable

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

As at 31/12/2013, the market value of this envelope amounts to EUR 39.2 million.¹⁸¹

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

Not available

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

The financial envelope of EUR 38.6 million shall leverage a total investment of EUR 200 million, implying the leverage factor of 5.

C - 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

¹⁸¹ The financial envelope of the instrument amounts to EUR 38.6 million that was committed and paid out (of which EUR 5.0 million are for technical assistance, EUR 19.6 million were directly contracted and paid by DG ELARG under centralised indirect management contract and EUR 14.0 million was the contribution made by KfW on DG ELARG behalf).

SUB-LOAN PORTFOLIO AS OF 30 JUNE 2013

		Amounts in Euro million			
Sub-loan portfolio		outstanding		disbursements Q2 2013	
	Partner Institution	Number	Amount	Number	Amount
Albania	BKT	-	-	-	-
Armenia	Inecobank	130	121,678	104	207,047
Armenia	Araratbank	9	484,433	9	518,628
Bosnia and Herzegovina	NLB Razvojna Banka	74	1,072,632	67	542,269
Bosnia and Herzegovina	Partner	216	416,480	158	336,855
Bosnia and Herzegovina	UniCredit Bank BA	11	586,591	8	449,050
Croatia	Privredna Banka Zagreb	-	-	-	-
FYR Macedonia	Halkbank	1,001	3,654,574	134	747,738
Serbia	Cacanska Banka	617	4,275,761	64	204,540
Serbia	Komercijalna Banka	225	15,723,770	135	3,483,110
Serbia	Banca Intesa RS	1,981	5,091,645	79	204,421
Turkey	Şekerbank	942	7,620,050	230	4,131,934
Turkey	Yapi Kredi Leasing	176	17,123,972	7	1,997,656
Ukraine	Megabank	5	776,055	5	814,507
Total		5,387	56,947,641	1,000	13,637,755

Source: FIM Management Information System (MIS)

The following table details the sub-loan portfolio monitoring performed by the Fund Advisor. The sub-loan monitoring, based on data received by the Partner Institutions, includes primarily information on sub-loans disbursed and outstanding, sub-loans by economic sector, region, and currency, and environmental impact data such as energy saving measures.

EXPOSURE TO PIS AND INTERNAL RATING AS OF 30 JUNE 2013

		Amounts in Euro million		
Target Partner	Partner Institution	Internal Rating Q1 2013	Internal Rating Q2 2013	Exposure
Albania	BKT	C+	C+	10.0
Bosnia and Herzegovina	NLB Razvojna Banka	B	B	3.8
Bosnia and Herzegovina	Partner	B-	B-	1.2
Bosnia and Herzegovina	UniCredit Bank BA	C+	C+	5.0
Croatia	Privredna Banka Zagreb	B+	B+	12.5
FYR Macedonia	Halkbank	B	B	4.6
Serbia	Banca Intesa RS	B+	B+	7.0
Serbia	Čačanska Banka	C+	C+	5.0
Serbia	Komercijalna Banka	B+	B+	23.0
Turkey	Şekerbank	B-	B-	18.2
Turkey	Yapi Kredi Leasing	B+	B+	20.0
Total SEE				110.2
Armenia	Inecobank	B-	B-	7.7
Armenia	Araratbank	B	B	3.8
Ukraine	Megabank	C	C	7.7
Total ENR				19.2
Total Fund				129.4

Source: FIM Management Information System (MIS)

The column on internal rating above follows the Fund Advisor's standard operating procedures, as presented to the Board, which include risk rating and monitoring activities.

Internal ratings are the result of the Fund Advisor's quarterly rating process, in which the risk management and investment management divisions meet to discuss each Partner Institution's most recent results, trends in each country, etc. to assess if there has been any change in the rating since the Investment Proposal was approved.

Compliance Monitoring

The Issue Document regulates GGF's risk diversification by placing limits on the exposure to individual Partner Institutions. These diversification ratios are taken 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 2012, GGF is in compliance with all PI limits.

Asset Impairment

No asset impairment was recorded in Q2 2013.

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.

Through the end of Q2 2012, measures financed through GGF funding have produced annualised energy savings of 639, 941 MWh/year and annualised CO2 reduction of more than 158,884 tonnes. On average, these measures are 43% more efficient in terms of energy consumption and emissions. 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 2013

Measure	PI Type	Cumulative disbursement amount (EUR)	CO2 reduction (tCO2)	CO2 reduction (%)	Energy Savings (MWh/yr)	Energy Savings (%)
Use of Renewable Energy Sources in SMEs and households	FI	4,835,013	8,911	97%	36,115	98%
Building Envelope Improvements	FI	33,572,832	51,531	60%	227,278	60%
Heat supply system	FI	4,893,803	41,262	75%	141,507	62%
Heat Distribution Improvements	FI	110,800	400	35%	1,249	35%
Process Related Equipment	FI	36,837,755	48,662	27%	182,827	30%
Energy services and supply businesses	FI	1,805,576	-	0%	-	0%
Lighting	FI	59,200	15	45%	47	45%
Motors and Drives	FI	8,666	6	22%	22	22%
District Heating Systems (DH)	FI	2,894	0	80%	10	50%
Others	FI	1,861,977	8,098	14%	50,887	21%
Total		83,988,516	158,884	41%	639,941	43%

Source: FIM Management Information System (MIS)

D - Other key points and issues

- Three main issues:
 - 1) Change to the remuneration system – EIF (and Finance in Motion) are to present to ELARG and DEVCO options for attracting private investors via decreased revenues and increased exposures to risk for the Commission. The option chosen might be used by other similar programs.
 - 2) Croatia exit – Croatia is no longer an accession country, but a full member state of the EU since July 2013. Hence, the Croatian share of the Commission contribution will be transferred to the country. The mechanics of how the transfer would be done may be used for the following exits once the other accession countries (countries of operation) join the Union.
 - 3) Operations in Kosovo and Montenegro – the GGF is presently not investing in these two countries. However, the Commission is interested in overall balanced geographical distribution, and in particular to Kosovo. In this context, DG ELARG is waiting for clarifications from EIF (and Finance in Motion).
- None detected on part of the Trustee and the Fund. However, the Financial Regulation has reporting requirements that are beyond either the date or the scope as agreed in the contracts signed between the Commission and the IFIs. This discrepancy would need to be addressed appropriately.
- The perspective of the sustainable development of GGF is positive, but its full adoption depends on the pace of development and the quality of energy efficiency (EE) / renewable energies (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 Bosnia 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, Bosnia, 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 Union contribution to the Fund, (to support the beneficiary countries in the stabilisation of financial markets and economies in the WB 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, 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 for 2013 are made accessible to 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.

However, it is expected that they should be more proactive in the future in taking advantage of funds such as the GGF to achieve common goals such 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 larger and better off neighbouring 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.

E - Summary

The Overall Objective of the Green for Growth Fund (GGF or "the Fund") is to foster economic development and prosperity in South East Europe by providing additional development finance for Energy Efficiency (EE) and Renewable Energy (RE) projects to broaden the financial base for these kinds of investments.

The specific objective is to attract private sector capital to the Fund and thereby leverage investments into the region for the development of the EE and RE projects. The Fund aims at achieving 20% energy savings and/or 20% CO₂ savings across the energy efficiency portfolio and promoting the use of renewable energy sources.

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.

