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COMMISSION STAFF WORKING DOCUMENT

Activities relating to financial instruments

Accompanying the document

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on financial instruments supported by the general budget according to Art. 140.8 of the Financial Regulation as at 31 December 2015

{COM(2016) 675 final}

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I. INTRODUCTION

This Staff Working Document (SWD) constitutes an Annex to the report of the Commission to the European Parliament and the Council on financial instruments supported by the general budget according to Article 140(8) of the Financial Regulation[1] as at 31 December 2015. Complementing the information given in the main report, it provides additional specific information on individual financial instruments, on progress made in their implementation and on the environment in which they operate.[2]

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

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

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

Based on this rationale, financial instruments have already played a significant role by reaching out to important target groups such as SMEs, innovative enterprises and microenterprises, and supporting high-value projects in strategic sectors like transport and energy. They helped address market failures and were able to mobilise significant additional resources from the private and the public sector. For example, the main EU-level 2007-2013 financial instruments dedicated to SME support (CIP-GIF, CIP-SMEG 07 and RSI) and micro-SME support (EPMF) with an overall contribution of less than EUR 1,6 billion (commitments from Union budget), by the end of 2015 supported lending of almost EUR 23 billion and also mobilised equity investments of over EUR 1,2 billion, thus enhancing access to finance for over 400 000 SMEs.

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

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

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

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

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

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

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

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

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

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

Thereupon, with the aim to provide a rationale for use of financial instruments in a given policy area, the general context (Part III) describes the EU economic environment in 2015 taking into consideration strategic target groups, sectors, and non-EU regions.

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

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

II. OVERVIEW TABLE

Organisation				Policy Targets				Implementation				Financials		
Financial Instruments	Type	Basic Act	DG in charge	IB[4]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2015 (EUR mln)	Aggr. Pay-ments 2007-15 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [5]
GIF (CIP)[6]	E[7] Old[8]	Dec N° 1639/2006/EC	GROW ECFIN	EIF	Increase the supply of equity for innovative SMEs	SMEs	SMEs with no specific sector / innovative	605,70	625,20	414,15	3 132 ** 1 249***	437***	19,5	20,6
EFG (COSME)	E New[9]	Reg. N° 1287/2013	GROW	EIF	Increase the supply of equity for SMEs	SMEs	SMEs with no specific sector focus	546,00	102,41	41,03	2 600 to 3 900* 394,5**	360 to 540* 53**	0	4,51
CEF Equity	E New	Reg N 1316/2013	CNECT	n/a	Enhance the roll-out of broadband networks	SMEs	Broadband Investment	10	10	0	50* To 100* 10**	n/a	n/a	n/a
InnovFin SME Venture Capital	E New	Reg. N° 1291/2013; 1290/2013	RTD	EIF	Improve access to risk finance by early-stage R&I-driven SMEs and small midcaps	Innovative SMEs & Small Midcaps	R&I	460,00	125,05	110,05	2 700 * 237,6**	30**	n/a	4,52

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

Organisation					Policy Targets			Implementation				Financials		
Financial Instruments	Type	Basic Act	DG in charge	IB[4]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2015 (EUR mln)	Aggr. Pay-ments 2007-15 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [5]
SMEG07 (CIP)	G[10]Old	Dec N°1639/2006/ EC	GROW ECFIN	EIF	Increase the supply of debt financed to SMEs	SMEs	SMEs with no specific sector focus	637,80	649,90	379,65	23 962** 20 307***	377 502 ***	12,1	18,63
EPMF-G	G Old	Dec N° 283/2010/E U	EMPL ECFIN	EIF	Enhances access to microfinance by reducing microfinance providers' risk	Micro-enterprises/ Households	Micro-finance/no specific focus	23,60	23,60	20,64	284,91** 217,45***	18 490***	0,35	1,84
EaSI-G	G New	Reg. (EU) N ° 1296/ 2013	EMPL	EIF	Microfinance for vulnerable groups/ Support social enterprises	Micro-enterprises/ Households/ Social Enterprises	Micro-finance/Social Enterprises	193,00[11]	59,80	9,90	528* 341,83 ** 6,81***	316** Soc. Entr. and 29 874** Microfin. / 0 Soc. Entr *** and 416 ***Microfin	n/a	2,27
Loan Guarantee Facility (COSME)	G New	Reg. (EU) N° 1287/ 2013	GROW	EIF	Increase the supply of debt financed to SMEs	SMEs	SMEs with no specific sector focus	827,00	237,63	131,19	14 300* to 21 500* 7 068,3** 1 292***	110 000** 51 099***	0	17,05
RSI (2007-2013)	G Old	Dec. N°1982/2006/ EC	RTD	EIF	Address the financing gap for innovative SMEs and Small Midcaps	Innovative SMEs & Small Midcaps	R&I	270,00	270,00	270,00	3 301** 2 336***	4 133***	1,84	13,28

[10] Guarantee
[11] Global commitment for the EaSi Facility, out of which 96 million reserved for EaSI-G (Guarantee facility)

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	Type	Basic Act	DG in charge	IB[4]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2015 (EUR mln)	Aggr. Pay-ments 2007-15 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [5]
InnovFin SME Guarantee (H2020)	G New	Reg. (EU) N° 1291/ 2013; 1290/ 2013	RTD	EIF	Address the financing gap for innovative SMEs and Small Midcaps	Innovative SMEs & Small Midcaps	R&I	1 060	291,7	291,7	9 500* 3 693** 310***	727***	0,51	19,77
The CCS[12] Guarantee Facility	G New	Reg. (EU) N° 1295/ 2013	CNECT	EIF	Strengthen the competitiveness of the cultural and creative sectors	SMEs	Arts & Culture	121,00	1	n/a	690*	n/a	n/a	n/a
Student Loan Guarantee Facility (Erasmus +)	G New	Reg. (EU) No 1288/ 2013	EAC	EIF	Support mobility, equity and study excellence	Students	Education	517,00	61,35	19,80	3 000* 517** 1,1***	200 000*	n/a	4,97
PF4EE	G New	Reg. (EU)N° 1293/ 2013	CLIMA	EIB	Support access to finance and/or better financing conditions to EE investors	Private individuals, associations SMEs	Energy	80,00	50	12,12	540*	n/a	n/a	0,50
RSFF (2007-2013)	RS[13] Old	Dec. No 1982/2006/EC	RTD	EIB	Improve access to risk finance for R&I projects	Large firms, large & medium Midcaps, Research Institutes	R&I	960,73	960,73	960,73	11 313** 10 220***	112***	178,78	80,37

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

Organisation				Policy Targets			Implementation			Financials			
Financial Instruments	Type	Basic Act	DG in charge	IB[4]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2015 (EUR mln)	Aggr. Pay-ments 2007-15 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [5]
InnovFin Large Projects InnovFin MidCap Growth Finance InnovFin MidCap Guarantee (H2020)	RS New	Reg. (EU) N° 1291/ 2013; 1290/ 2013	RTD	EIB	Improve access to risk finance for R&I projects	Large firms, large & medium Midcaps, Research Institutes	R&I	1 060,00[14]	645,5	645,5	13 250* 4 398,2** 2 399,2***	65** 39***	0	22,68
LGTT	RS Old	Reg. (EC) N° 680/ 2007; 670/2012	MOVE	EIB	Enhance risk-sharing in transport infrastructure for TEN-T projects	Infrastructure Projects	Transport	205,00	211,88	211,88	11 554***	5*	4.25	6,97
Project Bond Initiative	RS Old	Reg. (EU) N° 670/ 2012; 1316/ 2013	MOVE ENER CONNECT	EIB	Stimulate capital market financing for infrastructure projects	Infrastructure Projects	Transport, Energy, Broadband	230,00	230	230	2 901***	5*	12,4	9,68
Risk Sharing debt instruments (CEF)	RS New	Reg. (EU) N° 670/ 2012; 1316/ 2013	MOVE ENER CONNECT	EIB	Stimulate capital market financing for infrastructure projects in transport, energy, broadband networks	Infrastructure Projects	Transport, Energy, Broadband	2 400	246,78	0	18 000* to 45 000*	n/a	n/a	n/a
NCFF	RS New	Reg. (EU) N° 1293/ 2013	ENV CLIMA	EIB	Promote the preservation of natural capital	Infrastructure Projects	Environment	60,00	30	11,75	120-240*	n/a	n/a	0,30

[14] Estimation depending on the effective contribution of H2020 to the SME Initiative

Organisation					Policy Targets			Implementation				Financials		
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[4]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2015 (EUR mln)**	**Aggr. Pay-ments 2007-15 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [5]
EU SME Initiative	RS New	Reg. (EU) N° 1287/ 2013; 12 91/ 2013; 1303/ 2013	REGIO RTD GROW ECFIN AGRI	EIF EIB	Enhance SMEs financing	SMEs	SMEs with no specific sector focus	1 137 (ERDF)[15]	14,53 (H2020, RTD) + *677,27 (ERDF, REGIO)*	12,53 (H2020, RTD) + *457,84 (ERDF, REGIO)*	5 723*	n/a	n/a	0,35 (H2020 RTD only, the financial and operating expenses for the ERDF have not yet been reported to the Commission)
EPMF - FCP-FIS	DIV Old	Dec N° 283/2010/EU	EMPL ECFIN	EIF	Increase access to microfinance	Micro-enterprises/ Households	Micro-finance/no specific focus	80,00	80,00	74	390,8 ** 172***	24 841***	Revenues 12,7 Repaym. 31,3	4,49
Marguerite	DIV Old	Reg. (EC) N° 680/2007	MOVE	M.A [16]	Support infrastructure investment: transport, energy, renewables sectors	Infrastr. Projects	Transport, Energy, Environment	80,00	80,00	43,7	10 000* 4 900***	10***	n/a	6,45
EEEF	DIV Old	Reg. (EU) N ° 1233/ 2010	ENER	Deu-tsche Bank	Invest in energy efficiency, renewable energy, clean urban transport	Infrastr. Projects	Energy	146,3	146,3	113,2	265** 120***	10***	n/a	7,24[17]
Guarantee Facility (EDIF GF 1) under the WBEDIF[18]	EnC[19] Old	Reg. (EC) N°1085/2006	NEAR	EIF	Create the preconditions for the emergence and growth of innovative and high-potential companies	SMEs	SMEs with no specific sector focus	21,90	21,90	21,90	117,9***	247***	n/a	1,6

[15] Amount allocated to the SME Initiative in Operational Programmes
[16] Marguerite Adviserasdr
[17] Nota: official figure from the final accounts; the figure indicated in the report 38.5 (EUR 7,03 mio) was based on the unaudited accounts available by the time of drafting of the 38.5 report.
[18] Western Balkans Enterprise Development and Innovation Facility
[19] Enlargement countries

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	Type	Basic Act	DG in charge	IB[4]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2015 (EUR mln)	Aggr. Pay-ments 2007-15 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [5]
Guarantee Facility 2 (EDIF GF 2) under the WBEDIF[20]	EnC	Reg. (EC) N° 231/2014	NEAR	EIF	Create the preconditions for the emergence and growth of innovative and high-potential companies	SMEs	SMEs with no specific sector focus	17,5	17,5	10	n/a[21]	n/a	n/a	0.35
ENEF under EDIF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	11,00	11,00	10,40	77** 3***	10-14** 1***	n/a	0,47
ENIF under EDIF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIB, EIF, EBR DKf W	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	21,20	21,20	21,20	50** 0***	n/a	n/a	n/a
EFSE	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Extend loans to local comm.banks and micro-finance institutions in the Western Balkans	Micro-enterprises/ Households	Microfinance/ no specific focus	87,68	87.68	87.68	3 800***	598 735***	n/a	0,61
GGF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Provide dedicated financing for energy efficiency and renewable energy	Micro-enterprises/ Households	Energy	38,60	38,6	38,6	367,7* 307,1** 289***	18 203***	n/a	0,39

[20] Western Balkans Enterprise Development and Innovation Facility
[21] The budgetary commitment for the EDIF GF 2 was done in the final days of 2015 and the implementation only started in early 2016.

Organisation					Policy Targets			Implementation				Financials		
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[4]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2015 (EUR mln)**	**Aggr. Pay-ments 2007-15 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln) [5]**
SME Recovery Support Loan for Turkey	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIB	Mitigate the crisis impact for SMEs and contribute to the development of the Turkish economy and employment	SMEs	SMEs with no specific sector focus	30,00	30,00	30,00	299,64** 299,64***	265***	9,41	0,36
NIF	NDC[22] Old	Reg. (EC) N° 1638/ 2006 +232/2014 + 236/2014	NEAR	EFI [23]	Mobilise investments to support prosperity and good neighbour.	Infrastructure Projects, SMEs	SMEs, Environment., Energy, Water/Sanit., Social Sector, Transport	1 454,14	1 454,14	545,68	13 830***	n/a[24]	0	18,89
IFCA & AIF	NDC Old	Reg. (EC) N° 1905/ 2006 + 233/2014 + 236/2014	DEVCO	EFI	Promote investments and key infrastructure	Infrastructure Projects	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	287,57	287,57	81,55	828*** IFCA 2 631*** AIF	20*** IFCA[25] 18***AIF	n/a	5,99
LAIF	NDC Old	Reg. (EC) N°1905/2006 + 233/2014 + 236/2014	DEVCO	EFI	Promote investments and infrastructures	Infrastructure Projects, SMEs	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	270,04	270,04	130,17	For period 2007-2014 (achieved) : 6 877 *** *For period 2015-2020 (target) : 1 300 to 1 600**	For period 2007-2014 (achieved) : 28***	n/a	4,76

[22] Neighbourhood and other partner countries.
[23] Eligible Finance Institutions.
[24] Nota : 112 projects have been financed so far, see relevant chapter of the report.
[25] IFCA : number of projects having received a positive opinion from the Board and Commission decision.

Organisation				Policy Targets			Implementation				Financials			
Financial Instruments	Type	Basic Act	DG in charge	IB[4]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2015 (EUR mln)	Aggr. Pay-ments 2007-15 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [5]
Support to FEMIP	NDC Old	Reg. (EC) N°1638/2006	NEAR	EIB	Provide capital to the private sector of Mediterranean partner countries	SMEs	Private Sector	224,00	224,00	224,00	6 714***	n/a	9.8	6,33
GEEREF	NDC Old	Reg.(EC) N°1905/2006 + 233/2014 + 236/2014	DEVCO	EIB, EIF	Promote energy efficiency and renewable energy	SMEs	Energy	81,1	81,1	79,5	892***	n/a	n/a	0,56

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

III. GENERAL CONTEXT

1. The EU Economy in 2015

In order to outline the macroeconomic background against which EU financial instruments operated in 2015, the fundamental evolution of key macro-financial variables is sketched out below in this section.

Real GDP

In 2015, economic growth in the EU benefitted from favourable factors like low oil prices, a low euro exchange rate, supportive monetary policy measures and increased public expenditure, in some Member States also reflecting refugee-related expenditures. Since mid-2015, however, these tailwinds have been partially mitigated by headwinds like slowing growth in emerging economies and weak global trade momentum. The drop in oil prices has pushed the purchasing power of households and strengthened private consumption, which has been by far the largest contributor to GDP growth. Investment has continued to expand, but the pace of expansion has remained rather limited despite the low funding costs and an improved access to funding for non-financial companies.

Modest investment growth and the only moderate overall growth momentum reflected the impact of some crisis legacies such as high private and public debt and, in some countries, persisting high unemployment, but also uncertainties of economic and non-economic nature, including geopolitical issues such as the situation in Ukraine.

In 2015, real *GDP* grew by 1,7% and 2,0% respectively in the euro area and in the EU (Figure 1), almost entirely driven by domestic demand whereas net exports of goods and services acted as a drag to growth. Looking ahead, economic activity is forecast to continue growing at modest rates rather than accelerating in both areas. Real GDP growth is expected to moderate in the euro area and in the EU to 1,6% and 1,8% respectively in 2016 and to increase marginally to 1,8% and 1,9% in 2017.

Figure 1: Real GDP, EA

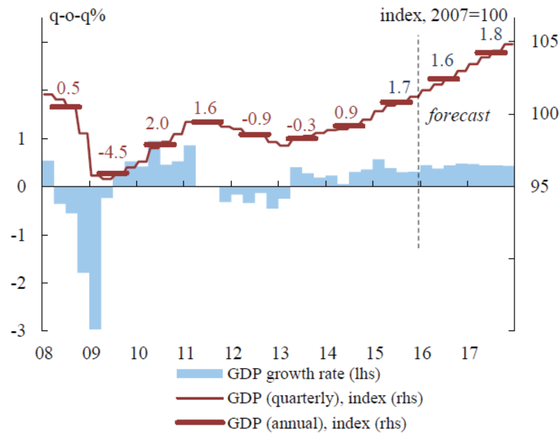
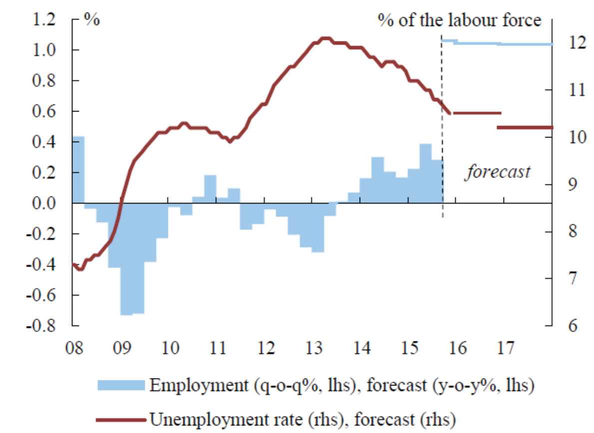


Figure 2: Labour market, EA



Note: Figures above horizontal bars are annual growth rates.
Source: *European Commission (2016)*

Labour market

Since the start of the economic recovery in 2013, *employment* picked up comparatively fast and strong in response to output developments. Unemployment rates continued following a moderate downward trend throughout 2015 (Figure 2). In 2015, in the EU the unemployment

rate stood at 9.4%, 0.8 pps. lower than a year earlier. Labour market improvements exhibited significant differences across Member States, with respect to overall unemployment rates, but also regarding the duration of unemployment and the age profile of the unemployed.[26] Thus, the situation in the labour market continues to be reason of concern, in particular in the more vulnerable economies.