During 2012, the GGF investment portfolio grew significantly by 130% compared to 2011 values. The portfolio of loans reached 131 million EUR outstanding with no impairments to date, which is an indication of high effectiveness.

14.6. SME Recovery Support Loan for Turkey (RSL)

A - Description

Programme summary

Policy DG in charge:	DG ELARG
Implementing DG in charge:	DG ELARG
Implementing Body in charge:	EIB (EUR 120 million)
Initial Overall Budget Envelope:	EUR 30.0 million
Current Overall Budget:	EUR 30.0 million

(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)¹⁸²

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)¹⁸³

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 action¹⁸⁴

Crisis Response Package, IPA 2009/021-373

(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

¹⁸² (OJ L 21/82, 31.7.2006)

¹⁸³ (OJ L 77, 15.3.2014, p. 11)

¹⁸⁴ (OJ L 77, 15.3.2014, p. 95)

the context of the Action, the European Investment Bank (EIB) shall extend loans from its own resources together with the Union Contribution loans.

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 5.0 million and a minimum amount of EUR 200,000 and with a minimum maturity of 4 years.

(c) The financial institutions involved in implementation

- Halkbank: Their share of the Facility (EUR 74.82 million) is fully allocated to 148 SMEs 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 to 89 SMEs 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.

B - Implementation

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

Aggregate budgetary commitments as at 31/12/2013	EUR 30,000,000
Aggregate budgetary payments as at 31/12/2013	EUR 30,000,000

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

Although there were no set indicators to measure the RSL expected outcomes (job creation /maintenance and growth for the beneficiary SMEs) there was an EIB requirement that the SMEs report, at application stage, the expected number of jobs to be created following the implementation of the RSL supported projects.

Accordingly, the 265 loans allocated initially were expected to create 4,881 new jobs, which represent an increase by 42% of the number of existing jobs in the beneficiary SMEs. The average sub-project value is EUR 1.53 million, the average sub-loan size (EIB loans + loans from other FI resources) is EUR 0.67 million, and the average individual EIB sub-loan is EUR 0.56 million. The average loan maturity period is 4.4 years, slightly higher than the minimum tenure of 4 years imposed. (See also under c)).

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

The project is still up and running with all money fully allocated.

(g) The balance of the fiduciary account

EUR 58,400

(h) Revenues and repayments

Not applicable

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

The Commission's financial commitment of the instrument amounts to EUR 30.0 million (of which EUR 360,000 are for management fees). It is a joint management action with the European Investment Bank (EIB) who contributes with EUR 120.0 million. The action will end in December 2016. The whole duration of the recovery support will extend probably to 2026.

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

Not applicable

Additional information:

The B/S value of the instrument as at 31/12/2013 is EUR 16,529,065

	Cumulative	2013'
Initial Capital	29,630,000	
Exchange losses	- 8,761,531	- 5,364,431
Interest received	5,108,175	2,976,062
Actuarial adjustment	- 9,447,578	
Current value	16,529,066	

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

The amount of EUR 30.0 million as of December 2013 has leveraged a total investment of approximately EUR 150 million, implying the leverage factor of 5.

C - 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 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 log frame or indicators of achievement set for the facility. The only measurable targets set were the

number of FIs 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 FIs 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.

D - Other key points and issues

- No further engagement planned under IPA II.
- Well managed project. Risks are only subject to market conditions.
- No further engagement planned under IPA II.

E - Summary

The SME Recovery Support Loan Facility for Turkey (RSL) is a joint European Union (EU) /European Investment Bank (EIB) action consisting of blending EUR 120 million EIB loan funds allocated with EUR 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 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.

15. Financial Instruments in Neighbourhood and Countries covered by the DCI

15.1. Neighbourhood Investment Facility (NIF)

A - Description

Programme summary

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Implementing Body in charge:	Eligible Finance Institutions
Initial Overall Budget Envelope:	EUR 50 million

Current Overall Budget:	EUR 789.42 million*
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* including EUR 12 million stemming from the regional programme in the Neighbourhood for Sustainable Urban Demonstration Projects of which part is implemented through NIF

The breakdown of the Current Overall Budget is as follows:

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	12				12
TOTAL	757	299	458	23.2	9.2	789.4

(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 Instrument¹⁸⁵

Regulation (EU) N° 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument¹⁸⁶

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 action¹⁸⁷

¹⁸⁵ (OJ L 310/1, 9.11.2006)

¹⁸⁶ (OJ L 77, 14.03.2014)

One of the priorities of the European Neighbourhood and Partnership Instrument (ENPI) is promoting investment projects in European Neighbourhood Policy Partner Countries, the scope of which covers the Neighbourhood Investment Facility (NIF).

The EU launched the NIF in 2007. The following eight Commission Decisions have been adopted for this instrument during the period 2007-2013 for a total envelope of EUR 745 million (EUR 458 million from ENPI South budget line and EUR 287 million from ENPI East budget line): C(2007) 6280, C(2008) 2698, C(2009) 3951, C(2009) 8985, C(2010) 4400, C(2010) 7989, C(2011) 5547, C(2012) 4533, C (2013) 1276.

In addition, a top-up was decided in December 2012 from ENPI Decision (2012) 4533 and in November 2013 from ENPI Decision (2013) 1276, amounting to EUR 12.7 million and EUR 10.5 million respectively from the East budget line. For the South budget line, ENPI Decision (2012) 4533 was also topped up for an amount of EUR 9.2 million.

Moreover, Decision C(2013) 5300 on the Regional Programme in the Neighbourhood for Sustainable Urban Demonstration Projects (SUDeP) established that under the ENP East component, part of the action with the objective of setting up a Municipal Finance Facility will be implemented through the NIF procedures and through indirect management. The amount earmarked under this action for NIF was EUR 12 million.

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.

An endowment with EUR 17.3 million was adopted by the Commission in 2011 [C (2011)9538], to be shared with the Latin America Investment Facility (LAIF). Finally, this endowment was integrally used for two projects under the Latin America Investment Facility (LAIF).

(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

¹⁸⁷ (OJ L 77, 15.3.2014, p. 95)

can 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 energy and transport infrastructure interconnections between the EU and neighbouring countries and among neighbouring countries themselves,
- addressing threats to our common environment including climate change,
- promoting smart, sustainable and inclusive growth, in particular through support for small and medium size enterprises.

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. 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 finance institutions may be direct partners and important stakeholders of the facility. They will be the only ones eligible as lead partners to propose lending operations that could benefit from a NIF support.

Main technical characteristics

The NIF finance 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.

Duration and impact on the budget

The decisions relating to this instrument are valid for the Multiannual Financial Framework (2007-2013) and may be extended further following decisions on the Multiannual Financial Framework for the period 2014-2020.

The final date for contracting (for both regions) is 15 March 2016 relating to decisions from 2013. 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 and is not limited .

The budgetary breakdown of EUR 789.42 million between the two Neighbourhood sub-regions is as follows:

CRIS reference	Cumulated amount of global commitment (maximum envelope 2007-December 2013)	Budget line
Neighbourhood South		
ENPI/2007/019548	158,000,000	19 08 01 01
ENPI/2011/023086	309,220,334	19 08 01 01
Total	467,220,334	
Neighbourhood East		
ENPI/2007/019549	137,000,000	19 08 01 03
ENPI/2011/023087	173,200,000	19 08 01 03
Sub-total	310,200,000	
ENPI/2013/024746 (SUDeP, cf. note under "Current Overall Budget")	12,000,000	19 08 01 03
Total	322,200,000	

Added value

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.