Public finance

On the *public finance* side, the general government deficit has continued to decline from 3.0% of GDP in 2014 to 2.4% in 2015 in the EU and from 2.6% of GDP to 2.1% in the euro area. Government debt fell from 88.5% of GDP in 2014 to 86.8% in 2015 in the EU and from 94.4% to 92.9% in the euro area.

Inflation and the exchange rate

HICP inflation in the EU and the euro area fell further in 2015 on the back of a substantial decline of energy prices. In both areas, in 2015 the annual HICP inflation rate came down to 0.0% (from 0.5% in the EU and 0.4% in the euro area in 2014). The sharpest decline was observed in the first quarter of 2015, but inflation remained at very low levels throughout the year. Besides the impact of lower energy prices, the persistence of low inflation can also be associated with the remaining slack in the economy and the impact on domestic demand of further private sector balance-sheet adjustment as well as credit channels that remained impaired.

The narrowing of the output gap in 2015 (from -2.5% in 2014 to -1.7% in the euro area and from -2.2% to -1.3% in the EU) and the substantially lower external value of the euro (its nominal effective exchange rate fell by 6.8% in 2015) exerted only limited price pressures, which were by far not strong enough to offset the impact of falling oil prices.

Financial markets

On the *financial side*, 2015 was kick started with the announcement by the ECB of a quantitative easing programme in January, which boosted investor sentiment. Nevertheless, intermittant bouts of volatily persisted throughout the year amid a weakening global growth outlook, growing emerging market concerns and falling oil prices. The diverging monetary policy stance between the US Federal Reserve and the ECB was reflected in fluctuations on foreign exchange markets and the overall weakening of the euro vis-à-vis the US dollar during the year.

Investor sentiment towards euro area banks continued to strengthen amid further progress in bank balance sheet repair and an improved macro financial environment. The resilience of the banking sector continued to strengthen in 2015, as both the liquidity and solvency of banks improved. Despite historically low interest rates, banks increased their deposit base, making their liabilities less volatile. This improvement was accompanied by a recovery in bank lending. In addition, progress made on the Banking Union in 2015 further weakened the links between sovereigns and banks. The establishment of the Single Supervisory Mechanism and Single Resolution Mechanism have been crucial in this respect.

During 2015, Euro area financial system stress remained low, despite periods of volatility. Broad-based indicators of financial markets and banking system risk have fluctuated at low levels, reverting almost to pre-crisis standards.

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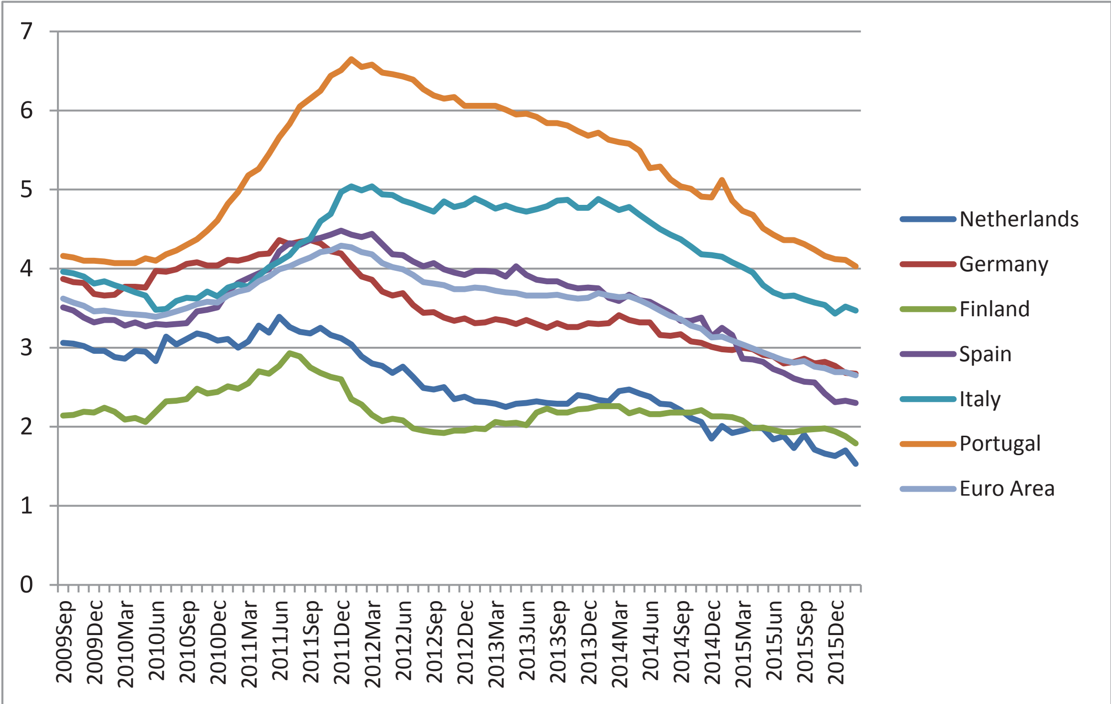
[26] In 2015, the youth unemployment rate decreased to 20.3% of the labour force of the same age in the EU and 22.4% in the euro area, compared with 22.2% and 23.7% respectively in 2014. In 2015, the long-term unemployment as a percentage of the active population stood at 4.5% in the EU and 5.5% in the euro area, compared with 5.0% and 6.0% respectively in 2014.

Despite progress by banks and governments, and in the financial system at large, financial stability challenges persisted.

Financial stability risks faced by the euro area during 2015 stem from "legacy" issues from the global financial crisis. Despite levels of non-performing loans (NPLs) stabilising and the coverage ratio increasing, NPLs remained high in some Member States. There has been growing concern that high levels of NPLs on bank balance sheets may impede new lending, thereby indirectly hindering the economic recovery.

Profitability in European banking remained very low and tended to fall across Member States. Weak bank profitability could become a systemic concern if banks' ability to improve their shock-absorbing capacity via retained earnings and provisioning is restrained. This could prevent banks from engaging in new lending activities and lead to more structural business model-related concerns. Low profitability is also linked to risks associated with banks' search for yield. Banks may be tempted to take on more risk to improve profitability, which in turn could make them more vulnerable to future shocks.

Figure 3: *Euro Area interest rates on loans to non-financial entities (1-year maturity)*



Source: *European Central Bank*

The downward trend of interest rates in 2015 (figure 3) reflected ECB monetary policy actions implemented during 2015. The easing of credit standards on loans to corporations of all sizes[27] will be analysed more in detail in the next section with specific focus on SMEs.

Relevance of the macro-financial context for financial instruments

The macro-financial dynamics depicted above are bound to affect the performance of EU financial instruments through various channels. For example, the demand of EU financial instruments by financial intermediaries is affected by the overall still subdued economic activity and rather low interest rates, which inevitably impact on the final recipients' demand

[27] ECB (2016).

for loans and equity. Also the continued adjustment of business models and balance sheets of EU banks has an impact on avaialable bank funding and, in consequence, on demand for other sources of funding, in particular via capital markets. In addition, the negative interest rates introduced by several central banks (including the ECB) have had repercussions both on interest rates linked to debt instruments, and on the remuneration of financial instruments' fiduciary accounts by the EIB/EIF.[28]

In addition, favourable labour market conditions may enhance the job creation targeted by financial instruments. As a further example, public finance retrenchment may impair a Member State's resource availability, and hence prompt additional demand for loans and equity on the part of financial instruments' final recipients. Moreover, changes in the internal or external value of the currency may affect firms' competitiveness and hence their need for EU financing support.

Finally, the Capital Markets Union (CMU) is a plan of the European Commission to mobilise capital in Europe. It will channel it to all companies, including SMEs, and infrastructure projects that need it to expand and create jobs. By linking savings with growth, it will offer new opportunities for savers and investors. Deeper and more integrated capital markets will lower the cost of funding and make the financial system more resilient.

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

2. Strategic Target Groups

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

2.1. EU SMEs[29]

Small and Medium-sized Enterprises (SMEs) in the EU amount to more than 22 million, and constitute the connective tissue of the EU productive fabric: they represent 99.8% of EU companies, almost 58% of GDP (total value added) and near 67% of the total workforce.

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

2.1.1. SME Loan Market

2.1.1.1. Demand for SME loan finance

According to the UEAPME (2016), the overall business environment for European SMEs in the second semester of 2015 improved by almost 4.5% from the corresponding period in 2014, recording five consecutive upticks since the first semester 2013 (Figure 5). For the first

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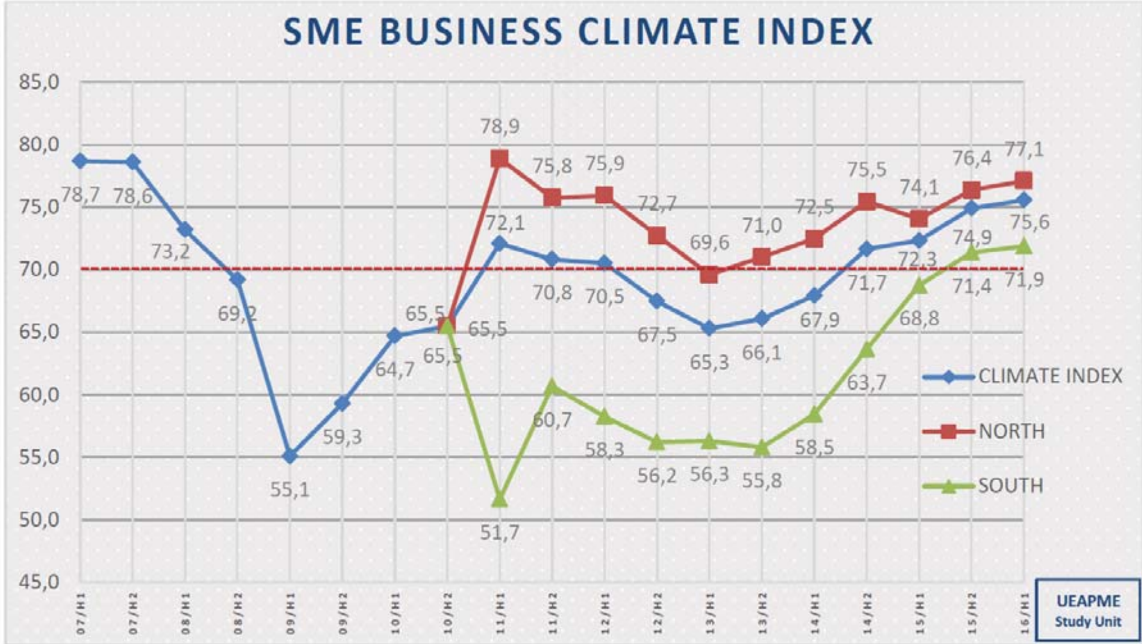
[28] To soothe the impact of negative interest rates, mitigating actions have been already put in place by the Commission (see also note of DG BUDG of 18.12.2015) and further solutions to optimise the use of EU resources in this context have been proposed at the FIIEG.

[29] 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).

time since 2012, the Index had risen above its neutral level of 70% reaching 71.7% during the second semester of 2014 and achieving a value of 74.9% during the second half of 2015.

Figure 5: *SME Business Climate Index*



Source: *UEAPME (2016).*

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 (2016).

Indeed, the trend for the EU is rising, indicating that EU enterprises envisage the beginning of a recovery (UEAPME 2016).

Remarkable progress can be noticed especially in the countries of the EU South and Periphery (Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain) – "South" in the graph. The SME Business Climate Index for these countries increased by 12.1% in 2015, which is higher than the increase in the EU North and Centre (Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia, Sweden and UK) – "North" in the graph (1.2%), where in fact a decrease of the index occurred during the first half of 2015 followed by an increase. As a result, the gap between the two country groups has narrowed to 5%, which is the lowest since the beginning of the sovereign debt crisis (UEAPME 2015).

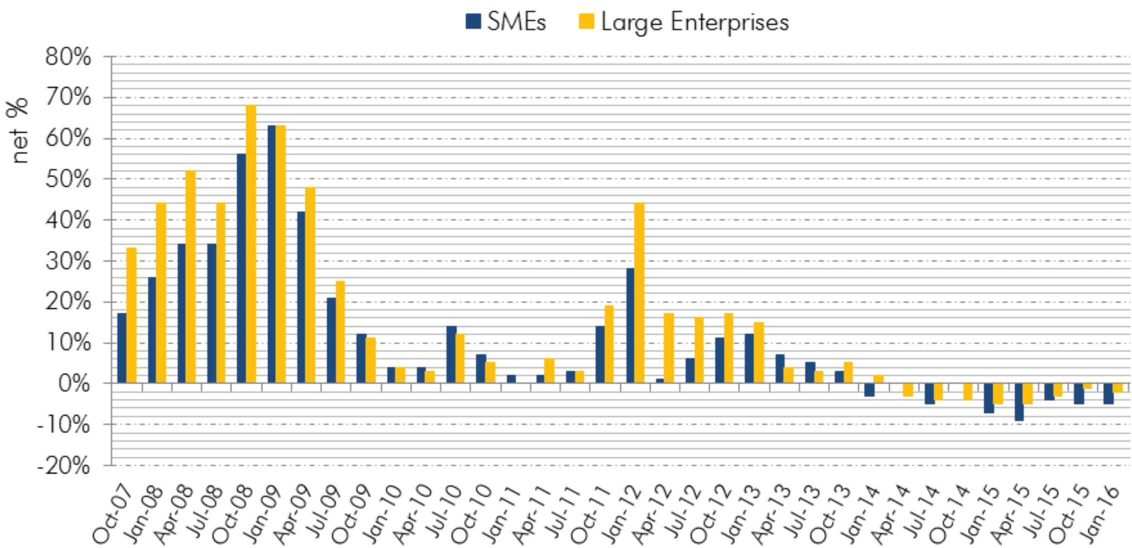
2.1.1.2. Supply of SME loan finance

The current status of bank lending to non-financial corporations – including SMEs – is analysed in the ECB Bank Lending Survey. The survey reports the net percentage of banks contributing to tightening credit standards for SMEs. As shown by Figure 6, a general decrease in net tightening for loans to SMEs has occurred since the first quarter of 2013. In January 2014, a negative net tightening (i.e. a net easing) was attained for the first time after almost seven years. Henceforth, during 2014 the overall SME net tightening of credit standards stayed essentially unchanged. Through 2015, the situation of credit standards

improved again slightly, with a negative net tightening through January 2016, while remaining slightly better than that for large enterprises.

Banks reported a further net easing of credit standards on loans to enterprises in the fourth quarter of 2015 (-4%, as in the previous quarter) which was slightly less pronounced than expected by them in the previous survey round. Across the different firm sizes, credit standards were again eased more strongly on loans to small and medium-sized enterprises (SMEs) than on loans to large firms. For the large euro area countries, credit standards on loans to enterprises continued to ease considerably in Italy and remained unchanged in the other countries, with the exception of France where they continued to tighten somewhat in net terms (ECB 2016).

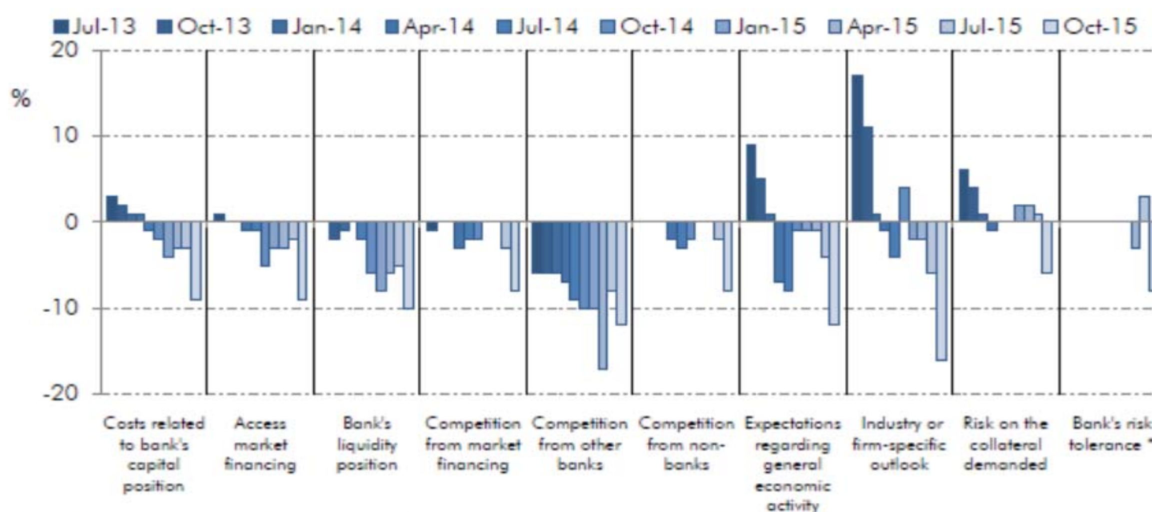
Figure 6: *Changes in credit standards applied to the approval of loans or credit lines to enterprises (SMEs versus large enterprises)*



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

During 2015, several factors contributed in net terms to the easing of credit standards for SMEs (Figure 7). In particular some of them were highly relevant, such as industry or firm-specific outlook, competition from other banks and expectations regarding general economic activity. It is interesting to note that the expectations concerning the industry (or firm) specific outlook contributed in 2013 and in the last quarter of 2014 to the tightening of credit standards, and represented the most important easing factor in the last quarter of 2015.

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



*Note: "Bank's risk tolerance" was only introduced to question 2 of the BLS in Q2/2015

Source: ECB Bank lending survey (ECB, 2015b)

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

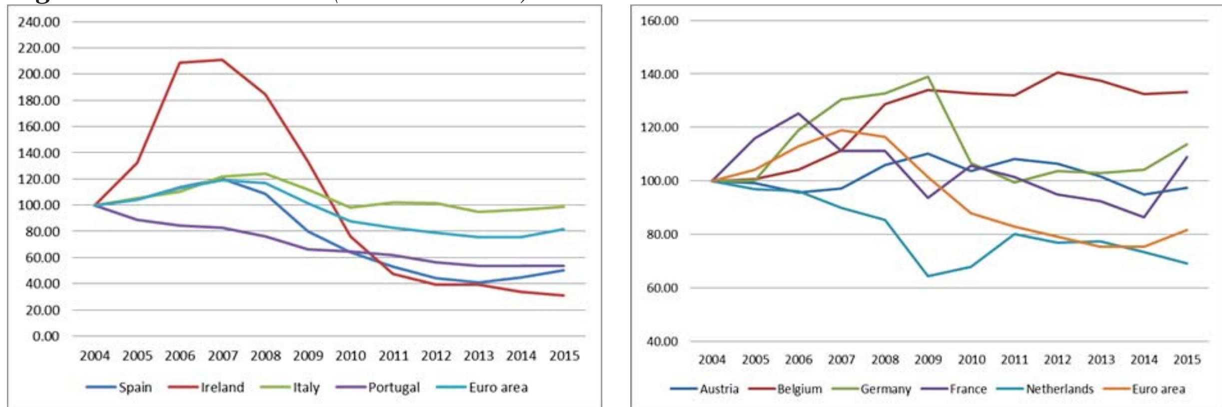
2.1.1.3. Market loan volumes and interest rates

Volumes of SME loans

Credit growth and lending conditions for the private sector in general, and SMEs in particular, have not yet fully incorporated the change in the business climate and financial stability. This picture of still difficult conditions for corporate lending in some Member States and especially for SMEs has been compounded by the continued grim situation in regard to lending volumes. Using small loans (below EUR 1 million) as a proxy for SME loans, new volumes within the Euro Area decreased continuously by 56.9% from their peak in July 2007 until August 2014, and increased thereafter until the end of 2015, when the annual amount of loans up to EUR 1 million was 18,4% *below* its 2004 level. In comparison, large loans reached a volume 0,44 % *above* their 2004 levels.

Across the Euro Area countries, new bank lending to SMEs seemed to pick up slightly from the decline during the crisis through 2015 (Figure 8). Among "periphery" countries, there was a slight increase in Spain and in Italy from 2014, where economic recovery is taking hold. In Greece and Cyprus, where liquidity pressures remain acute and credit quality has significantly deteriorated, new lending to SMEs continues to decline sharply. In "core" countries, lending volumes slightly decreased in 2014 across the board, except for Germany. However, there were signs of pickup in France, Belgium and Austria during 2015. Comparing panel 8a with 8b, the scale of the volume reduction in the "periphery" appears much larger than in the "core", so that the former countries lie mostly below the average, whereas the latter remain above.

Figure 8*: Loan Volumes (New Business)*



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

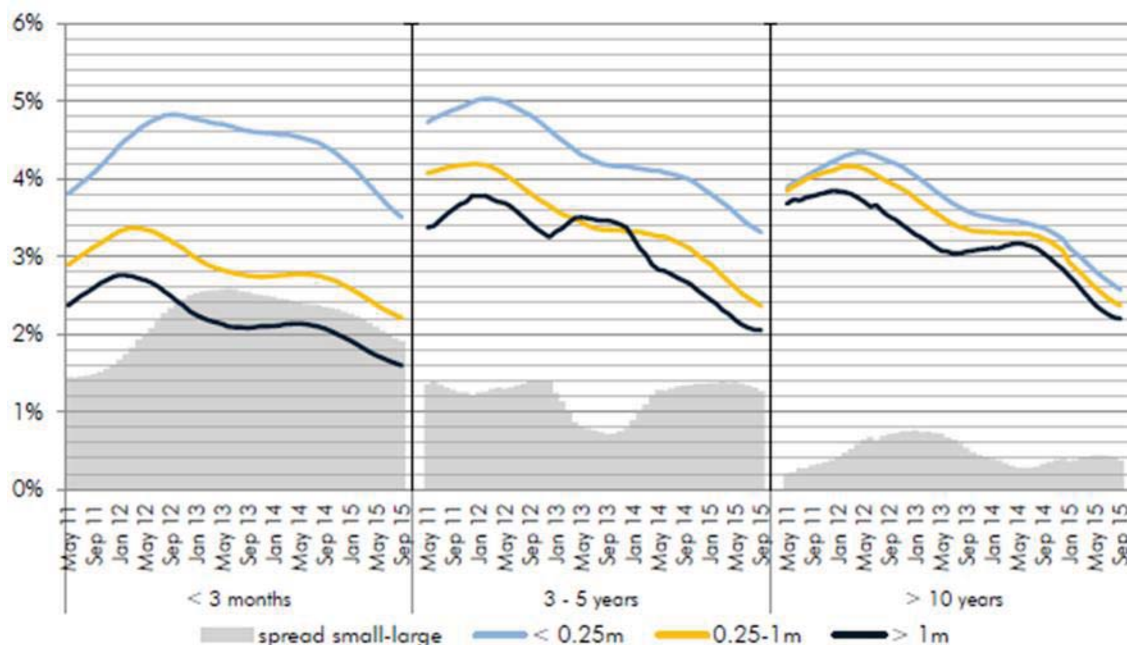
Source: *ECB Data Warehouse*

Interest rates on SME loans

For the Euro area as a whole, the interest rate spread between small loans (up to EUR 1m) and large loans (over EUR 1m) showed different trends for different maturities during 2015 (Figure 9). This spread decreased as the maturity of the loan increases, going from an average around 2% for short-term maturities (shorter than three months), to 0.4% for long-term maturities (longer than ten years). For short-term maturities the small to large loans spread increased from May 2011 to May 2013, thereafter recording a slight decline until September 2015; instead, the spread of loans with medium-term maturities (between three and five years) showed a decrease during 2013 with a subsequent increase, and long-term loans were mainly stable from the second half of 2011 to September 2015 (Figure 9).

Overall, interest rates for all the amounts and maturities considered declined during the recent months, and in particular during 2015, when rates did not exceed 4%.

Figure 9*: Interest rates by loan size and maturity, and the interest rate size spread*



*Note: the graph depicts the 12 month backward moving average floating interest rates charged by banks on loans to NFCs (other than revolving loans and overdraft)

Source: *EIF Small Business Finance Outlook, December 2015*

Across firm sizes, credit standards have eased in particular on loans to SMEs and to a lesser extent also to large firms. Financing conditions continued to improve for non-financial corporations irrespective of firm size (ECB and European Commission 2015), but banks' willingness to grant a loan continues to be still somewhat higher for large firms.[30]

Looking at the country breakdown, interest rates on new loans to businesses up to EUR 1 million have mostly declined since the start of 2015, with Ireland as an exception, and the spread between "North" and "South" countries have narrowed, while remaining substantial (Figure 10). While part of this differential reflects differences in macroeconomic risk among euro area countries, this could also indicate that SMEs with similar risk profiles tend to suffer from higher lending costs depending on the country in which they are located. This fragmentation could be explained by the still fragile situation of many banks in some countries, which are plagued with high levels of non-performing loans.[31] Indeed, banks with high levels of NPLs tend to lend less as they are less profitable, have weaker capital buffers and higher funding costs (Aiyar et al., 2015). As a result, credit is still falling in most of those countries, as evidenced in Figure 8.

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

Figure 10a: *EU "South"*

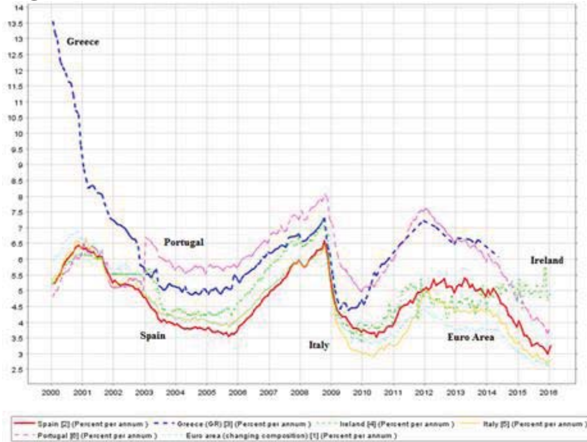
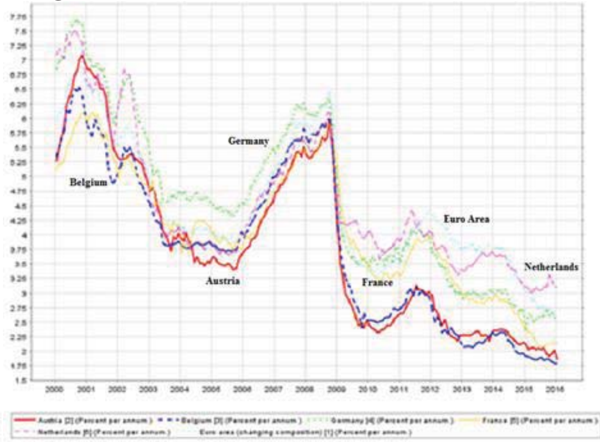


Figure 10b: *EU "North"*



Source: *ECB Data Warehouse*

2.1.1.4. Access to loan finance of EU SMEs

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

Although EU SMEs are increasingly optimistic about their growth prospects many are still concerned about the lack of access to finance: 10% of survey respondents still regard access to finance as the most important problem for their companies. However, in the last round of the survey, Euro area SMEs considered access to finance the least important problem that they faced (10%, down from 11% in the previous round), although results differ across countries.

In 2015, 28% of SMEs in the 28 EU Member States applied for a bank loan, a proportion similar to 2014. Most of them were successful: 67% (60% in 2014) of all applications were granted in full and another 6% (7% in 2014) were granted most of the amount applied for. In

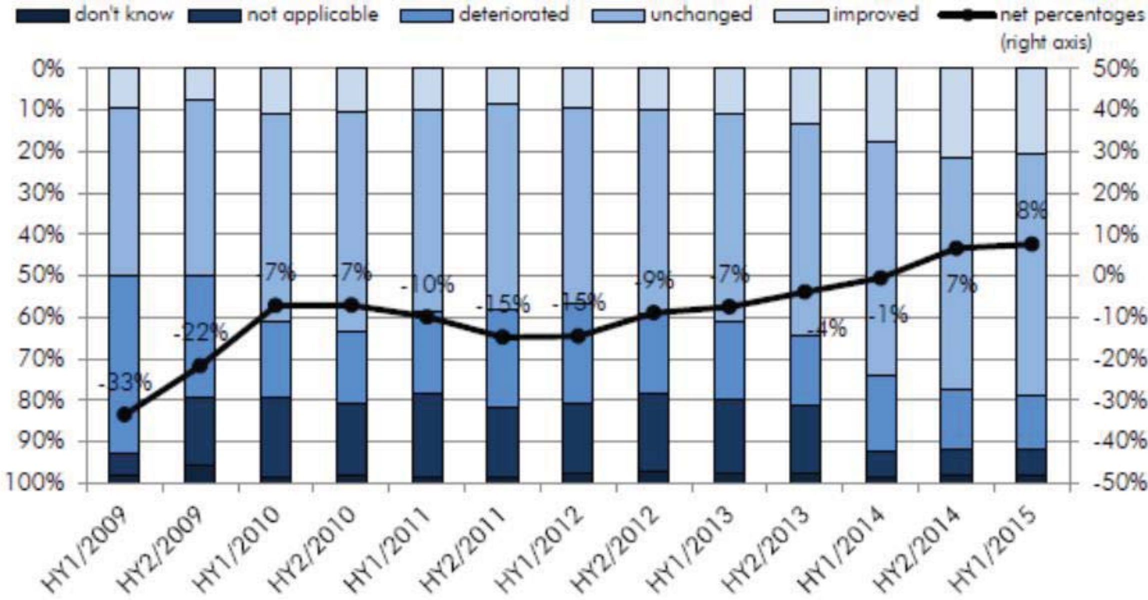
[30] ECB (2015).

[31] OECD (2016).

2015, the rejection rate for bank loan applications was 8% compared to 12% in 2014. Most SMEs that did not apply for a loan cited the availability of sufficient internal funds as the most important reason for not doing so (39% in 2015 and 38% in 2014). However, there are large differences between countries regarding the proportion of SMEs applying for bank loans. In France, Spain, Italy, Belgium, Lithuania and Austria the proportion was higher than the EU28 average of 28%. In Ireland, the United Kingdom, Estonia, the Netherlands, Bulgaria, Denmark and Cyprus the proportion of SMEs applying for bank loans was less than 20%. It should be noted that in Greece, many SMEs (37%) did not apply for bank loans because of fear of rejection; to a lesser extent, the same holds for Cyprus (17%). The survey also shows that SMEs were confronted with higher rejection rates compared to larger corporations. Indeed, the highest rejection rate was among micro companies employing fewer than 10 people (12%).

Figure 11 illustrates the change in availability of bank loans for SMEs in the euro area.

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



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

Based on Commission analysis,[32] it can be estimated that up to 6.7% of EU SMEs that have had difficulty in accessing loan finance[33] are in fact financially viable, in the sense that have experienced a positive turnover growth in the previous six months. The difficulty in accessing finance is compounded by the fact that a majority of EU SMEs look at external finance as their only source of financing, and bank loans are a relevant source of external finance for 50% of them.

[32] European Commission (2015) and SAFE 2015.

[33] 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.

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

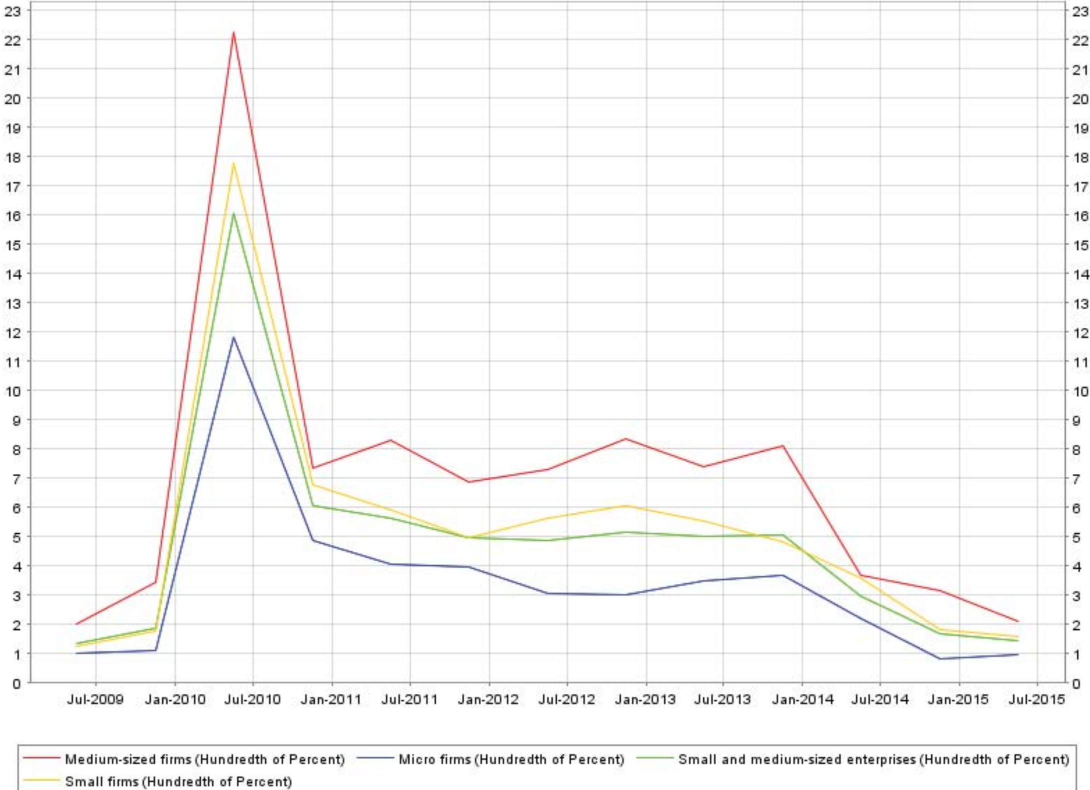
2.1.2. SMEs and the European Equity Market

2.1.2.1. SME Demand for equity

The latest Survey on Access to Finance of Small and Medium Enterprises in Europe (SAFE) shows that SMEs' needs for equity financing grew in 2015 compared to 2014, with a net increase of 8%. However, only 20% of SMEs felt confident to discuss financing and obtaining the desired results with equity investors and venture capital enterprises, while 33% did not feel confident. Smaller and non-innovative firms are less confident in their financial competences. In fact, 11% of SMEs considers equity financing not applicable to their enterprise.

As a consequence, only 2% of EU SMEs used equity financing in the last six months in 2015, registering a decrease from the 3% measured in the 2014 wave (Figure 12).

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



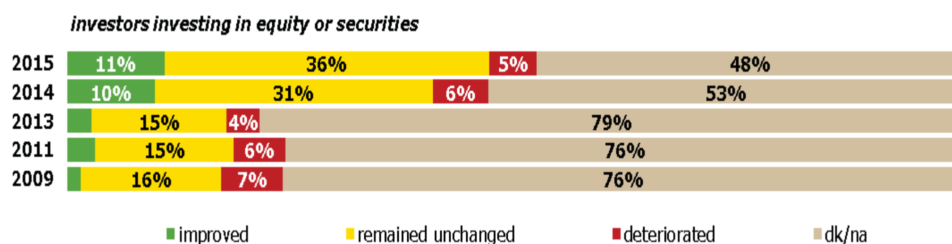
***Source:** ECB Data Warehouse SAFE*

Access to equity financing is slightly more common among larger businesses (3% of those with 250+ employees) in the EU, reflecting all companies' difficulties in accessing this specific financial instrument.

2.1.2.2. Supply of equity for SMEs

In 2015, most categories of enterprises reported an increase in the willingness of investors to invest in equity or debt (Figure 13). Among the 52% of EU SMEs expressing an opinion about the willingness of investors to invest in equity in the past 6 months, most reported no change (36%), 11% reported an improvement while 5% reported a deterioration.