The following requirements will contribute to achieve the expected results. In particular, operations financed by the NIF shall:

- ✓ concern the objectives and the sectors identified in the Strategic Orientations;
- ✓ contribute to the *implementation of the ENP Action Plans* or related thematic policy priorities;¹⁸⁸

¹⁸⁸ Note: Except when a decision is taken to implement operations in a non ODA eligible country.

- ✓ be *complementary* to corresponding regional, national and local strategy and measures, and help advance key co-operation initiatives identified in the context of other multilateral processes in the region;
- ✓ be fully *consistent with EU principles* in particular concerning the Environment, Public Procurement and State Aid;
- ✓ be *ODA eligible and foster sustainable and inclusive growth as well as sustainable development*;
- ✓ demonstrate that they contribute positively to the country's overall development;
- ✓ avoid replacing private financing or introducing distortions to the financial market (*additionality*);
- ✓ help leverage loans (*leverage*);
- ✓ not duplicate or overlap with FEMIP operations; be technically and financially sound (*value for money*);
- ✓ provide a clear reason for the need of the NIF grant as well as a justification for the size and the use of the NIF contribution requested (*value-added*).

(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 Financing Institution, which is also entrusted with the residual tasks of ex ante or ex post controls. Payments may be executed by the partner country under the control by the Lead Finance Institution or by the Lead Finance Institution. In this particular case, the Commission signs a Financing Agreement with the recipient country and an Implementation Agreement with the Lead Finance Institution.

Support provided from the NIF, the ‘lead Financial Institution’ implements the project under indirect management and 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)¹⁸⁹.

B - Implementation

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

Aggregate Budgetary Commitments as at 31/12/2013	EUR 777,420,000
As well as SUDeP (2013 Commitments)	EUR 12,000,000
Aggregate Budgetary Payments as at 31/12/2013	EUR 422,460,000

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

The three strategic objectives of the NIF mentioned in section (a) are further specified below:

- **Objective 1: Establishing better energy and transport infrastructure interconnections between the EU and neighbouring countries and among neighbouring countries themselves**

Getting the neighbourhood better “inter-connected” is the first objective of the NIF. This means primarily investing in infrastructure to facilitate the movement of people and goods and promote economic and social development. To that effect the European Union has launched several sectorial initiatives encompassing neighbouring countries.

An efficient **Transport** infrastructure network able to ensure interconnection and interoperability with EU networks is vital for the development of the free trade area encompassing the EU and its neighbours. The Commission Communication on the extension of the major TEN-T axes to the neighbouring countries, adopted in January 2007, promotes a strategic vision towards a connection with the neighbouring countries.

Concerning **Energy**, ENP and its neighbours face common energy challenges and their networks and supply systems are increasingly interconnected and interdependent. ENP partners play a key role in the EU's energy security both as producers and transit countries. It is in the EU strategic interest that its energy policy goals concerning a secure, sustainable and low-carbon energy system are shared and pursued by a large number of neighbours.

- **Objective 2: Addressing threats to our common environment including climate change**

Addressing threats to our "common" **Environment** is the second important objective of the NIF. The confirmed focus on Climate change objectives stemming from the Europe 2020 strategy, as well as the proposed establishment of a specific EIB "Climate Change mandate," which should result in additional loan opportunities for climate change

¹⁸⁹ 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.

mitigation and adaptation in the ENP region until 2013, makes action in this sector even more important.

Environmental challenge across the ENP region, such as in the fields of climate change, air, water, waste and industrial pollution, are significant and a shared concern affecting public health and long-term sustainable development. Environmental degradation slows down economic growth or can substantially reduce it. Enhancing environment protection brings benefits to society at large across the neighbourhood area and within the EU.

Funding should support some of the priority environment investments, which are often neglected by the private sector. This is particularly true in areas such as water and waste management and reduction of air, water and soil pollution.

- Objective 3: Promoting smart, sustainable and inclusive growth, in particular through the support for small and medium size enterprises.

Promoting **smart, sustainable and inclusive growth** is a third objective of the NIF. In order to promote prosperity in neighboring countries poverty needs to be tackled. This requires supporting the development of the private sector, and specifically the development of SMEs, as these have an enormous employment generation potential. Job creation as such will function as a catalyst for further socio-economic development, benefiting not only those directly employed but also the wider communities of the recipient partner countries. Sustainable interventions in favour of SMEs should be based on an integrated approach which includes finance, tailored infrastructures and clustering of SMEs.

Moreover, social sectors (Health and Education) are essential instruments to improve people's living conditions. They are also a precondition to **inclusive growth**.

As a general rule, however, funding for the social sectors (Health and Education) should be provided under the ENPI national programs rather than through the NIF. The participation by the eligible European Finance Institutions in these sectors will be particularly valuable.

In 2013, the Operational Board of NIF approved contributions to 17 projects totalling EUR 163.5 million. The total investment cost of these projects reached more than EUR 2.4 billion (estimated leverage: 14.6), mobilising EUR 1.5 billion from eligible European Finance Institutions.¹⁹⁰

A Mid-Term Evaluation (MTE) of the NIF under the European Neighbourhood and Partnership Instrument (ENPI) 2007-2013¹⁹¹ was finalised in May 2013. It focussed on the analysis of the mechanism and its procedures since its inception until the end of

¹⁹⁰ Information source: Secretariat of the blending mechanisms, European Commission, DEVCO-EuropeAid, as of end of 2013.

¹⁹¹ 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).

2011. The evaluation was carried out based on the following OECD/DAC evaluation criteria: relevance, effectiveness, efficiency, impact, and sustainability.

The MTE stated that NIF has proven to be an effective instrument within the European Neighbourhood Policy and highlights that 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 Finance Institutions.”

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

Applicable starting from 2015

(g) The balance of the fiduciary account

No separate fiduciary account is established for NIF. As indicated in the ENPI Inter-Regional Programme Revised Strategy Paper 2007-2013, the Commission has earmarked a total amount of EUR 700 million for the NIF (by the end of 2013 a total of circa EUR 789 million was earmarked).

(h) Revenues and repayments

Reflows in 2013: 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

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

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

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

Not available

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

In 2013, Commission Implementing Decision (C(2013) 1276) has been adopted on 11 March 2013 for a contribution of EUR 200 million.

To estimate the budgetary impact in 2013, based on the EUR 163.5 million NIF contributions approved during 2013, the total volume of investments mobilised resulted in investments over EUR 2.4 billion that were mobilized by the facility, from which EUR 1.5 billion from participating Finance Institution alone. Therefore for each euro contributed by NIF, more than 14 will be invested, 9 of them from eligible Finance Institutions.

The NIF leverage for the period 2008-2013 is estimated as follows: Total project cost (circ. EUR 20.8 billion) / NIF contributions (789 million): 26.3

Eligible Finance Institutions ressources (circ. EUR 9.6 billion) / NIF contributions: 12.7

C - Strategic importance/relevance

(I) 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. Co-ordination with the EU Delegations, although steadily improving over the last two years, could be further improved.

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 Finance Institutions and the Commission, as well as amongst the Finance 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, together with the findings relating to the Africa Infrastructure Trust Fund, have been used, with other reports, by the Platform for Blending in External Cooperation (EUBEC). 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.