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



Source: *ECB and European Commission (2015)*

However, the lack of equity finance in Europe is increasingly being recognised as a key bottleneck to the provision of further overall SME funding.[34]

Among the different opportunities of equity financing for SMEs, a crucial role is played by **Venture Capital financing**. Spanning from the seed to the growth phase of companies' development, Venture Capital investments serve 86% of European SMEs seeking equity financing, and 78.5% in terms of total amounts invested in SMEs.[35]

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

2.1.2.3. Access to Venture Capital of EU SMEs

From a broad supply perspective, the structural challenges in the European Venture Capital market, the difficult fundraising environment, and the still somewhat risk-averse market sentiment, are all sources of significant problems for fund managers in the access to funding in general, and for new funds in particular. Moreover, markets for analysis are underdeveloped, and both private and public investors are disadvantaged in accessing credit information, and therefore find it harder to operate on an equal footing with established 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 Invest Europe (2016) – formerly EVCA - point to the following trends in the European Venture Capital sector:

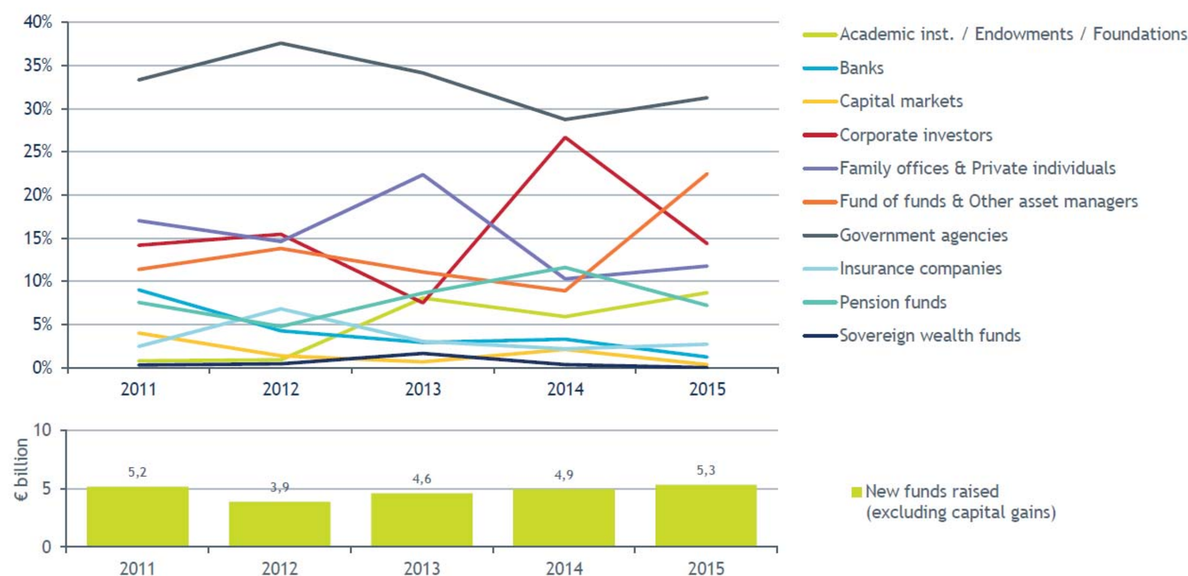
a) Fundraising

- Venture Capital fundraising in Europe totalled EUR 5,3 billion in 2015 which represents an increase of 29% compared to the EUR 4,1 billion raised in 2014; it exceeds the previous highest amount of 2011 (Figure 14) and reaches the highest level since 2008. Government agencies remained the most prominent provider of funding, representing more than 30% of the total funds raised (compared to 14% in 2007).

[34] Also for these reasons, on 30 November 2015, the European Commission proposed an overhaul of the EU Prospectus Directive (2003/71/EC) that allow companies to raise money on public markets or by means of a public offer with potential investors. The proposed changes will enable investors to make informed investment decisions, simplify the rules for companies that wish to issue shares or debt and foster cross-border investments in the Single Market. This is also an important measure in order to improve the regulatory environment for investments in the European Union, as announced in the Investment Plan for Europe.

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

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



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

Source: *Invest Europe / PEREP_Analysis 2016*

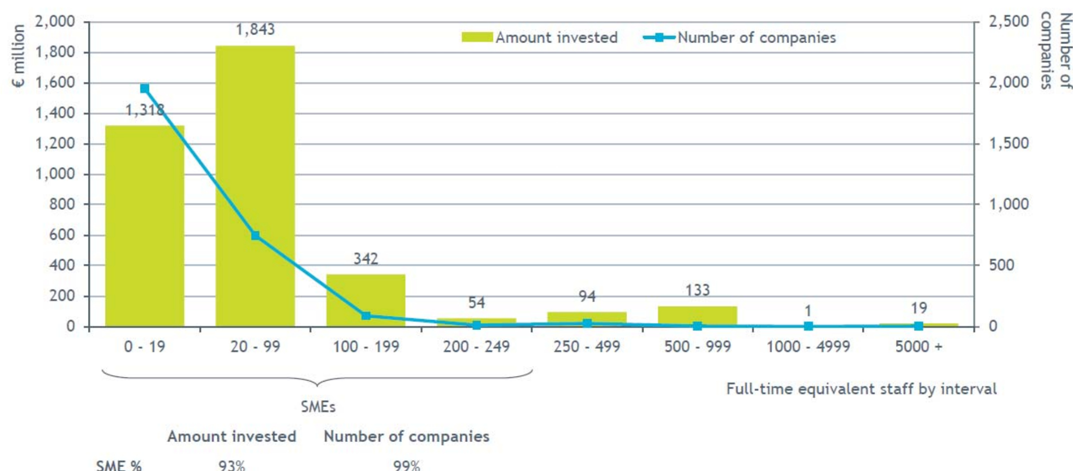
- As regards the geographic breakdown, 32,7% of the funding came from France and the Benelux region (Belgium, the Netherlands and Luxembourg), followed by 20.1% from the UK, 18.6% from other European Countries and 11.0% from the US.

b) Investments

- The total amount of Venture Capital invested in 2015 reached EUR 3,8 billion, up 5% from the total investment volume of EUR 3,6 billion recorded in 2014. This figure is in the same order of magnitude as the volumes recorded each year since 2009 and significantly lower than pre-crisis levels.
- Close to 2,800 companies received investments backed by VC funds in 2015 (a reduction of 12% compared to 2014) which indicates a trend towards larger financing rounds. Start-up companies were at the centre of Venture Capital funds' attention, as they received 53% of the total amounts invested and represented 63% of the total number of supported companies.
- As regards sectors, life sciences, computer and consumer electronics, and communications accounted for over than 70% of all Venture Capital investments.
- In terms of geographic breakdown by equity amount invested in 2015, most of the Venture Capital funds' investment went to the DACH region (Germany, Austria and Switzerland), amounting at EUR 1.2 billion, to France and the Benelux region, and to the UK and Ireland, each receiving approx. EUR 0.9 billion.
- While Seed/Start-up/Early Stage funds invested 93% of their capital in SMEs (representing 99% of their target group, Figure 15),[36] Private Equity funds operating in the *Growth* stage only invested 52% of their capital in SMEs (which still constitute 82% of their target group).

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

[36] EVCA (2014).

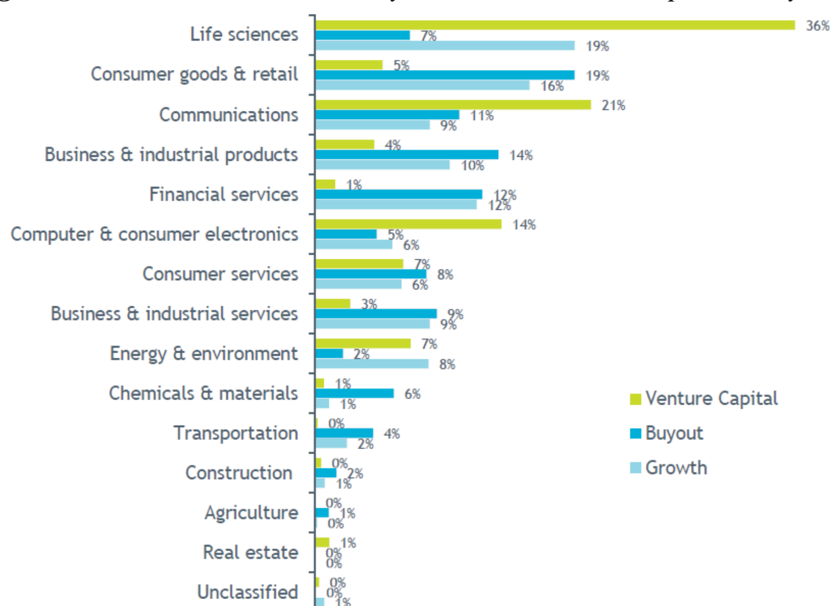


Source: *Invest Europe / Perep_Analysis 2016*

c) Divestments

- Venture Capital divestments increased to EUR 2,1 billion in 2015, up from EUR 1,9 billion in 2014 (+10%), lying well within the range of EUR 1,9 to 2,4 billion recorded since 2008. Trade sales were the most common exit routes, representing 50% of all divestments.
- The number of exited companies stood just above one thousand.
- The highest financial volumes earned in exits were realised in life sciences, computer and consumer electronics, and communications (Figure 16). The volumes earned in exits in financial services decreased from 18,3% in 2013 to 1% in 2015, like those in computer & consumers electronics which decreased from 23% in 2014 to 14% in 2015.

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

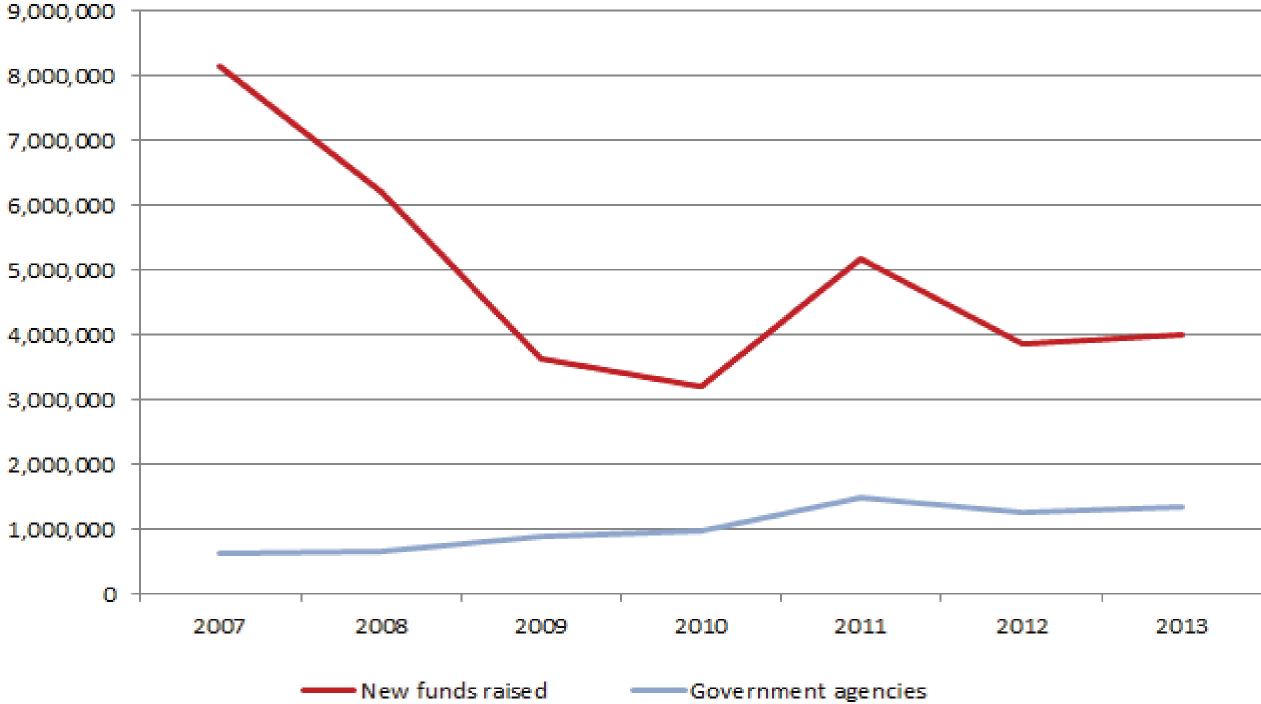


Source: *Invest Europe / Perep_Analysis 2016*

As shown above, in 2015, around 30% of funding for Venture Capital came from government agencies, according to EVCA (2016a), and the total amount raised from such agencies for

Venture Capital funds in Europe was around EUR 1,7 billion with government agencies significantly stepping up investments over the past few years.

Figure 17: *Government investments and Venture Capital fundraising in EU*



Source: *EVCA*

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

Importantly, public grants usually dry up as a concept moves from the basic research stage through to applied research, and then to piloting, while private capital is not available until the later stages, when technological and commercial risks have diminished.[37]

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

2.1.2.4. Equity Financing Gap for Innovative SMEs

A recent study commissioned by the European Parliament's Committee on Industry, Research and Energy (ITRE)[38] 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 from SMEs.

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

[37] European Commission (2013a).

[38] 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).

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

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

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

In the study on financial instruments accompanying the impact assessment for COSME,[39] 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.

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

2.2. EU Small and Innovative Midcaps[40]

While SMEs are at the centre of EU policy initiatives, small mid-caps are increasingly recognised for their important role in growth and employment. At this stage of the economic cycle and following the constraints posed for the whole EU economy by the financial crisis, small mid-caps will play a key role in economic recovery, growth and employment in Europe.

[39] Economisti Associati (2011).

[40] 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).

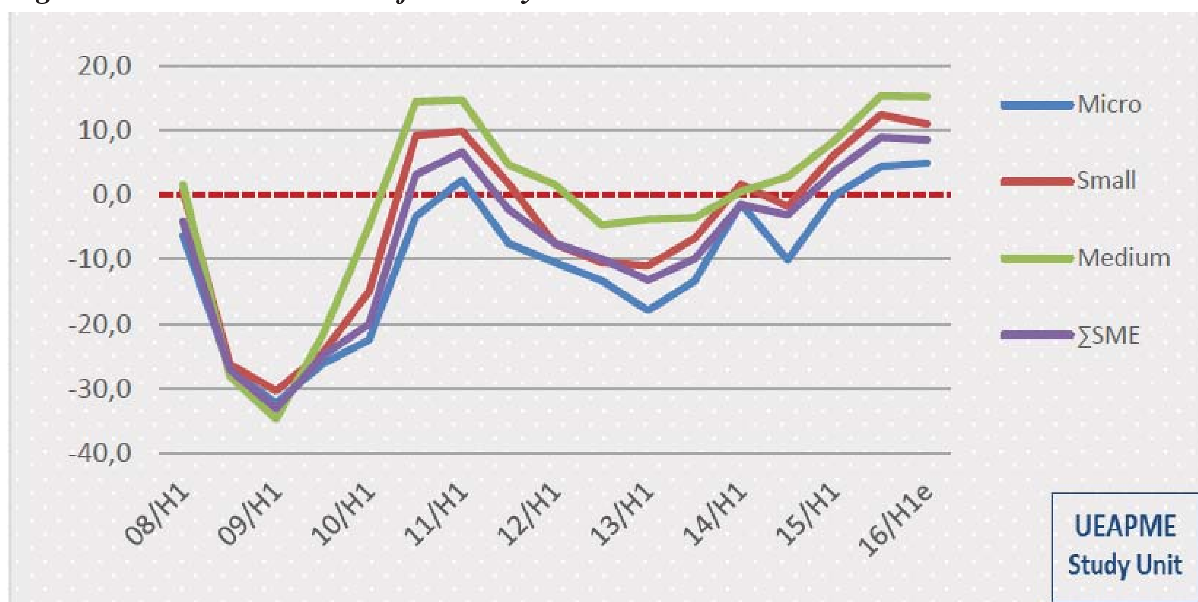
Small mid-caps, in certain circumstances, could also face financing constraints comparable to those affecting SMEs. Such may be the case for mid-caps carrying out R&D and innovation activities alongside initial investment in production facilities, including market replication, and whose track record does not enable potential investors to make relevant assumptions as regards the future market prospects of such activities. However, they benefit from better name recognition, longer credit history and better product track record than SMEs. A stable growth trajectory could even reduce information asymmetries and allow them to have better access to finance than SMEs, including access to capital market financing. But several small mid-caps in the EU are facing the challenge of being obliged to expand and innovate or else lose their competitive edge. Those mid-caps usually need 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.

While data on the consistency of small mid-caps are not readily available, from a recent study (PricewaterhouseCoopers 2012) the number of mid-caps in the EU can be gauged to lie around 39 000, 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. Data from the latest Survey on the Access to Finance of Enterprises show that only 7% of the respondent mid-caps consider access to finance as a problem.

2.3. EU Micro-enterprises[41]

While SMEs represent 99,8% of EU companies, microenterprises constitute 92% of them. As such they are thus decisive for boosting jobs, growth and investment in Europe. In addition, they play an even more important role when it comes to the impact on job creation for vulnerable groups and a resulting positive social inclusion effect.
Microenterprises share the same difficulties as other SMEs, yet typically to a higher degree; this is shown in figure 16, which illustrates how microenterprises' overall situation[42] – while following the general SME favourable evolution in 2015 – continues to rank systematically below all other SME size classes.

Figure 16: Overall situation of SMEs by size class



Source: UEAPME (2016)

A similar argument can be made in relation to access to finance. Data from the latest Survey on the Access to Finance of Enterprises[43] (SAFE) show that micro-enterprises in the Euro area reported "access to finance" as their least pressing problem, in line with small enterprises, and 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, including micro enterprises (from 14% to 12%).

However, analysing the responses from the SAFE regarding interest rates, compared to the other SMEs categories, micro enterprises present the highest percentage when considering bank loans as not relevant for their activity because interest rates or price are too high (12% vs 8% and 5%, respectively for small and medium-large enterprises). Additionally, this category

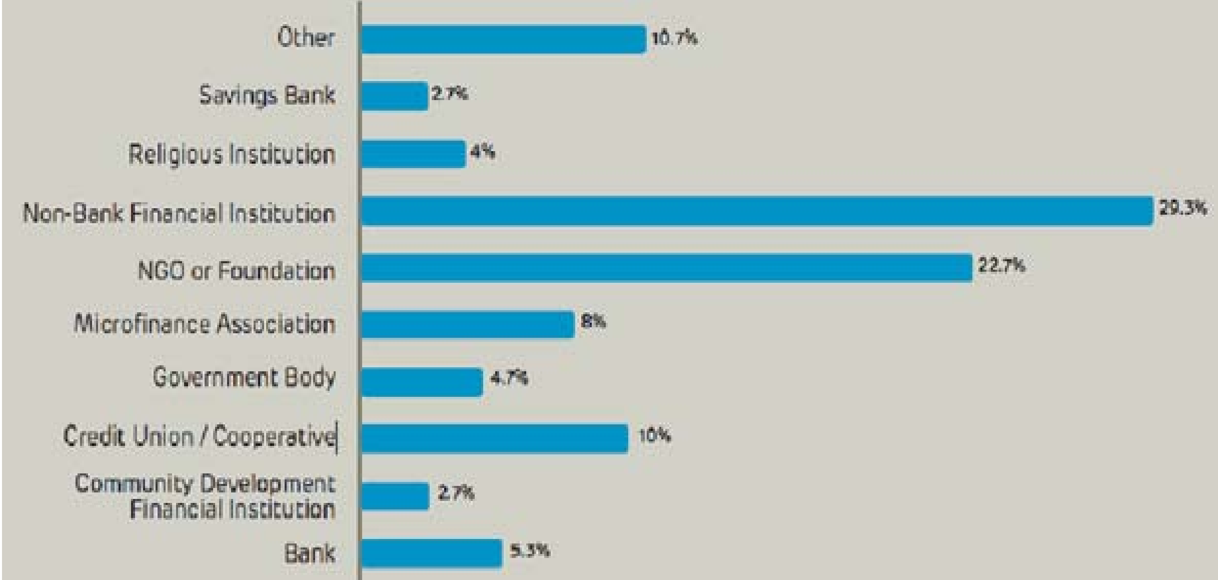
[41] Note: Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. (Commission Recommendation, 6 May 2003, C(2003/1422), OJ L124/36, 20.05.2003).
[42] The overall situation, according to UEAPME, is measured by a composite index which includes turnover, employment, prices, investment, and orders.
[43] ECB and European Commission (2015).

is characterised by the lowest percentage regarding the decline in the interest rates: only 24% responded that interest rates decreased in the last six months, compared to 35% for small enterprises and 42% for medium-large ones.

Again based on SAFE data (2015),[44] an estimation of the loan gap for micro enterprises has been carried out. The difference between loans demanded from and supplied to microenterprises is approximately EUR 205bn. Nevertheless, since only a fraction between 14.93% and 35.64% of the microenterprises can be characterised as financially viable, the actual loan gap is estimated to be within the range of EUR 33bn and 80bn.

The main channel of financing of microenterprises is the microfinance market, which provides microloans of up to EUR 25,000.[45] This market is as diverse as its actors. To a large extent, this diversity of institutional structures is related to differences in the national legal environment for loan provision, differences in the established financial systems and the variety of microenterprise promotion and underlying policy directions. The main institutional forms are Non-bank financial institutions (NBFIs), Non-Governmental Organisations (NGOs) or Foundations, Credit Unions and Cooperatives, Microfinance Associations and banks (Figure 19). The decrease of MFIs surveyed structured as NGOs and corresponding rise of NBFIs might be explained by a maturing of the European microfinance sector: existing NGOs may be scaling down their business and consequently changing their legal status to NBFI, since NBFIs can offer a wider range of services and access commercial sources of capital, as they operate under a license from the central bank.

Figure 19: *Distribution of MFIs by institutional type*



Source: *EMN (2014a)*

In addition to the institutional variety, the European microfinance markets are characterised by a large diversification of the products offered, especially in the underlying product features: current average loan term, average interest rate and the presence of additional fees.

[44] For this calculation, all the categories of loan amounts have been considered (i.e from "up to 25k" to "over 1M".

[45] 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).

Moreover, due to its social sustainability, the microfinance sector presents important complementarities with social entrepreneurship. Microfinance providers contribute to job creation and fight for social inclusion supporting new entrepreneurs, some of whom might become social entrepreneurs. Furthermore microfinance providers are often social enterprises themselves. Nonetheless, microfinance providers generally have less capacity to finance social enterprises, especially when the latter have already reached a certain size, as they are structured to specifically satisfy individuals' and microenterprises' financial needs; the most important funding gap for social enterprises is between EUR 100 000 and EUR 250 000.[46]

Based on the most recent European Microfinance Network Overview Survey,[47] the average micro loan was reported to have featured an interest rate in the range of 10% with large variations across countries.

In 2013, all MFIs covered by the EMN Survey disbursed 387 812 microloans (including personal loans) amounting to a total volume of around EUR 1 530 million. The EU-based organisations surveyed alone reported 207 335 loans with a total volume of EUR 1 260 million. Combined with the results of the past EMN surveys, this indicates a steady growth of the observed micro-lending activities among the MFIs surveyed in Europe since 2009. The number of loans disbursed increased by more than 350%, and the reported total loan volume increased by 85% since 2009, with a reduction of the average loan size.[48]

National aggregate results from Evers & Jung (2014) show that a total volume of EUR 2,4 billion was issued in the form of microloans in the EU-28 plus Switzerland, Norway and Iceland between 2010 and 2012.[49] The aggregate EU-28 level demand for microloans, calculated along clusters of European countries, is estimated up to a total value of EUR 5,1 billion,[50] highlighting a financing gap of around EUR 2,7 billion in terms of total volume issued.[51]

At the level of general supply of microfinance in Europe, commercial banks are expected to keep reducing their lending to small start-ups and micro-enterprises. If commercial banks continue to reduce their already limited exposure to risky small scale loan operations over the coming years, the financing gap for micro-financing may be expected to widen.

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

[46] According to the EMN (2014b).
[47] EMN (2014a).
[48] Due to issues of sample representativeness and attrition (change in surveyed MFIs over time), the survey results presented here should be interpreted and used cautiously.
[49] The estimation of the supply is based on the collected information of the value of microloans disbursed per country for 2010 and 2011 provided in the 2012 EMN Survey. The value of disbursed loans for 2012 is calculated using the value of microloans disbursed in 2011 multiplied with a growth rate of the value of microloans in the EU-27 in the year 2011, which was 7%. The estimation per country cluster is the sum of the value per country for 2010 to 2012.
[50] The estimation of the demand for microloans per country cluster is the sum of the demand per country using a formula based on European Parliament (2010).
[51] The difference between this gap calculation and the loan gap reported above can be ascribed to various factors, including: i) the focus on the microfinance market, rather than micro-enterprises; ii) the loan threshold of EUR 25 000; iii) the neglect of financially viable enterprises.

ease the ongoing situation of high unemployment rates, low economic growth and unstable financial sector.[52]

Despite success in widening the sector's outreach, the development of stable funding patterns remains a challenge for microfinance providers in many countries. Aside from public sources, the availability of affordable funding is limited and prone to external influences. Besides job creation, there is a new trend on the agenda – promoted by politicians as well as researchers – green microfinance. According to EMN (2014a), around 13% of the responding MFIs stated that they offer specific green microloans to finance renewable energy, energy efficiency and environmentally friendly activities. In addition, another 37% mentioned that they cover such activities with their normal microcredit programs.

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

3. Strategic Target Sectors

At the sectorial level, the broad infrastructure sector (comprising both tangible and intangible infrastructure) performs a crucial role in both development and sustainable growth, in contexts where private enterprises of all sizes and public entities interact to provide the necessary output. Infrastructure improves the productivity of the rest of the economy, enabling growth, and facilitates the interconnection of the internal market. The infrastructure in the EU comprises a number of strategic sectors, such as Research and Innovation, Transport, Energy Infrastructure and Efficiency, Digital (ICT and Broadband), Social Enterprises, Education and Culture.

The EU tangible 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 and 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.

[52] EMN (2014a).

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 projects at long maturities. The sub-optimal levels of long-term financing also reflect market failures and inefficiencies in the intermediation chain.

Additionally, social infrastructure, as a subset of the broad definition of infrastructure, is also undergoing financial difficulties, albeit for reasons different from those affecting tangible infrastructure.[53]

3.1. Research and Innovation

The financial crisis had a significant negative impact on innovation. Since 2012, the percentage of firms that managed to bring new or improved products to the market has declined across all industries in the EU-27.[54] 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).

[53] Social infrastructure according to the European Commission is comprised of human capital, education and training, health, cultural and creative industries, tourism and other relevant sectors that contribute in generating a social and solidarity economy in the EU.

[54] European Commission (2015a).

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 Cooperation Treaty) patent applications from the World Intellectual Property Organization 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. Trends over the past 6 years show a hesitant recovery of companies based in the EU, especially in terms of net sales. In 2014, 608 EU companies among the top world 2500 R&D investors increased R&D by 3.3%, slightly improving the previous year's performance (2.5%) in a context of net sales stagnation (-1.0%).[55]

Compared to the last survey in 2014, companies are now more likely to say they have introduced new or significantly improved organisational methods (+8 percentage points), services (+7 pp), or new or significantly improved goods (+5 pp). They are also slightly more likely to say they have introduced new or significantly improved marketing strategies or processes (both +3 pp).

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. From a financial viewpoint, banks typically lack the ability to value knowledge assets, and are therefore often unwilling to invest in knowledge-based companies or do so only if compensated with a significant risk premium. Consequently, many established and innovative firms (typically SMEs) find it hard to obtain loans for R&I activities.[56] To this purpose, the effectiveness of the R&I financing can be enhanced by the adoption of dedicated EU financial instruments.

3.2. Transport

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

Transport infrastructure is therefore fundamental for the mobility of persons and goods in the internal market, and for the economic, social, and territorial cohesion of the European Union. According to DG MOVE data, the EU comprises 5 000 000 km of paved roads (of which circa 73 000 km are motorways), over 215 000 km of rail lines (of which more than 115 000 km electrified), and nearly 42 000 km of navigable inland waterways.[57]

In order to address the associated transport investment from a systemic perspective, the EU adopted in 2013 a regulation providing Union guidelines for the development of the trans-European transport network (TEN-T Guidelines).[58] The regulation establishes a legally

[55] European Commission (2015a, 2015b).
[56] European Commission (2013a).
[57] European Commission (2015c).
[58] 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.

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

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

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

The Connecting Europe Facility (CEF) Regulation,[59] adopted in December 2013 laid down a financial envelope for the period 2014-2020 of EUR 30.4 billion, of which EUR 24 billion are allocated for the transport sector. The overall contribution to the CEF financial instruments is up to 8.4% of the overall financial envelope of the CEF budget, across the three sectors of transport, energy and ICT.

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

In September 2014, the Commission launched a call for proposals for co-financing projects with EUR 11,9 billion of EU funding to improve European transport connections. This is the largest ever single amount of EU funding earmarked for transport infrastructure. CEF grants were allocated to 263 projects and mobilised EUR28.3 billion of investment. There was an oversubscription of 3 times the amount proposed. And under the CEF Call launched in 2015, 427 proposals were submitted, requesting EUR 12.96 billion, an almost 2-fold oversubscription.

In August 2014, the Commission concluded the ex-ante assessment required for setting up the new financial instruments under the CEF. The assessment led to the design of a new CEF Debt Instrument, funded with EUR 2,5 billion, with which the previous instruments, namely PBI and LGTT, were to be merged. The Commission entrusted the implementation of the CEF Debt Instrument to the EIB by means of a new Delegation Agreement, signed in July 2015. Since the beginning of 2015, 3 projects have been signed in the transport sector under the Project Bond Initiative-PBI pilot phase and added to the CEF Debt Instrument portfolio. CEF financial instruments are complementary and additional to financing supported by the European Fund for Strategic Investments.

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[59] 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, amended by Regulation 2015/1017 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment project Portal, OJ L169, 25/06/2015

Looking forward, expanding the application of blending of grants and financial instruments would be an intelligent way to maximise the use of the Union budget to deliver projects of high EU added value. This is particularly the case for projects which have a strong economic but weak financial case.

3.3. Energy Infrastructure and Energy Efficiency

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

For the next years to come the EU is projected to invest annually at least some EUR 200 billion on average in the energy sector, with energy efficiency measures alone amounting to some EUR 100 billion. Since the Commission's Communication on energy infrastructure priorities for 2020 and beyond, adopted on 17 November 2010,[60] the existing Trans-European Networks for Energy (TEN-E) policy and financing framework have been overhauled to coordinate and optimise network development on a pan-continental scale.

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

The framework for the policy is now defined in the TEN-E guidelines regulation[61] adopted in April 2013. It is estimated that in electricity alone the transmission grid expansion to accommodate these changes would require EUR 104 billion until 2022 (or, extrapolating, EUR 207 billion until 2030)[62] in addition to the normal replacement of assets, estimated at EUR 76 billion until 2035.[63] In addition, approximately EUR 40 billion will be required by 2020 for a smart grid investment on the transmission and distribution 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) regasification terminals. These costs will be predominantly financed from network fees paid by the energy end-users.

The projects will be developed by Transmission System Operators (TSOs) i.e. companies set up specifically to develop and run the electricity and gas transmission networks. TSOs operate in a highly regulated business environment. Although regulations differ from Member State to 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).[64]

The scale of the undertaking – only partially financed from network fees paid by the energy end-users – as well as its cross-border 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.

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[60] European Commission (2010a).
[61] Regulation (EU) 347/2013.
[62] ENTSOE (2012).
[63] IEA (2011).
[64] 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.

3.4. ICT/Broadband

The Digital Agenda for Europe (DAE) recognises the role of fast and ultra-fast broadband access platforms for innovation and growth and sets ambitious targets for broadband coverage and take-up: (i) making basic broadband access available to all EU by 2013, (ii) making broadband access at internet speeds of above 30 Mbps[65] 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 last two 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. As of mid-2015, NGA coverage at 30Mbps is at 71% of the European population and only 11% of broadband subscriptions are 100 Mbps and above.

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

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

An alternative group of investors is represented by regional or local utilities, especially in the energy sector. Network investments initiated by municipalities or regional governments represent another class of projects[66].

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

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

Equally, there is often a mismatch between the risk-return profile of projects and the type of investments targeted by investors providing the bulk of financing. On the debt side, long

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

[66] 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.

payback cycles combined with high levels of construction and demand risk (at least in the early stages of operation) mean that NGA projects may not qualify for standard senior bank lending; where lenders are ready to extend credit, loan tenors often do not match the long asset lives of telecom networks. At the same time, debt capital market solutions may not be available to fill the gap because transaction costs are prohibitive in relation to the relatively small size of the projects.

On the equity side, the weakness of NGA investments is that they do not fit the definition of common 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 smaller broadband projects and with valuing telecom network assets. Especially, regulatory risk is perceived as a major hindrance in the telecommunications sector, and regulatory uncertainty on potential infrastructure competition and pricing implications for NGA networks severely impedes decisions of investing in open access network operators. Moreover, small ticket sizes and lack of standardisation across projects may further complicate the deal-making process. These factors drive transaction costs up and often prove to be a decisive obstacle.

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

3.5. Social enterprises

Traditionally, the European social model has always been characterised by the prominent role played by a variety of organisations that differ from mainstream private corporations and traditional non-profit organizations/social economy entities. These private organisations that are grouped under the notion of "social enterprise" pursue an explicit and primary social aim. Their main purpose is to achieve measurable, positive social impacts, rather than to generate financial gains for their owners or stakeholders. They provide goods and services which generate a social return and/or employ methods of production of goods or services that embody a social objective.[67] Social enterprises are revenue-generating entities working in the market which, by definition, aim to maximise their social mission. Profits are mainly oriented toward delivering on the social objectives underpinning their business models. Social enterprises are important engines for social innovation and contribute to EU's employment, social cohesion, regional and rural development, environmental and consumer protection, etc.

There are 2 million social economy entities in Europe, which are partly social enterprises. The social economy represents 10% of all businesses in the EU, and employing more than 11 million people – about 6% of the EU’s employees. Social economy organisations are traditionally structured in the legal forms of cooperatives, mutual undertakings, associations and foundations. They have various objectives ranging from agriculture and banking to provision of employment and sheltered workshops.

These enterprises, which have been active in Europe for nearly two centuries, have been recognised and regulated in many countries through specific legal forms (including in particular the cooperative, the mutual, the foundation and the association, as well as other

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

legal forms and business models recently developing), have set up their own representative organisations to interact with public authorities, and have contributed in various ways to the social and economic development of Europe. In fact recent studies highlight the correlation (and at some point the causality) relationship between social capital and economic growth.[68] Moreover, the recent crisis has pointed out the fragility of an economic and financial system merely based on the profit maximisation benchmark.

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

Furthermore, a great number of SEs are at a pre-bankable stage without the means to generate stable cash flows from their activities or provide collateral against a bank loan, and therefore without access to traditional forms of debt financing.[69] Thus, mainstream banks are not suitable channels for supporting social enterprises in so much as they are unable to lend to non-bankable entities without a full guarantee on such bank loans. In addition, the depth of the social banking market is limited since at present approximately 24 social and ethical banks exist in EU with 17 of them located in 4 MS. Social banks, although they do provide banking services, are not in the business of lending to social enterprises but rather focus on lending to socially marginalised individuals as a way to promote social inclusion.

In the Social Business Initiative,[70] the Commission pointed out that "the funding system for social enterprises is underdeveloped in relation to that used by other businesses". This was confirmed by a 2013 study on imperfections in the social investment market[71] as well as by a number of national studies.