EUBEC is taking 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 Finance 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.

In 2013, the Platform focused on undertaking a review of existing blending mechanisms, a review of the technical and financial analysis of projects, defining indicators for measuring results, the further development of financial instruments, as well as the overall blending setup.

The future structure and operation of the NIF will reflect the conclusions of the policy group, which are expected to be finalised and published in 2014.

D - Other key points and issues

- 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 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.

- On the draft for the next Multiannual Indicative Programme and priorities for 2014-2020, the Neighbourhood-wide programme will finance the NIF. As indicated in the draft document, NIF may support European Financial Institutions' investments in the Neighbourhood provided these are in line with at least one of the proposed strategic orientations:
 - 1) Establishing better energy and transport interconnections (between the EU and neighbouring countries, and between the neighbouring countries themselves, or improving energy efficiency or the use of renewable energy sources)
 - 2) Support to trade facilitation and security enhancement of borders
 - 3) Addressing threats to the environment, (including climate change);
 - 4) Promoting smart, sustainable and inclusive growth (through support to small and medium sized enterprises, to social sectors and to municipal development)

Priority will be given to projects that contribute to achieving the EU policy objectives in the region, as described inter alia in the EU Council Conclusions and in the regional and bilateral strategy papers for the Neighbourhood. In the East sub-region, priorities will also take into account policy objectives set by Eastern Partnership platforms and panels, the Eastern Partnership transport network and the Energy Community.

For 2014-2020, the Commission initially proposed to earmark a total amount of some EUR 1,070 million for the NIF, which could be complemented by funds from neighbourhood regional programmes and/or bilateral programmes, as well as by direct contributions from Member States, which are kept in the NIF trust fund managed by the EIB.

EAST (indicative pipeline 2014) as of 14/03/2014

The indicative pipeline of potential projects for 2014 shows a balanced distribution of projects both geographically and in sectors.

For the East, 44% of the total requests in the 2014 pipeline are regional projects, followed for requests for Armenia (20%), Ukraine (15%), Azerbaijan (8%), Moldova (8%) and Georgia (5%).

Initial geographical distribution of 2014 projects in the East: Armenia 5, Azerbaijan 2, Georgia 3, Moldova 3, Ukraine 5, and Regional 7.

Regarding sectors covered in the pipeline, Energy projects represent 32%, followed by Water and Sanitation 25%, Private sector 20%, Transport 18%, Multisector and social sectors represent 5%.

The average size of the operations is circa EUR 8.2 million.

As of 1st January 2014, all resources available from the Union budget earmarked for the NIF under the 2013 allocation have been absorbed. An allocation of EUR12 million has been earmarked for the SUDEP project subject to a final Board decision in 2014. Projects in the pipeline to be funded under the 2014-2020 programming are subject to the availability of funds and subsequent commitment in 2014.

SOUTH (indicative pipeline 2014) as of 14/03/2014

The indicative pipeline of potential projects for 2014 shows a balanced distribution of projects both geographically and in sectors.

For the South in 2014, 35% of the total requests in the 2014 pipeline are located in Morocco (mainly Noor II and III requests), followed for requests for Egypt (34%), Tunisia (15%), Jordan (10%), Regional projects (4%) and Palestine (Palestinian Deposit Insurance Corporation, 2%).

Initial geographical distribution of 2014 projects in the South: Egypt 7, Tunisia 7, Jordan 5, Morocco 5, Regional 2, Lebanon 1, and Palestine 1.

Regarding sectors covered in the pipeline, Energy projects represent 46%, followed by Water and Sanitation 16%, Transport 13%, Private sector 8%, Environment 7%, Multisector 6%, and social sectors 4%.

The average size of the operations is approximately EUR 10.2 million.

As of 1st January 2014, only EUR 62.86 million remain available from the Union budget earmarked for the NIF from the 2013 allocation. Projects in the pipeline to be funded under the 2014-2020 programming are subject to the availability of funds and subsequent commitment in 2014.

E - Summary

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 2007-2013 approximately EUR 753 million have leveraged EUR 9.6 billion in loans from European Financial Institutions (EFIs), with total project costs estimated at EUR 20.8 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.

In 2013, the European Court of Auditors has issued three Statement of Preliminary Findings related to the regional investment facilities. These preliminary findings will form

in principle the basis of the observations, which the Court intends to present as a special report in 2014. This report aims to answer the question of whether the Commission contributions to the facilities have been blended in an effective manner with third party loans. Together with the conclusions of the EUBEC policy group, they will contribute to shaping the future structure and operation of the NIF, together with the other existing facilities.

15.2. Investment Facility for Central Asia (IFCA) & Asian Investment Facility (AIF)
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A - Description

Programme summary

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Implementing Body in charge:	Eligible Finance Institutions
Initial Overall Budget Envelope:	EUR 50 million
Current Overall Budget:	EUR 145.56 million

(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 cooperation¹⁹²

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 2014-2020¹⁹³

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 action¹⁹⁴

Based on the first results from the NIF (Neighbourhood Investment Facility), 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

¹⁹² (OJ L 378/41, 27.12.2006)

¹⁹³ (O J L 77, 15.3.2014, p. 44)

¹⁹⁴ (OJ L 77, 15.3.2014, p. 95)

Central Asia (IFCA) in 2010 and the Asian Investment Facility (AIF) in 2011. These two facilities have been modelled 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 environment and energy as well as in SME's and social infrastructure.

Added value

The expected results for both facilities are increased investments in the following sectors contributing to:

- 1) Better energy infrastructure,
- 2) Increased protection of the environment and better focus and control of climate changes impacts,
- 3) Creation and growth of SMEs and improvement of the employment situations,
- 4) Improved social services and infrastructures,

In addition for the AIF, expected results include a better transport infrastructure with better interconnection between Asian countries together with faster, cheaper, and safer infrastructure and faster and cheaper movement of people and goods within Asia.

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.

Eligible finance institutions might be direct recipients and important stakeholders of these two facilities.

Main technical characteristics

The types of operations to be financed are the following:

- investment co-financing in public infrastructure projects,
- loan guarantee cost financing,
- interest rate subsidy,
- technical assistance,

- risk capital operations.

Possible management modes are centralised (direct and indirect), joint and partially decentralised management.

Duration and impact on the budget

The IFCA and the AIF were established for the duration of the Financial Instrument, i.e., until 31 December 2013 and may be extended further following decisions on the next Multiannual Financial Framework.

The final date for contracting both facilities is December 2014, both related to decisions from 2013. This is not the date of duration of the facilities but the final date for contracting of the individual decisions establishing the facilities. The duration (implementation period) of individual projects is established on a case-by-case basis.

The initial budgetary breakdown was EUR 50 million between the two.

By the end of 2013, the EU decided to allocate an additional budget of EUR 30 million to the AIF, of which EUR 15 million from the Multi-Annual Indicative Programme 2011-2013 for Pakistan, and EUR 15 million from the Multi-Annual Indicative Programme 2011-2013.

Commission approval was given by the end of 2013 on a EUR 20.56 million of reinforcement, which will serve to cover eventual approvals of the IFCA Board, and the estimated fees linked

The current budgetary breakdown of EUR 145.56 million between the two regions 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/2013/024950	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

(c) The financial institutions involved in implementation

Both multilateral and national finance institutions aiming at European development are stakeholders of the Facility. They are the only ones eligible as lead partners 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) and SIMEST (Società Italiana per le Imprese all'Estero) are already eligible under the AIF and IFCA.

B - Implementation

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

Aggregate Budgetary Commitments as 31/12/2013	EUR 145,567,000
Aggregate Budgetary Payments as 31/12/2013	EUR 31,008,870

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

IFCA

Due to the specificity of the region, the European Financial Institutions (EFIs) are not equally represented in the countries of Central Asia (e.g. the EIB is present neither in Turkmenistan nor in Uzbekistan).

The Commission has therefore intensified its efforts aimed at facilitating the access of the EFIs to the above-mentioned countries.

Nevertheless, despite the fact that IFCA was launched in April 2010 and that the EFIs do not operate in all the countries of the region, the Facility has already generated a good response from the recipient countries and the financing institutions.

In 2013, the Operational Board of IFCA approved contributions to four projects totalling EUR 16 million. The total investment cost of these projects reached more than EUR 217 million, mobilising EUR 177 from eligible European Finance Institutions.

For the overall period of 2007-2013, IFCA contributions summed up EUR 64 million supporting 11 projects with a total cost of EUR 425 million. IFCA contribution helped to mobilise EUR 317 million of funding from Finance Institutions eligible to the IFCA.¹⁹⁵

¹⁹⁵ Information source: Secretariat of the blending mechanisms, European Commission, DEVCO-EuropeAid, as of end of 2013.

AIF

In 2013, the Operational Board of AIF approved contributions to 5 projects totalling EUR 21 million. The total investment cost of these projects reached more than EUR 702 million, mobilising EUR 228 million from eligible European Finance Institutions.

For the overall period of 2007-2013, AIF contributions summed up EUR 36 million supporting 8 projects with a total cost of EUR 889 million. AIF contribution helped to mobilised EUR 358 million of funding from Finance Institutions eligible to the IFCA.¹⁹⁶

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

Applicable starting from 2015

(g) The balance of the fiduciary account

Not available

(h) Revenues and repayments

Not applicable

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

Fund MIFA (Microfinance Initiative for Asia)

Equity investments in USD	31.12.2013	31.12.2012
C2 shares	6 605 836	6 610 170
C3 shares	2 650 471	2 644 070

(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 overall financial leverage effect of IFCA contributions was good (almost 6.6). EUR 64 million of IFCA contributions leveraged approximately EUR 425 million in financing from EFIs and other investors.

The overall financial leverage effect of AIF contributions was very good (almost 25). EUR 36 million of AIF contributions leveraged approximately EUR 889 million in financing from EFIs and other investors.

¹⁹⁶ *Ibidem*.

C - Strategic importance/relevance

(I) 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 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 will only be 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 will also allow 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 the IFCA could generate a considerable multiplying factor of financial non-refundable contributions. The loans provided by the Financial Institutions and grants made available by other donors will 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 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 will only be eligible for AIF funding if the sector is considered as a priority by the strategic board of the facility. The leverage effect of the AIF should generate a considerable multiplying factor of the amount of financial non-refundable contributions

provided. The input of the financing institutions increases the resources to be directed towards the Asian recipient countries.

Operations financed by financial institutions pooling their loan resources in consortia with AIF support also allows 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.

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 2009¹⁹⁷ "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. Depending on the pipeline of operations, it may be endowed in the future by additional financing.

D - Other key points and issues

- 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).

¹⁹⁷ SEC(2009) 1172

- The Financial Regulation introduces rules specific to financial instruments. These rules will be applicable from 2014 onwards.

The Financial Regulation provides an important development 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 the financial allocation to the regional investment facilities will substantially increase during the next programming period. This might also be done by channelling funding of the National Indicative Programmes through the blending mechanisms. The management of such an increase represents a significant challenge for the Commission.

- On the draft for the next Multiannual Indicative Programme and priorities for 2014-2020, in line with the Agenda for Change a higher share of EU aid through facilities for blending grants and loans is foreseen. The recently established Asia Investment Facility will thus be considerably extended to support climate change mitigation and adaptation on a wider scale across the region.

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.

The Facility will also provide better access to finance for Small and Medium Enterprises, and should include investments in the transport sector, as well as contributing to the ASEAN Connectivity Master Plan.

For AIF, the 2014 indicative pipeline of operations includes 23 projects for a total amount of EUR 3 billion with an indicative potential for AIF budget contribution of EUR 97 million. Increased involvement of Asian Development Bank and other partners in the region could expand this pipeline further. Before the first Finance Institutions Group meeting of 2014, only 22.1 million remain available from the Union budget earmarked for the facility under the 2013 allocation. Projects to be funded under the 2014-2020 programming are subject to the availability of funds and subsequent commitment in 2014.

Concerning IFCA, the 2014 indicative pipeline of operations includes 16 projects for a total amount of EUR 961 million with an indicative potential for IFCA budget contribution of EUR 107 million. Before the first Finance Institutions Group meeting of 2014, only EUR 20 million remain available from the Union budget earmarked for the Facility under the 2013 allocation.

Projects to be funded under the 2014-2020 programming are subject to the availability of funds and subsequent commitment in 2014.

Expected results:

Improved infrastructure in Asian countries, particularly in transport and energy, giving broader and fairer access to consumers and producing fewer harmful emissions, particularly of greenhouse gases.

E - Summary

In general terms the IFCA and the 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 to address the investment needs in energy efficiency, environment, water, climate change mitigation, and SME development.

15.3. Latin America Investment Facility (LAIF)

A - Description

Programme summary

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Implementing Body in charge:	Eligible Finance Institutions
Initial Overall Budget Envelope:	EUR 10.85 million*
Current Overall Budget:	EUR 179.35 million**

* Appropriations as per the Basic Act

** Plus EUR 17,3 million from the Climate Change Window

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
TOTAL	174.85	4.5

(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 cooperation¹⁹⁸

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 2014-2020¹⁹⁹

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 action²⁰⁰

Based on the first results from the 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.

The Facility was then established in 2009 through the abovementioned DCI Regulation for the period 2009-2013, with Commission contributions to be decided annually.

(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. Therefore, the LAIF pursues three interconnected and mutually reinforcing strategic objectives:

- 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).

¹⁹⁸ (OJ L 378/41, 27.12.2006)

¹⁹⁹ (O J L 77/44, 15.3.2014)

²⁰⁰ (OJ L 77/95, 15.3.2014)

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)²⁰¹ under DCI-ENV shared with the NIF, although it was finally entirely used under the LAIF.

Added value

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 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, the following criteria will be considered for giving preference to an operation:

- Supporting the EU strategy in the region, notably:
- 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;

²⁰¹ SEC/2012/30(<http://www.cc.cec/sg/vista/view/main/commissiondossier/commissionDossierDetail.jsf>)

- 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.

Geographical coverage and final recipients

The final recipients will be the Latin American countries foreseen in the DCI Regulation (CE) No 1905/2006. 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 are the following:

- ✓ investment co-financing in public infrastructure projects,
- ✓ loan guarantee cost financing,
- ✓ interest rate subsidy,
- ✓ technical assistance,
- ✓ risk capital operations.

Until 2014, possible management modes were centralised management (direct and indirect), joint management, and partially decentralised management.