For instance, in a survey of 1,159 UK social enterprises,[72] 44% of social enterprises sought funding in 2015 and access to finance remains the largest stated barrier, both for start-ups and for more mature social enterprises. In particular, 39% of mature enterprises believe the lack of funding availability is a barrier to their growth, but a more critical situation is experienced during the start-up phase, when obtaining funding is considered a barrier by 58% of respondents. As the UK is one of the most developed markets for social entrepreneurship finance, it can be expected that the demand for capital is not met in most parts of Europe. In fact, a recent study,[73] outlining several constraints to starting and scaling-up social enterprise activity, shows how access to finance was identified across almost every European country as a significant barrier. For example, over a third of social enterprises in Denmark do not have any lines of credit and in the Netherlands this figure rises to 40%. Moreover, a number of Member States have highlighted the limited range of financial instruments available to social investors. Stakeholders in Hungary noted that financing options available to SMEs (such as investment funds and state guarantees) were not available for social enterprises. In contrast, although available private funds are significant in Germany, they are usually conservatively managed and not necessarily accessible for innovative social enterprises or start-ups.

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[68] Beugelsdijk and van Schaik (2005).

[69] By extension, debt capital can sometimes be an impediment to growth, as it requires that a social enterprise is able to generate predictable cash flows to cover the interest rates and to repay the principal.

[70] EC (2011d).

[71] Spiess-Knafl, W. (2013)

[72] Social Enterprise UK (2015)

[73] EC (2014d).

Another factor is the investment readiness of social enterprises. There is often a lack of understanding on both sides (supply and demand for social finance), an unwillingness to pay interest rates, an orientation towards the so-called grant economy or a lack of necessary documents such as impact reports or business plans.

Moreover, an additional main barrier to the development of a SE is the lack of specialist business development services and support[74] such as incubators, mentoring and training schemes, investment readiness support etc. Most social enterprise support needs are similar to those of mainstream businesses, but at the same time SEs have specific features (their dual missions, business models, target groups, sectors of activity etc.) that create complex needs which require diversified and, at times, tailored solutions. Even if the number of social enterprise incubators, mentoring schemes, and investment readiness services across the EU is progressively growing (examples can be found in countries like Belgium, France, Germany, the Netherlands, Slovenia, Hungary, etc.), in most countries, specialist support for social enterprises is largely absent.

Thus, there is a clear mismatch between existing funding supply and demand, and a critical gap still remains in providing capital support to a rapidly growing number of enterprises in need of financing in order to grow and innovate. And, in terms of transaction size, most experts[75] agree that there is an individual funding gap below EUR 500k. Depending on the level of development of the social finance markets, the stage of development of SEs, their field of activity, and the relevant readily available financial/funding options (grants and financial instruments), this funding gap may range anywhere between EUR 100-500k (with the lower limit being even smaller for less mature contexts).

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

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

3.6. Education and Cultural & Creative Sectors

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*.[76] Arguably none of the Europe 2020 objectives and headline targets will be reached without strong investment in human capital.

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[74] EC (2014d).

[75] Results of the survey on hybrid instrument for social enterprise support launched by EC DG Employment, Social Affairs & Inclusion in May 2016; Varga, E. and Hayday, M. (2016), A recipe book for social finance. A practical guide on designing and implementing initiatives to develop social finance instruments and markets, Commissioned by the European Commission.

[76] European Commission (2010c).

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.[77] This importance is recognised by the agreement of the EU and 'Bologna' mobility target that by 2020, at least 20% European Higher Education Area graduates should have had a study or training period abroad.

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

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

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

The cultural and creative sectors (CCS) have been recognised as important contributors to societal development. With almost 1 million enterprises (2010), the CCS represent nearly 4.5% of the total business economy.[78] The sector employs over 3.2 million people, predominantly in very small enterprises, and provides work to many who are self-employed.

CCS are by nature inter-disciplinary, as they combine culture, economy, and many other connected areas such as education and innovation. Thus the investments made in CCS may also relate to research and innovation (entrepreneurship, SMEs, clusters, networks), information society (digitisation), education, youth, urban regeneration (as part of integrated projects), improvement of human and social capital and skills development.[79]

Even if CCS grow quickly and there is no evidence that the industry in Europe underperforms in terms of profitability and financial health compared to other sectors, they still suffer from negative stereotypes when their economic performance has to be assessed. Various studies on cultural and creative sectors highlight the fact that access to finance currently is a core barrier to further development. In addition to the barriers to accessing finance for SMEs in general, mainly in the seed stage, specific characteristics of CCS organisations reinforce this particular problem: [80]

- intrinsic characteristics of CCS activities, such as lack of tangible assets, dependence on intangible assets, high uncertainty of market demand, lack of uniform sector

[77] Humburg, van der Velden and Verhagen (2013).

[78] Excluding financial and insurance activities; in number of enterprises.

[79] Working Group of EU Member States Experts (Open Method of Coordination) on Culture and Creative Industries (2012),

[80] IDEA (2013)

definition, asymmetries of information, under-capitalisation, low investment readiness, atypical cash-flow plans and project-centric plans;

- characteristics of organisations and entrepreneurs within the CCS, such as (perceived) lack of business skills, dependence on public investment schemes and
- specific market conditions, such as size of the market, lack of good market intelligence, pressure on existing business models.

A further characteristic that heightens the problem of access to finance for the CCS in Europe is the "missing middle" phenomenon, i.e. the lack of middle-sized firms. Due to the criticalities in good access to bank loans for small CCS organisations, even those with the potential to grow have difficulty becoming medium-sized firms suitable to be financed.

All the issues mentioned above result in a large discouragement in applying for external finance, and in particular for bank loans, mainly requested for short term and project-led financing. According to the results of the Survey on access to finance for cultural and creative sectors,[81] only about half of the loans requested have been accepted for at least 75% of the amount applied for.

A total financing gap in the CCS over a 7-year period has been estimated,[82] ranging from EUR 8bn (when on average only 30% of the business plans of CCS organisations are sufficiently solid for financiers) to EUR 13,4bn (when on average, 50% of the business plans of CCS organisations are sufficiently solid for financiers).

4. Strategic Target 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 for Enlargement countries, through economic, technical and administrative support.

4.1. Enlargement Countries

Enlargement countries are composed of five candidates,[83] one applicant which has put the accession negotiations on hold[84] and two potential candidates.[85]

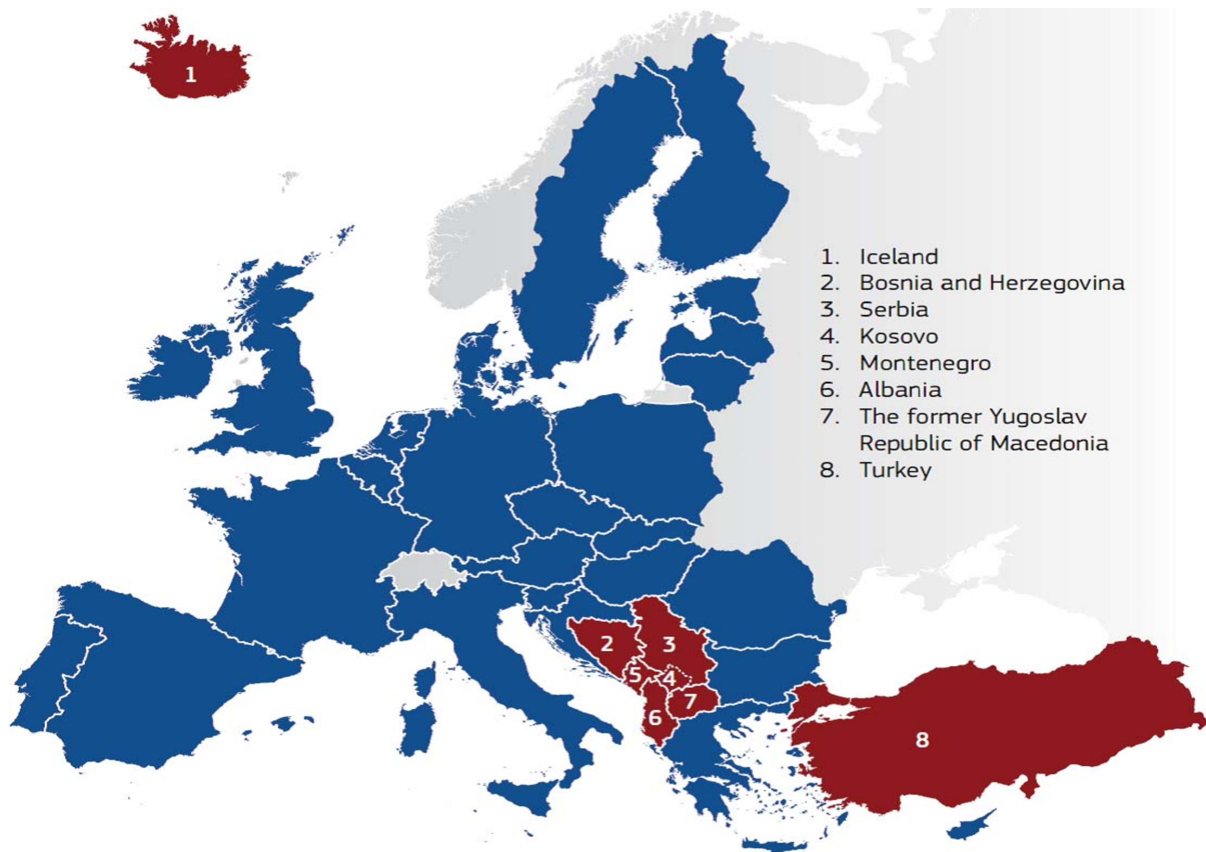
[81] Ibid

[82] Ibid.

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

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

[85] 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.



Source: *DG NEAR*

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

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

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

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

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

The longer-term nature of the challenges faced by the enlargement countries underlines the need for a strong focus on the principle of "fundamentals first" in the accession process. Enlargement can only be of benefit to the EU and to partner countries if there is a genuine, sustainable reform process. Through this process countries will become fully ready to join the EU and be able to reap the benefits and assume the obligations that arise from membership.

The Commission supports the reform process in candidate countries and potential candidates by providing both financial assistance through the Instrument for Pre-Accession Assistance

and technical assistance, through TAIEX, which is the Commission's Technical Assistance and Information Exchange instrument.

4.2. Neighbourhood Countries

There are 16 neighbourhood countries[86] to the East and the South of the EU. The European Neighbourhood Policy (ENP) offers these partners political association and economic integration with the EU. Available instruments are of a political, sectorial, and financial nature. In 2015 there was an extensive public consultation on the ENP in both Member States and partner countries which led to the Joint Communication of 18 November 2015 reviewing the ENP.[87]

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

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

The Ukraine crisis and Syrian conflict and its spill-over effects, both regional and at the EU level, tense situations in Egypt and the significantly worsening state of internal affairs and security situation in Libya also underline the need for effective partnerships and will form part of the ongoing review of the European Neighbourhood Policy, launched by the European Commission and the External Action Service in early 2015.

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

Investment needs in EU partner countries are immense.[88] Governments and other public donors' funds are far from sufficient to cover all substantial needs in EU partner countries. In parallel global realities have changed in the past 15 years. Many emerging economies are now thriving, with incomes in some upper middle-income countries outscoring those of EU countries. Nevertheless, there are a number of emerging countries who are currently facing a decline in economic growth or have found themselves in a deep economic crisis (e.g China and Brazil). At the same time, income disparities within a number of developing countries are increasing with negative impacts on sustainable economic growth and social cohesion.

The strategic role of the EU in sustainable social and economic growth of the DCI countries as a *condicio sine qua non* for poverty reduction lies in its capacity to mobilise a critical mass of financial and political support, having a significant impact on a given social or economic

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

[87] This review highlighted the need for stabilisation in the neighbourhood and set out priorities of good governance, rule of law, democracy and human rights; economic development; security and migration and mobility.

[88] The DCI covers, through its different programmes, all the developing countries except the countries eligible for the Pre-Accession Instrument.

issue. The European Union, through its common resources and the available national capabilities, has means, experience and expertise to act efficiently and in a cost-effective way.

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

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

5. Conclusion

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

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

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

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

6. Annex - Additional Information on the European Equity Market

6.1. The structure of the European Equity Market

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

Box 1: *Equity investment stages*

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

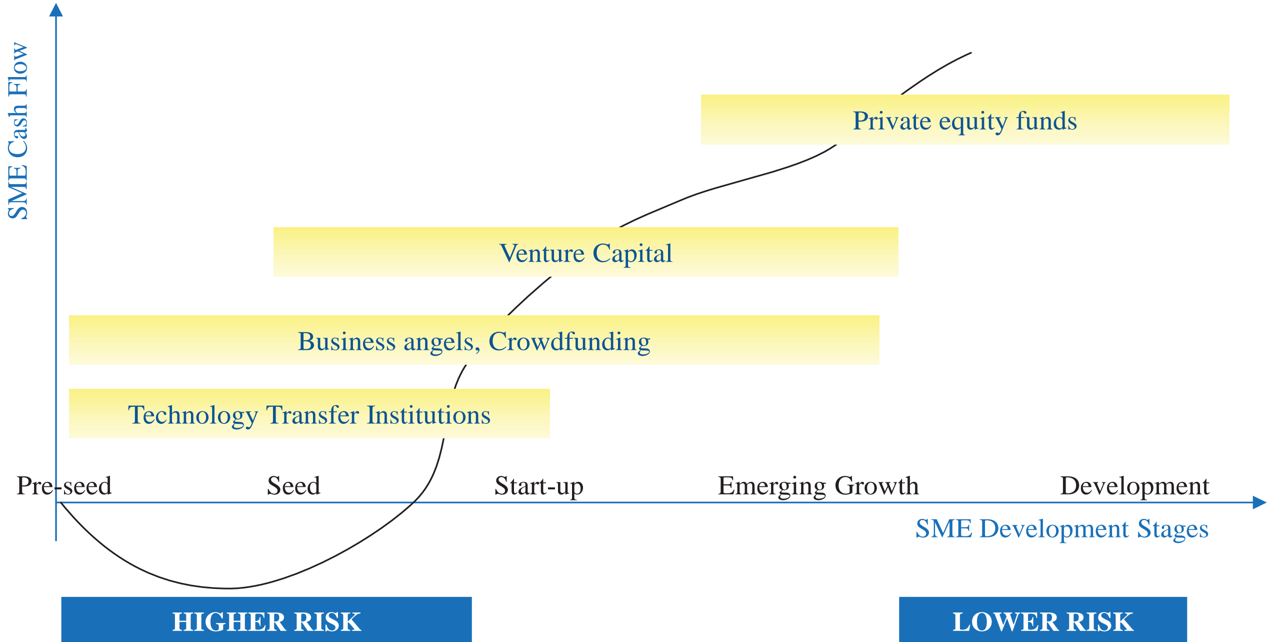
2. Start-up and Early Stage: this phase includes the planning and preparation of production. Targeted project management is important in order to keep control of the market entry schedule as well as the cost of R&D projects.

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

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

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

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



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

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

Box 2: Characteristics of equity market stages

Technology Transfer Institutions, Business angels, Crowdfunding

The term Technology Transfer Institutions (TTIs) is used to describe organisations[89] which help the staff at research organizations to *i)* identify and manage the organization's intellectual assets, including protecting intellectual property and transferring or licensing rights to other parties to enhance prospects for further development, and *ii)* create new companies (spin-offs) to develop or commercialise an invention such as Technology Parks and Incubators.

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

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

Venture Capital Funds

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

Private equity

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

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

6.2. Regulatory framework for the Venture Capital market

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

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

- The European Venture Capital Funds Regulation[90] (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).

[89] European Commission (2004).

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

After a domestic registration process, a fund manager can market EVCF-qualified funds[91] in all Member States without further national registration or approval by national regulators. The hypothesis is that the implementation of EVCFR will lead to larger and more cost-effective funds that can also specialise by type of investment or sector, increased competition between funds, a wider diversification of funds' investments, and hence to SMEs having greater access to equity finance.

- Despite diminishing obstacles to cross-border fund-raising, EVCFR will not in itself solve any taxation problems that funds invested across borders may face, because the Regulation does not contain rules on taxation. In 2010 a group of tax experts published a report[92] on the taxation problems, which might arise when Venture Capital is invested across borders.

However, the 2012 Commission's public consultation on Venture Capital-related cross-border direct tax problems[93] did not yield sufficient evidence to conclude either that the potential tax problems identified occur in practice, or to be able to estimate the real extent of such problems, the frequency with which they occur, and their financial impact. Given this outcome, the Commission is currently reflecting on what, if any, steps it could take in the tax field.

- The prudential regulation of Venture Capital investors, such as Solvency II for insurers, has increased investors' risk aversion and further constrained fundraising.
- The Commission has adopted on 15.1.2014 new guidelines[94] 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.

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

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

1. Equity Instruments

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

Policy DG in charge:	DG GROW, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 623* million
Current Overall (2007-2013) Programme Budget:**	EUR 605,7 million
Executed Budget since beginning until 31/12/2015*:**	Commitments: EUR 625,2 million **** Payments: EUR 414,2 million

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

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

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

*****Including EUR 19,5 million EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest, capital repayments and dividends generated on the trust accounts until 31/12/2012. Relevant interest, capital repayments and dividends generated on the trust accounts during 2013 were not recovered to the EU budget due to shortages in the balance of the trust account. Relevant interest, capital repayments and dividends generated on the trust accounts during 2014 and 2015 were not yet calculated nor recovered on the fiduciary account at writing date.*

A - <u>Summary</u>

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. GIF used 94,3% of its allocated budget of EUR 625,2 million, with a

leverage ratio of 5,6 to 1. It invested in 43 venture capital funds, therefore supporting 505 final recipients[95] and creating more than 3 000 jobs as of September 2015.

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

B - Description

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

Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013).[96]

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

Policy objectives and scope

GIF is 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 which is the improvement of access to finance for small and medium-sized enterprises (SMEs) in order to support their investment expenditures in innovation activities, including eco-innovation. Under GIF, this is done by increasing volumes of risk capital funds and other financial investment vehicles.

Implementation arrangements

GIF is implemented by the EIF on behalf of the Commission. 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). The EIF is responsible for identifying, evaluating and selecting the Financial Intermediaries ('FI') by applying selection criteria and processes set out in the Investment Policy, which is part of the FMA. Under the FMA, the EIF examined, on a continuous basis, proposals collected based on a published call for expression of interests. Investment proposals by financial intermediaries are selected based on a *notice of implementation* (OJ C 302, 14.12.2007). GIF funds equity or quasi-equity investments in intermediaries[97], which then must provide long term equity or quasi-equity capital (including subordinated or participating loans and convertible bonds) to innovative SMEs.