Duration and impact on the budget

LAIF was established until 31 December 2013 and the budget envelope amounts to EUR 196.65 million. The Facility may be extended further following decisions on the new Multiannual Financial Framework (2014-2020).

The final date for contracting is 31/12/2014 relating to decisions from 2013. 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 and is NOT limited.

CRIS Decision reference	Cumulated amount of global commitment (maximum envelope 2007-December 2013)	Budget line
DCI-ALA/2009/21734	179 350 000	19 09 01
C(2011) 9538	17 300 000	21 04 01

(c) The financial institutions involved in implementation

Support provided from the Latin American Investment Facility, the 'lead Financial Institution' implements the project under indirect management and the Commission may entrust implementation tasks to the following Financial Institutions:

- *Multilateral European Finance Institutions*: currently, the European Investment Bank (EIB) 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), Oesterreichische Entwicklungsbank AG (OeEB), the Società Italiana per le Imprese all'Estero (SIMEST) and the Sociedade para o Financiamento do Desenvolvimento (SOFID).

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).

B - Implementation

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

Aggregate Budgetary Commitments as at 31/12/2013	EUR 179,350,000
Aggregate Budgetary Payments as at 31/12/ 2013	EUR 63,091,440

In addition:

Climate Change Window:

Aggregate Budgetary Commitments as at 31/12/2013	EUR 17,300,000
Aggregate Budgetary Payments as at 31/12/2013	EUR 15,800,000

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

The three strategic objectives referred to in section (b) are further specified below:

Objective 1: Improving interconnectivity, in particular by establishing better energy and transport infrastructure between and within the Latin American countries

The development of the interconnectivity infrastructure is a key bottom-up approach for Latin American integration and development. In particular the investment in energy and transport infrastructure, which allows geographical barriers within and between the countries in the region to be overcome, and promotes economic opportunities.

Transport is essential in order to ensure smooth movements of people, economic operators and goods within and between the countries. Fast, cheap and safe transport infrastructure must be ensured, if Latin American countries are to reap the full benefits from regional and sub-regional integrations, be them economic, political or social benefits. The importance of efficient transport becomes even more apparent in this period characterised

by globalisation. At the same time, efficient transport infrastructure is crucial within individual countries, in particular in order to reach the less developed regions and poverty pockets.

Regarding energy, the importance of security of its availability and efficiency of its exploitation has been clear for growth and sustainable development at least since the two oil shocks in the 70's, and has become even more evident during the present global economic slowdown, combined with the challenges of climate change. Additionally, as the consumption of energy is connected with economic growth, Latin America, with its strong potential growth, is predicted to have one of the highest energy consumption growths in the world equalling to some 2.8% annually. This fact, connected with the cross-cutting environmental issues, clearly indicates the need to promote energy infrastructure in region, in particular when it comes to providing energy to the less developed regions within the individual countries.

Objective 2: Increased protection of the environment and better focus and control of climate changes impacts

Despite the fact that all initiatives supported will need to take into account the cross-cutting environmental and climate change considerations, LAIF will put special emphasis on projects addressing threats to the environment, as these directly affect public safety, health and long-term sustainable development. Special consideration should be given in particular to the support of environmental investments, which are often neglected by the private sector, such as for example investments in water and waste management, air, water and soil pollution, etc.

At the same time LAIF will also look at areas of mitigation and adaptation of climate change, including projects on renewable energies, low-carbon technologies and energy efficiency investments.

Objective 3: Promoting equitable and sustainable socio-economic development through the improvement of the social services infrastructure and support for the SMEs

In order to promote sustainable socio-economic development in Latin America, the third component of LAIF will directly address the needs in the sphere of social infrastructure. The investments supported should focus in particular on health and education infrastructure, in order to improve the quality and inclusiveness of the provided services. Special attention is to be paid to the most vulnerable, and to the disadvantaged and poor regions.

Promoting sustainable socio-economic development also requires support for the development of a strong and competitive private sector, in particular the Small and Medium-Sized Enterprises.

The total Union budget of the LAIF for the period 2009-2013 is nearly EUR 197 million, as it includes EUR 129.35 million from the Union budget Regional Latin America, EUR 50 million earmarked for Nicaragua and just over EUR 17 million earmarked for the

Climate Change Window. The allocation for the Climate Change Window, initially planned to be shared with the NIF, was finally entirely used for LAIF projects.

So far, 25 projects have been approved, which represent a total LAIF contribution of EUR 189.6 million. The total amount of investments was EUR 5.5 billion, and the eligible European Finance Institutions mobilised EUR 2.3 billion. The total contribution of Financial Institutions (both European and regional) raised up to EUR 4.6 billion.²⁰²

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

Not available

(g) The balance of the fiduciary account

Loan Guarantee Instrument DG DEVCO LACFF (Loan guarantee and technical assistance components of the Latin America Carbon Finance Facility): Balance of Fiduciary Account: EUR 5.852.165.

(h) Revenues and repayments

Not available

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

Not available

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

Not available

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

The LAIF leverage for the 2010-2013 period is estimated as follows: Total project cost (EUR 5.5 billion)/LAIF contributions (EUR 190 million): 28.8

EFI's contributions (EUR 2.3 billion)/LAIF contributions: 11.9

Total FIs contributions (EUR 4.6 billion)/LAIF contributions: 24.3

C - 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

²⁰² Information source: Secretariat of the blending mechanisms, European Commission, DEVCO-EuropeAid, as of end of 2013

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 will also support 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 three-tiered governance of the instruments has been effective, although some of its aspects need strengthening.

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.

The Platform for Blending in External Cooperation (EUBEC) Platform was set up in December 2012 and covers various different EU facilities. EUBEC is taking a wide-ranging look at many aspects of the EU's blending facilities. The 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 finance institutions work together in this Platform (the European Parliament participates as an observer) on further increasing the effectiveness of blending. In 2013, the Platform focused on undertaking a review of existing blending mechanisms, a review of the technical and financial analysis of projects, defining indicators for measuring results, the further development of financial instruments, as well as the overall blending setup.

The future structure and operation of the LAIF will reflect the conclusions of the policy group, which are expected to be finalised and published in 2014. Additionally, the entry into force of the Financial Regulation in 2014 brought additional changes to the existing facilities.

Building on the success of the several regional facilities so far, it is expected that blending will be an increasingly important tool for the EU in the current Multiannual Financial Framework (2014-2020).

D - Other key points and issues

- Attention must be given to the aspects of the regional interconnectivity, as well as to the crosscutting objectives including the policy dialogue.

The co-ordination with the EU Delegations, which although steadily improving over the last two years, could be further improved. Finance Institutions should strengthen its liaison with EU delegations during early stage definition of the projects; this will allow room for the creation of synergies and avoiding duplications with projects already in place.

Connected to the previous point, further emphasis should be put in the monitoring, follow up and evaluation of projects.

The communication and visibility aspects should be reinforced. Up until now, visibility actions have been implemented and visibility clauses are included in LAIF 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 Financial Regulation introduces rules specific to financial instruments. These rules will be applicable from 2014 onwards. The Financial Regulation provides an important development 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 the financial allocation to the regional investment facilities will substantially increase during the next programming period. This might also be done by channelling funding of the National Indicative Programs through the blending mechanisms. The management of such an increase represents a significant challenge for the Commission.

- As stated on the draft for the next 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 pipeline of potential projects for 2014 shows a balanced distribution of projects both geographically and in sectors.