Moreover:

*i)*The GIF EU Investments typically consist of 5-12 year positions in intermediaries, the amount committed to a single such vehicle requiring a critical mass and not exceeding EUR 30 million (or equivalent). The GIF Facility consists of 2 different windows (GIF1 and

[95] This is the total number of Final Recipients supported through the programme. Out of those, 437 are Eligible Final Recipients.The VC funds supported may address non-eligble FBs as well as eligible, but EU finances only eligible FBs out of those.

[96] (OJ L 310/15, 9.11.2006)

[97] Such intermediaries operate in the Member States and other participating countries and channel more than 50% of their investments to eligible final recipients (SMEs meeting the GIF criteria).

GIF2). GIF1 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). GIF2 had to invest at least 7,5% and no more than 15% of total commitments to an Intermediary (the maximum limit could reach 25% exceptionally, including for eco-innovation focused venture capital funds). GIF may co-invest with other EIF-managed resources.

*ii)*The GIF EU Investment is required to rank *pari passu* (i.e. Like Risk, Like Reward) with market-oriented investors investing in the same intermediary.

Added value

The added value of the GIF instrument consists in addressing a) specific market needs, b) structuring input, and c) providing catalytic effects.

a) As response to *market needs*, GIF supported a multitude of 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.[98]

b) 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 investors and the managers, including by increasing the management team's commitment and optimising the composition of the Managers' Boards.

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

(c) The financial institutions involved in implementation;

European Investment fund (EIF).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 625 197 747
Aggregate budgetary payments as at 31/12/2015	EUR 414 150 895

[98] CIP Final Evaluation report, January 2012, Centre for Strategy and Evaluation Services (CSES).

(e) The performance of the financial instrument as of 30/09/2015, including investments realised;

Amount of EU Contribution committed to financial intermediaries and the corresponding number of financial intermediaries;	EUR 555 million[99] 43 FIs
for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	N/A N/A
Amount of financing expected to be provided by financial intermediaries to eligible final recipients And expected number of eligible final recipients;	EUR 3 132 million[100] 850 Eligible FR
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 1 249 million[101] 437 Eligible[102] FR
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 3 122,5 million[103]

GIF Impact on employment

In addition, for the entire period as of 31 December 2015, GIF programme achievements[104] were as follows:

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

The estimated number of jobs created (difference between number of employees at assessment date and number of employees at date of first investment) under GIF is over 3 000; the number of employees in GIF-final recipients as at 31 December 2012 was 9 908.

Additional GIF operational information

[99] Signed amounts between EIF and financial intermediaries.
[100] Target intermediary size; source: EIF-European Investment Fund (2015a), GIF-High Growth and Innovative SME Facility, Quarterly Report 30 September 2015.
[101] EIF-European Investment Fund (2015b), GIF-High Growth and Innovative SME Facility Annual Report, (Table 8) 30 September 2015.
[102] See explanation sub section "A-Summary" above.
[103] Real figure not available; estimate based on EIF leverage methodology for equity (multiplier for equity: 1 EUR equity financing for 2,5 EUR investment).
[104] Employment Report as at 31/12/2012 (latest available)

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 was of EUR 589,8 million over the period 2007-2013. This implies that the GIF budget had an utilisation rate of 94,1% of commitments available for deals.

Out of the fore-mentioned 43 funds, 18 funds have a multi-country focus and the remaining 25 funds target investments in specific countries. 12 venture capital funds are investing in eco-innovation, supported by signed EU investments for a total amount of EUR 198,5 million.[105]

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

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

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2015 EUR 94 701 022

	In EUR
Balance on the fiduciary account (current account)	13 437 806
Term deposits/Bonds (if applicable)	81 263 216
Term deposits < 3 months	*81 263 216*
Term deposits > 3 months < 1 year	*N/A*
Term deposits > 1 year	*N/A*
Bonds current	*N/A*
Bonds non-current	*N/A*
Equity investment (see also point i)[106]	318 051 787
***Other assets* (if applicable)**	9 519
= Total assets	412 762 328

Impact of negative interest rates on GIF: no impact as at 31/12/2015.[107]

(h) Revenues and repayments;

Aggregate additional resources as at 31/12/2015 EUR 19 474 357

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

As at 31 December 2015 a total of EUR 290,2 million[108] of the GIF had been invested in final recipients, and that investment has a valuation of EUR 318,1 million.

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

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

[107] According to the Audited Financial Statements for 2015, GIF generated:

- Interest income on cash and cash equivalents: EUR 243,178
- Interest charges on cash and cash equivalents: EUR 66,391

This results in a net positive interest of EUR 176,787 generated during 2015.

[108] Audited Financial statements as at 31/12/2015.

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 31/12/2015	EUR 5 271 996

(k) The target leverage[109] effect, and the achieved leverage[110] effect;

The aggregate budgetary commitments for 2007-2013 amounted to EUR 625,2 million. The expected leverage[111] effect on GIF is 5 which means that the impact of the aggregate budgetary commitments on the overall economy is expected to reach EUR 3 billion of funding to recipient SMEs.

The achieved leverage effect for CIP GIF is around 5,6.[112]

D -Strategic 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[113];

As at 30/9/2015, the GIF already contributed to provide more than 1,2 billion EUR of financing to 437 eligible Final Recipients (SMEs) and had thus an important impact on the real economy of the EU as described below.

The impact of the EU's Financial Instruments for SMEs

In 2015 the GIF component (providing venture capital) of the CIP programme again provided an essential contribution to SMEs' support in the eligible participating countries, as outlined above and confirmed by independent final evaluation results[114], summarised hereafter, concerning relevance, effectiveness, efficiency, utility, sustainability and European added value[115].

As regards *Relevance*, the EIP final evaluation concluded that the instrument met a clear need for finance on the part of the recipients and demonstrated that gaps in SME finance can be addressed. GIF recipients stated in 39% of cases that this financing scheme was the only option available for them; another 23% stated that without this instrument they would have been able to receive only part of the funding needed. In total, 62% of the GIF recipients indicated that the support was crucial to find the finance needed.

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

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

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

[112] Calculated as "Actual intermediary size= actual size of the VC funds / GIF net approved capital"; source: EIF-European Investment Fund (2015a), GIF-High Growth and Innovative SME Facility, Quarterly Report 30 September 2015.

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

[114] CSES (2011), The EIP Final Evaluation, the last evaluation available at the programme level (EIP).

[115] Based on an extensive telephone survey sample, prepared in the context of the evaluation.

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

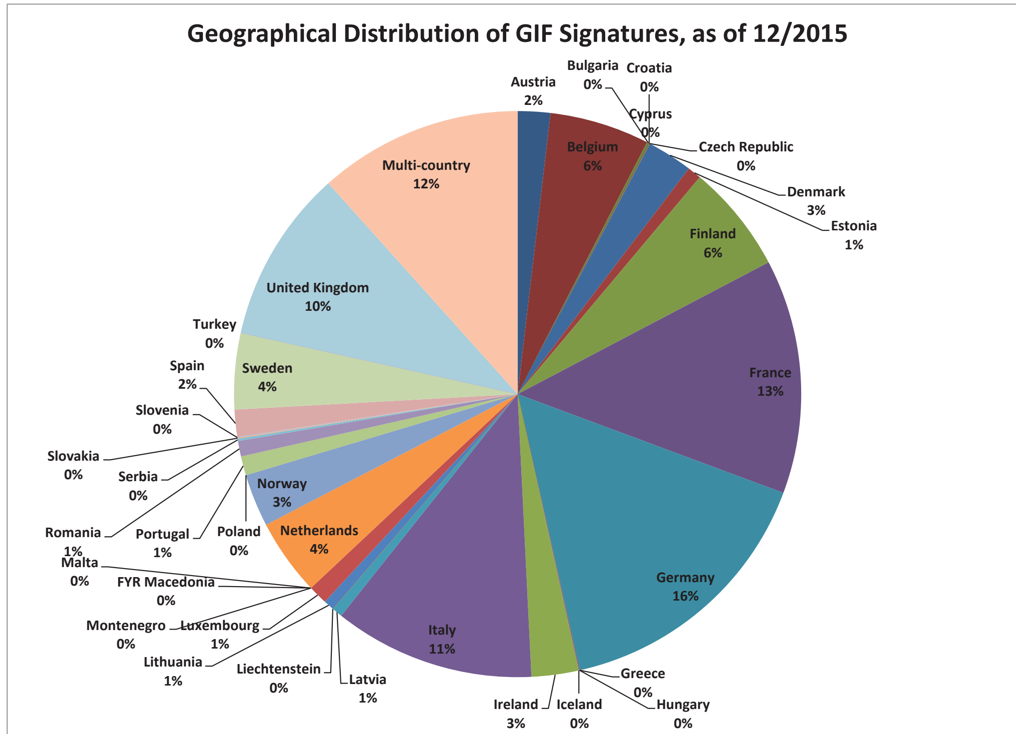
Apart from the financial means, GIF recipients also received other support (appointment of a non-executive director, advice on general business planning, access to a network, financial advice, special business advice or mentoring).

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

As regards *Sustainability,* the evaluators noted that possible improvements raised by EIPC[116] 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 i) have a broader geographical focus and ii) operate across boundaries Although the overall effect of EU programmes on SMEs' financing remains limited (by nature, EU intervention is limited to market gaps or sub-optimal market situations, meaning by far the largest part of financing is provided by banking and finance market players), the GIF components of CIP contributed very positively to the development and sustainability of EU SMEs throughout 2015.

[116] Entrepreneurship and Innovation Programme Committee.

__Graph 2 :__ Geographical distribution of signatures by the Designated Service under GIF



***Source:** ECFIN*

E -Other key points and issues

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

- **Main risks**: implementation under control, no specific risks identified.
  - The monitoring visits carried out for GIF during 2015 by the Commission allowed to confirm the eligibility of international financial intermediaries (IFI's) and final recipients, contractual compliance (transposal of the Commission's requirements into the contractual documentation), process compliance (observance of processes prescribed by the Commission) and performance (achievement of predefined targets/objectives). Compliance reporting covering the situation did not indicate major deviations.
  - *Audits and internal controls:*
    - as confirmed in ECFIN's AAR 2015, no issue is pending,
    - In February 2012 IAS and ECFIN IAC finalised their audit on the implementation by the EIF of the High Growth and Innovative SME Facility. The audit resulted in 6 recommendations, which were all implemented during 2013. No additional findings or recommendations were made in 2015.
    - During 2015, the Designated Service continued to follow-up the implementation of OLAF's recommendations in two cases (OF/2011/1176 and OF/2013/0107), where

fraud was detected at the level of the fund manager and at the level of a final beneficiary. Corrective actions for both cases were progressing normally during 2015.

- A positive Statement of Assurance has been received from the EIF as at 31/3/2016.

- *Efficiency:*
  - number of findings/minor observations (stemming from ECFIN L2's monitoring activities): for Equity: 0 (out of 0, 100% closed).
  - Number of OLAF inquiries: 2 inquiries (implementation of recommendations ongoing).
  - Number of IAC inquiries for Equity: NONE.
  - Number of open recommendations in action plans established following ECA, IAS, IAC or ex-post control recommendations: NONE.
  - Number of operations outside official procedures (2015): NONE.
  - Number of erroneous operations (2015): NONE.
  - Return to Trust Account (2015) linked to errors: NONE.
  - Results on the checks on the balance of the TA (2015): no errors/discrepancies.

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

1.2. The Connecting Europe Facility (CEF) Equity Instrument

Policy DG in charge:	DG CNECT
Implementing DG in charge:	DG CNECT
Operating Body in charge:	Not available yet
Initial Overall Budget Envelope:	EUR 10 million
Current Overall Budget:	EUR 10 million

A - <u>Summary</u>

The CEF Equity instrument is foreseen to establish a Broadband Investment Fund. The Fund will contribute to enhancing the roll-out of broadband networks in line with applicable eligibility criteria (in particular, the support to innovative projects, based on state-of-the-art technology and with a potential for replicability), both via direct financing to private sector companies (focusing on mid-caps and SMEs) and public and private partnerships (PPPs), and via public or private financial intermediaries.

B - Description

(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 Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/2010 (OJ L 348, 20.12.2013, p. 129).

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

Policy objectives and scope

Given the current market failures in the financing of infrastructure projects and in view of recent developments, in particular the establishment of the European Fund for Strategic Investments (EFSI), an Equity instrument was established under CEF by way of 2015 CEF Work Programme for a contribution to financial instruments (C(2015) 8847 final). The establishment of EFSI greatly enhanced the available financing opportunities in the form of Debt and made it possible to optimise the use of scarce CEF resources by re-directing a part of the available budget to finance smaller and more risky projects, especially in the area of broadband. The Debt instrument will nonetheless remain the main delivery mechanism for the financial instruments under CEF.

Currently, the contribution to CEF Equity instrument is foreseen for broadband (100 million €) for the establishment of a Broadband Investment Fund. The Fund will contribute to enhancing the roll-out of broadband networks, both via direct financing to private sector companies and public and private partnerships (PPPs), and via public or private financial intermediaries.

Implementation arrangements

The fund will be implemented under the CEF Equity instrument by setting up of a dedicated investment vehicle to allow the pooling of contributions from multiple investors (direct management). The fund will be managed by a Fund Manager selected in a competitive selection process. The Investment Manager will be a professional asset manager with extensive experience in infrastructure and, in particular, broadband investments in Europe. For alignment of interest, the Investment Manager will also subscribe to the fund.

Added value

The CEF Equity Instrument optimises the use of scarce CEF resources by re-directing a part of the available budget to finance smaller and more risky projects, especially in the area of broadband.

(c) The financial institutions involved in implementation;

Decisions on the implementation and the financial institutions involved will be taken in the course of 2016.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 10 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 0

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

Not applicable. The Broadband Investment Fund under the CEF Equity Instrument is still in a preparatory phase.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 10 million n.a.
Amount of investments expected to be provided by financial intermediaries to eligible final recipients Expected number of final recipients	n.a. n.a.
Amount of financing already provided by the financial intermediaries to eligible final recipients, and the corresponding number of recipients;	EUR 0 0
Amount of investments already made by eligible final recipients due to received financing	EUR 0

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

NA

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	0
Term deposits/Bonds (if applicable)	0
***Other assets* (if applicable)**	0
= Total assets	0

Impact of negative interest on RSI: no impact as at 31/12/2015.[117]

(h) Revenues and repayments;

N/A

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

N/A

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

N/A

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

The target leverage effect is 5 to 10, which – given the current budget envelope of 10m – will support a financing amount of 50m to 100m.

[117] The Broadband Investment Fund under the CEF Equity Instrument is still in a preparatory phase.

D - Strategic importance/relevance

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

N/A (the Instrument is too new to have produced any achievements as at 31/12/2015)

E - Other key points and issues

The Broadband Investment Fund under CEF Equity Instrument is in preparatory phase. The scope of envisaged operations will depend on the outcome of negotiations with investors, in particular the capacity of the Fund to attract private capital.

1.3. Equity Facility for Growth under COSME

Policy DG in charge:	DG GROW
Implementing DG in charge:	DG GROW
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 662 million[118]
Current Overall Budget:	EUR 546 million[119]

A - Summary

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

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

First fund agreements under the EFG were signed end of 2015.

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

[119] This amount is composed of the amounts committed towards the EFG for the year 2014-2015, the amounts allocated towards the EFG in 2016-2017 as currently foreseen in the COSME work programmes and the indicative amounts allocated to the EFG between 2018-2020. The 2016-2020 amounts are 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.

B - Description

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

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

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

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

Policy objectives and scope

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

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.

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

Implementation arrangements

The EFG is implemented by the EIF on behalf of the Commission, as a window of a single Union equity financial instrument supporting EU enterprises' growth and research and innovation from the early stage, including seed, up to the growth stage. It focuses on funds that provide venture capital and mezzanine finance, such as subordinated and participating loans, to expansion and growth-stage enterprises, in particular those operating across borders, while having the possibility to make investments in early stage enterprises in conjunction with the equity facility for Research, Development and Innovation (RDI) under Horizon 2020. Support is given in the form of direct investments made by the entrusted entity in financial intermediaries that provide equity or quasi-equity financing to SMEs.

The Delegation Agreement signed with the EIF on 22 July 2014 ensures that the EFG is accessible for a broad range of financial intermediaries provided that these are professionally and independently managed and that the funds are located in one of COSME participating countries. They must display the capacity to successfully support SMEs in their growth and expansion phase (to be verified by the EIF during the due diligence phase). From a technical point of view, the EIF is instructed to invest on a pari-passu basis with other private and public investors. Target final recipients are SMEs in their growth and expansion stage without a specific sector focus. The equity instrument is planned to last until 31 December 2034 (until last operations are wound down).

The EIF is responsible for evaluating and selecting the financial intermediaries by applying selection criteria and processes set out in the Delegation Agreement. The related continuous open call for expression of interest for financial intermediaries published by the EIF is available at
http://www.eif.org/what_we_do/equity/single_eu_equity_instrument/cosme_efg/index.htm

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 102 407 588

Aggregate budgetary payments as at 31/12/2015 EUR 41 029 779

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

Amount of EU Contribution committed to financial intermediaries and the corresponding number of financial intermediaries;	EUR 55 575 000[120] 5
for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	NA
Amount of financing expected to be provided by financial intermediaries to eligible final recipients And expected number of eligible final recipients;	EUR 394 500 000 53
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	0 NA
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	NA

Additional EFG operational information

Out of the five operations signed in 2015, two relate to Growth and Expansion Stage funds and three to Multi-Stage funds, in combination with the InnovFin Equity Facility for Early Stage set up under Horizon 2020.

Two of these operations have been unconditionally closed and the respective fund agreement with all investors have been signed. Three further signatures have occurred on a conditional basis, meaning that the EIF committed to invest in these funds provided that the

[120] Operations signed include both unconditional and conditional commitments as of 31 December 2015.

fund managers are able to attract sufficient additional funding commitments from other private and public investors to reach a minimum fund size.