Ten percent of the total requests in the 2014 preliminary pipeline are regional projects. Regarding geographical distribution, projects are foreseen in Brazil (2), Chile (2), Colombia (2), Ecuador (1), Mexico (3), Nicaragua (2), El Salvador (2), Peru (1), Honduras (1) and Panama (1).

Regarding sectors covered in the preliminary pipeline, energy projects represent 53% followed by Transport 26%, Water and Sanitation 5%, Public administration 5%, Biodiversity 5%, and Social sector 5%.

The average size of the operations is circa EUR 7.6 million.

As of 1st January 2014, only EUR 2.34 million remain available from the Union budget earmarked for the LAIF under the 2013 allocation. Projects to be funded under the 2014-2020 programming are subject to the availability of funds and subsequent commitment in 2014.

E - Summary

In general terms, the Latin American Investment Facility (LAIF) has proven to be an effective instrument within the European External Policy in particular by leveraging significant financial resources. For the period 2009-13 approximately EUR 190 million of LAIF contribution have leveraged EUR 2.3 billion in loans from European Financial Institutions (EFIs) (EUR 4.6 billion if the financing coming from the regional financial

institutions is also taken into account), with total project costs estimated at EUR 5.5 billion.

In 2013, the European Court of Auditors issued three Statements of Preliminary Findings related to the regional investment facilities. These preliminary findings will form, in principle, the basis of the observations, which the Court intends to present as a special report in 2014. This report aims to answer the question of whether the Commission contributions to the facilities have been blended in an effective manner with third party loans. Together with the conclusions of the EUBEC policy group, they will contribute to shape the future structure and operation of the Latin American Investment Facility, together with the other existing facilities.

15.4. Support to the Facility for Euro-Mediterranean Investment Partnership (FEMIP)

A - Description

Programme summary

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
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*

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

The current act for the FEMIP is the European Neighbourhood and Partnership Instrument²⁰³ (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.²⁰⁴

²⁰³ 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).

²⁰⁴ (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.

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.

Technical assistance is mobilised to strengthen FEMIP operations in the Mediterranean region, with a special focus on private sector development.

Geographical coverage and final recipients

Support to FEMIP covers the nine Southern Mediterranean States.²⁰⁵ 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.

Main technical characteristics

This action with the objective of financing Risk Capital and Technical Assistance Operations will be implemented in indirect centralised management with the European Investment Bank.

The European Investment Bank is entrusted to carry out the following operations:

- risk capital operations
- technical assistance operations

Duration and impact on the budget

FEMIP is established for the duration of the Financial Framework 2007-2013. There has been an annual budgetary commitment of EUR 32 million against budget line 19 08 01 01. Therefore, the total financial envelope for 2007-2013 is EUR 224 million. The final date for signatures under the 2013 envelope is 31st December 2014.

(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. The types of Operations covered by the support to FEMIP are follows:

²⁰⁵ Note: At this stage, the support to Syria is suspended.

- Risk capital Operations;
- Technical assistance Operations.

The EIB must obtain Commission's prior agreement for each Operation that it intends to carry out.

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.

B - Implementation

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

Aggregate Budgetary Commitments as of 31/12/2013	EUR 224,000,000
Aggregated Budgetary Payments as of 31/12/2013	EUR 192,000,000

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

- ✓ EUR 27 million was allocated to 16 technical assistance operations (ongoing and completed), including regional studies, helping promoters in the day-to-day management of their projects;
- ✓ EUR 163 million was allocated to 24 risk capital operations of which approx. EUR 20 million were cancelled and returned to the Commission.

In 2013, six risk capital operations were signed for a total of EUR 28.7 million from the Union funding, marking 2013 an exceptional year in terms of new investments, especially in the microfinance sector.

On the private equity side, commitments were made in two multi-sector funds (EUR 16 million in aggregate), where the first is a regional fund specialised in investments in the mid-market segment, (which is a key driver for growth and market integration), and the second is a fund focussing on SMEs in Morocco and neighbouring countries, with a view to supporting job creation in this area.

On the microfinance side, the EIB has supported as many as four MFIs active in Tunisia, Morocco, Lebanon and Gaza/West Bank (EUR 13 million signed in aggregate), with a view to contributing to the economic development and social goals of the FEMIP Mandates.

These amounts were supplemented by co-investments using the AECID mandate (EUR 24 million), meaning that overall EUR 53 million was invested in equity and microfinance in the Region.²⁰⁶

²⁰⁶ Information source: Secretariat of the blending mechanisms, European Commission, DEVCO-EuropeAid and the EIB, as of end of 2013.

(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

ENPI RCO account in EUR as of 31/12/2013	EUR 75,301,992
ENPI RCO account in USD as of 31/12/2013	EUR 19,932,835

(h) Revenues and repayments

Up to date, EUR 3.3 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 31/12/2012	EUR 2,000,000
Value of Equity Investment as of 31/12/2012	EUR 706,221
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

Venture Capital Fund

Cost as of 31/12/2012	EUR 24,707,129
Cost as of 31/12/2013	EUR 33,444,277
Value of Venture Capital Funds as of 31-12-2013	EUR 30,834,074

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

For equity instruments: ²⁰⁷

Impairment as at 31/12/2012	EUR - 3,725,026
Impairment as at 31/12/2013	EUR - 5,994,557

Loans and receivables

Nominal loans and receivables as at 31/12/2012	EUR 3,559,912
Nominal loans and receivables as at 31/12/2013	EUR 6,358,860

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

The leverage effect for the risk capital operations as estimated by the EIB is 6.2 for the period 2007-2013 and 6.7 for 2013. 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 as estimated by the EIB is 77 for the period 2007-2013 and 31 for 2013 on the basis of total amounts committed to projects (total project investment costs), divided by amounts committed by EIB for technical assistance operations related to these investment.

²⁰⁷ With reference to financial instruments classified as 'available for sale'

The overall leverage effect as estimated by EIB is 25 for the period 2007-2013 and 14 for 2013

C - Strategic importance/relevance

(I) 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. The "Support for FEMIP" finances both technical assistance and risk capital operations.

The objective of risk capital operations is to provide capital to the private sector of the ENP South partner countries on terms that are not available locally. Risk capital will be invested directly or indirectly in order to (i) support the private sector, i.e. enable the creation, restructuring or growth of enterprises and (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.

Technical assistance is mobilised to strengthen FEMIP operations in the Mediterranean region, with a special focus on private sector development.

The European Investment Bank (EIB) has committed approximately EUR 176 million under MEDA II (2000-2006) and EUR 143 million so far 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 some 194 companies across the Mediterranean Partner Countries, which employed about 72,000 persons, of whom 28% are women. The portfolio also includes 11 investments in eight Microfinance Institutions (totalling more than 844,000 active micro-borrowers).

As regards technical assistance (TA), under the "Support to FEMIP" mandate, by end of 2013, three TA operations amounting to EUR 4.42 million were completed, 13 TA operations amounting to EUR 22.84 million were on-going, 4 TA operations amounting to EUR 6.28 million were approved and 2 TA operations amounting to EUR 8 million were initiated by the EIB services in close collaboration with project promoters.

The Union budget allocates a funding of EUR 32 million to the EIB each year since 2007. The annual budget has been consistently used, other than in 2011, when the cancellation of a substantial technical assistance programme in Syria (due to the political situation) led to approximately EUR 10 million not being used.

D - Other key points and issues

- 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.

- The transposition of the requirements relies on the Bank, which shall apply it 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.
- 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.

E - Summary

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 financial sector by supporting the creation of new institutions or the establishment of new activities for the benefit of the private sector.

With EUR 27 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. 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 Support to FEMIP has generated employment opportunities. Since 1998, it is estimated that thanks to the risk capital investments, aggregated direct jobs of 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.

15.5. Global Energy Efficiency and Renewable Energy Fund (GEEREF)

A - Description

Programme summary

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Implementing Body in charge:	EIB and EIF
Initial Overall Budget Envelope:	EUR 25 million*
Current Overall Budget:	EUR 76.1 million**

* Appropriations as per the Basic Act

** In addition, there are EUR 20 million financed under EDF

(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 cooperation²⁰⁸

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 2014-2020²⁰⁹

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 action²¹⁰

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).

²⁰⁸ (OJ L 378/41, 27.12.2006)

²⁰⁹ (O J L 77, 15.3.2014, p. 44)

²¹⁰ (OJ L 77, 15.3.2014, p. 95)

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

Decision references	Cumulated amount of global commitment (maximum envelope)	Budget line
DCI-ENV/2007/19350 plus addendums with CRIS (references No19802,23957 and 20656)	76,100,000	21 04 01
For information only: FED resources - 2012/24335	20,000,000	21 40 10 (EDF)

As mentioned before, EUR 5 million has been allocated in order to support the establishment of an integrated support facility for GEEREF (DCI-ENV/2007/19397)

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.

(c) The financial institutions involved in implementation

Structured as a Fund-of-Funds, GEEREF's strategy is to invest in – and thus help develop – Private Equity funds ("regional funds") whose investments will target small and medium sized energy efficiency and renewable energy projects. 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. These public investors (called "A shareholders") have purchased first-loss shares in the fund.

Two private investors have now committed EUR 9 million to the fund, while the EIB has also invested EUR 6 million. The EIB and the private investors (called "B Shareholders") have second-loss shares in the fund. A fundraising campaign is currently on going.

B - Implementation

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

(EDF not included)

Aggregate Budgetary Commitments as at 31/12/2013	EUR 76,100,000
Budgetary commitment for Technical Assistance as at 31/12/2013	EUR 5,000,000
Aggregate Budgetary Payments as at 31/12/2013	EUR 75,000,000

(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.

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.

Seven 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.

In December 2013, GEEREF signed a commitment to invest approximately EUR 9 million in the Visum Small Hydropower Energy Fund, a fund dedicated to small hydropower projects focused on Ukraine.

In total, GEEREF has committed to investments of approximately EUR 72 million in regional private equity funds, of which over EUR 18 million has been disbursed. These funds have subsequently invested in 18 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.²¹¹

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

Not applicable

²¹¹ Information source: Secretariat of the blending mechanisms, European Commission, DEVCO-EuropeAid in coordination with the fund adviser, as of end of 2013.

(g) The balance of the fiduciary account

Financial statement on the balance of the cash account related to the Management of a Participation of the European Community in the Global Energy Efficiency and Renewable Energy Fund ("GEEREF")²¹² as at 31/12/2013:

EUR 276,722.43 + EUR 1,917,298.55 = EUR 2,194,020.98

(h) Revenues and repayments (Art.140.6)

Not applicable

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

As at 31/12/2013, the value of the "A share" held by the Commission in GEEREF raised at: EUR 67,003,646.01 (which in fact represents 7,427 shares at a net asset value per share of EUR 9,021.63).

(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 Fund, with the total Union contribution of EUR 101.1 million,²¹³ currently maintains an active pipeline of five potential private equity fund investments which are targeting to mobilise approximately EUR 500 million in equity capital for renewable energy and energy efficiency projects in Africa, Asia, and Latin America. The implied target leverage effect is 5.

Moreover, GEEREF leverages financing from other sources at a three different levels:

1. At the Fund of Funds level, GEEREF targets a leverage rate of 2.5x - aiming to raise a total of EUR 200 million based on an original Commission contribution of EUR 81.1 million. The actual leverage achieved at this level so far is currently approximately 1.5x based on a total fund size of EUR 146 million and a total Commission contribution of EUR 101.1 million.
2. At the regional private equity fund level, GEEREF investments have so far leveraged 7.2 in the form of equity commitments from other investors to the private equity funds in which GEEREF has invested.
3. At the project level, GEEREF investee funds have leveraged 47.6 in the form of debt and equity commitments from other investors to the projects in which GEEREF investee funds have invested.

²¹² Contract 2007/147 331

²¹³ Including the amount of EUR 20 million from the European Development Fund

C - Strategic importance/relevance

(I) 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 Global Energy Efficiency and Renewable Energy Fund – GEEREF – is a Public Private Partnership that has been initiated by the Commission to accelerate the transfer, development, use and enforcement of environmentally sound 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 will use 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.

As previously mentioned, GEEREF is a Luxembourg SICAV advised by the EIB Group. GEEREF is a fund of funds supporting Renewable Energy and Energy Efficiency projects in developing countries.

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.

Through its investments in Private Equity funds, GEEREF finances a broad mix of energy efficiency and renewable energy projects and technologies, such as small hydropower, biomass, wind farms, as well as solar power technologies.

D - Other key points and issues

- Issues relevant for further implementation:
 1. In 2013, GEEREF has successfully attracted modest commitments from private investors. 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 2014.
 2. GEEREF has so far only committed approximately half of its capital, so it will be critical 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.
 3. GEEREF investee funds have so far only requested approximately 25% 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.

- 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.

In case of agreements with international organisations: All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the International Organisation concerned.

- 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 and attractive to the private sector.

Nevertheless, GEEREF currently maintains an active pipeline of five potential private equity fund investments. These funds are targeting to mobilise approximately EUR 500 million in equity capital for renewable energy and energy efficiency projects in Africa, Asia, and Latin America.

E - Summary

The GEEREF is an innovative financing vehicle aiming to promote energy efficiency and renewable energy in developing countries and economies in transition.

GEEREF was established via a SICAV registered in Luxembourg, with a life of 15 years from the initial closing date, 6 November 2008. Structured as a Fund-of-Funds, GEEREF's strategy is to invest in – and thus help develop – Private Equity funds ("regional funds") whose investments will target small and medium sized energy efficiency and renewable energy projects.

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. DG DEVCO is represented in the Investment Committee by unit C3.

Up to now:

The Commission contribution was raised at EUR 101 million (Union budget + EDF). In addition to the Commission, Norway and Germany have invested approximately 13 and 23 million EUR respectively in GEEREF and have been actively involved in its creation.

Seven investments have been approved by the GEEREF Investment Committee, focussing on projects in Sub-Saharan Africa, Asia, Latin America, and the Caribbean.

GEEREF has successfully attracted modest commitments from private investors. However, it remains challenging to find suitable commercial opportunities in these sectors with risk/return profiles appropriate and attractive to the private sector, GEEREF currently maintains an active pipeline of five potential private equity fund investments. These funds are targeting to mobilise approximately EUR 500 million in equity capital for renewable energy and energy efficiency projects in Africa, Asia, and Latin America.

VII. REFERENCES

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VIII. 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 ELARG	Directorate General for Enlargement
■ 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 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
■ 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
■ 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
■ MFI	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'Esterò
■ 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