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

NA

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	6 927 780[121]
Term deposits/Bonds (if applicable)	31 599 205
Term deposits < 3 months	*31 599 205*
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[122]	
***Other assets* (if applicable)**	114
= Total assets	38 527 099

Impact of negative interest rates on COSME-Equity: no impact as at 31/12/2015.[123]

(h) Revenues and repayments;
EUR 0

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

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;
EUR 0

(k) The target leverage effect, and the achieved leverage effect;
The target leverage effect indicated in the COSME legal base is in the 1 to 4 – 1 to 6 range for the equity instrument over the lifetime of the programme, with an overall value of risk capital investments expected to be mobilised by the EU contribution ranging from EUR 2,6 billion to EUR 3,9 billion[124].

[121] Out of which EUR 2 million placed on a current account specifically opened for investment in order to avoid negative interest on the amounts held on the fiduciary account.
[122] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.
[123] Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained slightly positive in 2015. Furthermore, EUR 2 million were placed on a current account specifically opened for investment in order to avoid negative interest on the amounts held on the fiduciary account.
[124] Amounts computed based on the initially foreseen budget for the COSME financial instruments, with an assumed split of 52% of budget allocated towards the LGF and 48% of budget allocated towards the EFG.

The achieved leverage effect
As the first operations with financial intermediaries under the EFG have been signed towards the end of 2015, no achieved leverage effect can be computed for 2015.
The "Expected Leverage for Signed Operations"
For the five operations signed with financial intermediaries in 2015, the maximum investment volume available to SMEs amounts to almost EUR 395 million. Based on the cumulative 2014-2015 budgetary commitments for the EFG (i.e. EUR 102,4 million), the expected leverage for the operations signed in 2015 is 3,85.

D - Strategic importance/relevance

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

At the end of 2015, five fund agreements have been signed in Italy, France, the Netherlands, Greece and Germany, and having predominantly a multi-country focus. The expected volume of investments into eligible final recipients amounts to almost EUR 395 million and would provide risk capital to around 53 SMEs.[125]

E - Other key points and issues

- ***Main issues for the implementation:***
  - Compared to the due diligence required for the signature of guarantee agreements, the due diligence process for equity is much more complex, and necessitates more time (e.g. due to the fund-raising process involved from various investors).
  - In the case of conditional closings, despite the EIF making a firm commitment of investing into a fund it may be that fund managers fail to raise the required additional required private and public funding to reach the first closing of a fund.
- ***Main risks:***
  - No specific risks identified at this stage of implementation.
- ***General outlook:***
  - According to the latest European Small Business Finance Outlook,[126] despite the recent generally positive developments, private equity and venture capital investment and fundraising activity continues to be far below pre-crisis years (2008/2009) level.
  - Based on the pipeline report received early 2016, it is expected that the 2014-2016 aggregate budgetary commitments (net of fees) will be fully used for the signature of EFG operations.

1.4. InnovFin SME Venture Capital (Horizon 2020)[127]

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD

[125] Geographical pie chart will be provided once investments have occurred (for the 2016 annual report).
[126] EIF Research & Market Analysis, Working Paper 2015/32, December 2015.
[127] 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.

Implementing Body in charge:	EIF
Expected Overall (2014-2020) Programme Budget:	EUR 460 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 - Summary

The InnovFin SME Venture Capital succeeds and refines the GIF-1 scheme under CIP,[128] 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 are eligible as final recipients. The COSME programme's Equity Facility for Growth complements this facility, which, supported by a set of accompanying measures, supports the achievement of Horizon 2020 policy objectives.

In terms of Union added value, the InnovFin SME Venture Capital complements national and regional schemes that cannot cater for cross-border investments in R&I. The early-stage deals 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 460 million.

B - Description[129]

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

Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC.[130]

Regulation (EU) No 1290/2013 of the European Parliament and of the Council of 11 December 2013 laying down the rules for participation and dissemination in "Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)" and repealing Regulation (EC) No 1906/2006.[131]

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

[128] European Commission (2013c).
[129] 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.
[130] (OJ L 347/104, 20.12.2013).
[131] (OJ L 347/81, 20.12.2013).

repealing Decisions 2006/971/EC, 2006/972/EC, 2006/973/EC, 2006/974/EC and 2006/975/EC.[132]

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

Policy objectives and scope

This facility succeeds and refines the GIF-1 scheme under CIP,[133] 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 are eligible as final recipients. The COSME programme's Equity Facility for Growth (EFG) complements this facility.

Implementation arrangements

The implementation of the InnovFin SME Venture Capital is made through an entrusted entity, the European Investment Fund (EIF) in Luxembourg, further to the signature of 2 amendments to the Delegation Agreement with the Commission on 15 June and 22 July 2016.

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.

The European Investment Fund (EIF) manages equity investments into risk-capital funds, while investing in a wide range of financial intermediaries, including those cooperating with business angels. The funds concerned 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, the Commission incentivises EIF, via an appropriate performance indicator, to make a particular effort to ensure that a proportion of final recipients are eco-innovative SMEs and small midcaps. R&I-driven SMEs or small midcaps wishing to apply for an investment should contact one or more of the funds signing an agreement with EIF.

Added value

In terms of Union added value, the InnovFin SME Venture Capital complements national and regional schemes that cannot cater for cross-border investments in R&I. The early-stage deals 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.

(c) The financial institutions involved in implementation;

European Investment fund (EIF)

[132] (OJ L 347/965, 20.12.2013).
[133] European Commission (2013c).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 125,05 million
Aggregate budgetary payments as at 31/12/2015 EUR 110,05 million

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

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 237,6 million 30 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	Not Applicable
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 0 million 0 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 0 million

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

Not applicable.

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	3 370 793
Term deposits/Bonds (if applicable)	**104 239 707**
Term deposits < 3 months	*75 992 311*
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	28 149 184
Bonds non-current	
Equity investment (see also point i)[134]	
***Other assets* (if applicable)**	**918**
= Total assets	**107 611 418**

Impact of negative interest rates on InnovFin Venture Capital (Horizon 2020): no impact as at 31/12/2015.[135]

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

(h) Revenues and repayments;

Not applicable.

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

Fixed income securities (EUR denominated bonds) as at 31/12/2015 28 247 396

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

Not applicable.

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

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

D - Strategic importance/relevance

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

As no effective operations have yet been concluded as at 31/12/2015, no geographical breakdown can be provided.

The InnovFin SME Venture Capital , supported by a set of accompanying measures, supports the achievement of Horizon 2020 policy objectives. To this end, they are dedicated to consolidating and raising the quality of Europe's science base; promoting research and innovation with a business-driven agenda; and addressing societal challenges, with a focus on activities such as piloting, demonstration, test-beds and market uptake. The budget envelope of EUR 460 million is targeted to mobilize EUR 2,7 billion of new equity investments.

Generally speaking, the following generic comments can be outlined, based on the Innovation Union Europe 2020 Flagship Initiative of 2010, which contains the following commitment:[136]

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 works 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 shall ensure a high leverage effect, efficient management and simple access for businesses.

In 2011, the Commission proposed[137] 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.

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[135] Even with market conditions deteriorating over time, the negative net interest generated on short term deposits were balanced by positive income on debt securities and other fixed income securities.

[136] European Commission (2010b).

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

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.

E - Other key points and issues

- **Main 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.
  - In the case of conditional closings, despite the EIF making a firm commitment of investing into a fund it may be that fund managers fail to raise the required additional private and public funding to reach the first closing of a fund.
- **Main risks:**
  - No specific risks identified at this stage of implementation.
- **General outlook:**
  - Given the generally pro-cyclical nature of the activities of equity investors, the health of the economy overall is very likely to dominate the evolution of both Europe's VC and BA industries, though some analysts advocate and predict a considerable downsizing of the VC sector in both Europe and the USA in order for a smaller number of funds to enjoy a reasonable level of return and profitability.[138]
  - The implementation of the Horizon 2020 InnovFin SME Venture Capital has started end of 2015, 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.

[138] See, for example, Mina with Lahr (2011), and Ernst & Young (2011).

2. Guarantee Instruments

2.1. The SME Guarantee Facility (SMEG07) under the Competitiveness and Innovation Framework Programme (CIP)	
Policy DG in charge:	DG GROW, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 506* million
Current Overall (2007-2013) Programme Budget:**	EUR 637,8 million
Executed Budget since beginning until 31/12/2015*:**	Commitments: EUR 649,9 million**** Payments: EUR 379,7 million

**Initial voted commitments (SMEG07 506 million EUR).*
***Including increase in budget commitments from 2008 to 2013.*
****Including EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest.*
*****Including EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest generated on the trust accounts until 31/12/2012. Relevant interest generated on the trust accounts during 2013 and 2014 was not recovered to the EU budget due to shortages in the balance of the trust account.*

A -Summary

SMEG 07 is part of the **CIP** market-oriented instruments and has shown high efficiency and relevance to the current market conditions. Indeed, SMEG07 acts as counter-cyclical measure, ensuring provision of finance to a vulnerable SME segment, which was one of the most hard hit market segments in the wake of the financial crisis. It is a cost-effective financial instrument which is demonstrated by the high leverage ratio: compared to grants, where 1 EUR of budgetary resources provide 1 EUR of financing, the SMEG is expected to support 31 EUR of finance to SMEs for 1 EUR of the Union contribution.

SMEG07 has a wide geographical coverage: as at 30/9/2015, the instrument involves 55 financial intermediaries, which have been providing finance to SMEs in 24 participating countries (the loans associated with that guaranteed amount account for EUR 20,3 billion).

According to the 2011 ECA's Performance Audit, the Facility should be able to reach the number of 315 000 supported SME recipients as foreseen in the ex-ante assessment under CIP. This target has already been trespassed, as 377 502 SMEs were already supported by the end of September 2015.

B - Description

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

Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013).[139]

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

Policy objectives and scope

SMEG 07 is 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 with a view to increasing the supply of debt finance to SMEs.

Implementation arrangements

SMEG 07 is operated by the EIF under a Fiduciary and Management Agreement ('FMA', signed on 20/9/2007).

It provides counter- or co-guarantees to guarantee schemes and direct guarantees to Financial Intermediaries operating in eligible countries with the aim of increasing lending volumes available to SMEs. The Facility is a demand-driven instrument, with only indicative country-based allocations, in order to ensure wide geographical coverage. The 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.

Until the end of budgetary commitment period in 2013,

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

- 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).

Value added

Thanks to the guarantee provided by the EIF, financial intermediaries either provide more financing to SMEs, or extend their financing 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,[140] 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.

[139] (OJ L 310/15, 9.11.2006, p.15).
[140] CSES, EIP Final Evaluation, 2011.

(c) The financial institutions involved in implementation;

European Investment Fund.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 649 886 744
Aggregate budgetary payments as at 31/12/2015 EUR 379 654 007

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

Amount of EU guarantee expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and the corresponding number of financial intermediaries;	*EUR 567,0 million*[141] *55FIs* [142]
Amount of financing expected to be provided by financial intermediaries to eligible final recipients, and expected number of eligible final recipients	*EUR 23 962,4 million*[143] 315.000 FRs[144]
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	*EUR 20 306,7 million*[145] *377 502 FRs*[146]
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	*EUR 29 495,8 million*[147]

Additional operational information

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

[141] Correspond to the overall SMEG 07 portfolio's guarantee cap amount, as per EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.
[142] Source: EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.
[143] Correspond to the SMEG 07 overall portfolio's "estimated SME financing guaranteed", as per the latest data available, i.e. EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.
[144] According to CIP performance indicators (Annex to the Proposal for a Decision of the European Parliament and of the Council establishing a Competitiveness and Innovation Framework Programme (2007–2013), SEC(2005) 433) and as confirmed by the 2011 ECA's Performance Audit, the SMEG07 facility should reach the number of 315 000 supported final recipients. Please note that as at 30/9/2015 (see below) the number of benefitting final recipients already trespassed this target/expected number.
[145] Correspond to the total loan volume received by the recipient SMEs as per the latest data available, i.e. EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.
[146] Source: EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.
[147] Source: EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.

Regarding the payments appropriations for the period 2007-2015, out of the EUR 793,8 million made available for the CIP financial instruments, EUR 379,65 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.

By the end of September 2015 (latest available figures as at writing date),

- SMEG 07 consisted of 72 guarantee agreements with 55 Financial Intermediaries from 24 countries, with a total of EUR 567,0 million guarantee cap from the Union budget for direct and counter-guarantees;

- 377 502 SMEs had received debt finance facilitated by financial support provided under SMEG07,[148] through nearly 457 954 loans;

- the EIF had signed agreements for a cumulative total amount guaranteed of EUR 14 554,7 million.[149] The loans associated with that guaranteed amount account for EUR 20,3 billion.

SMEG impact on employment

For the entire period as of 30 September 2015 (latest available figures as at writing date), SMEG achievements under CIP were as follows:

- number of employees at final recipients (supported SMEs) at inclusion date: 1 304 104;
- number of jobs created or maintained: 377 502.[150]

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

For the period 2007-2015, 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 31/12/2015 EUR 107 861 397

	In EUR
Balance on the fiduciary account (current account)	13 551 113
Term deposits/Bonds (if applicable)	94 310 284
Term deposits < 3 months (cash equivalent)	*88 242 412*
Term deposits > 3 month < 1 year (current assets)	*6 067 872*
Term deposits > 1 year (non-current assets)	*N/A*
Bonds current	*N/A*
Bonds non-current	*N/A*
***Other assets* (if applicable)**	16 147
= Total assets	107 877 544

[148] Source: EIF's Q3 Quarterly report dated 29/12/2015 with data as at 30/09/2015.

[149] Cumulated 'Actual Utilisation' of all agreements under the Facility (Source: EIF's Q3 Quarterly report dated 29/12/2015 with data as at 30/09/2015.)

[150] 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.

Impact of negative interest rates on SMEG 07: no impact as at 31/12/2015[151]

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

Aggregate additional resources as at 31/12/2015 EUR 12 089 883,9

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

NA

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

Called guarantees as at 31/12/2015 EUR 254 214 713

(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 35,8.[152]

The expected CIP SMEG07 leverage effect for signed operations (calculated as maximum portfolio loan volume / EU guarantee cap amount) is estimated around 31[153] for the entire duration of the programme.

D - Strategic importance/relevance

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

As at 30/9/2015, the SMEG07 already contributed to provide more than 20,3 billion EUR of financing to more than 377 000 Final Recipients (SMEs) through nearly 458 000 underlying loans, accounting for an estimated 29,5 billion EUR investment amount, and had thus an important impact on the real economy of the EU as described below.

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

a) Effectiveness and efficiency

The financial instruments appear to be on track to achieve the targets set and seem to be acquiring a certain momentum that may lead them to exceed expectations. [154]

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

b) Relevance

The relevance of the instrument as assessed by the recipient SMEs is significant[155]:

[151] Negative interest on some sub-accounts of the Trust Account were more than offset by positive interests on other sub-accounts , so, all in all, the Facility was not hampered by negative interests.

[152] Source: EIF's Q3 Quarterly report dated 29/12/2015 with data as at 30/09/2015; total loan volume received by the recipient SMEs = 20 306,7 million EUR / EU guarantee cap amount = 567 million EUR.

[153] Source: EIF's Q3 Quarterly report dated 29/12/2015 with data as at 30/09/2015; maximum portfolio volume = 17 531,4 million EUR / EU guarantee cap amount = 567 million EUR.

[154] CSES (2012).

[155] CSES (2011).

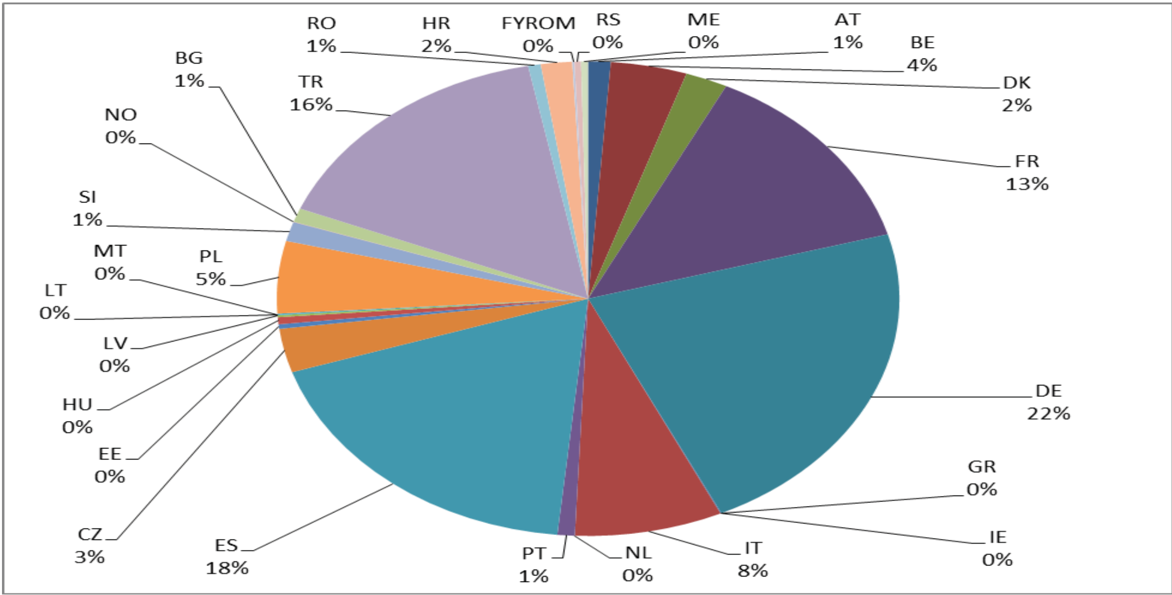
- 46% stated that the EU financing scheme was the only option available for them to get financing,
- 18% stated that without the EU support they would have received only part of the funding needed, 42% stated that the EU support helped them to get additional finance and
- 64% stated that EU support was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

In this regard, the SMEG Facility has a wide geographical coverage. The instrument involves 55 financial intermediaries, which have been providing finance to SMEs in 24 participating countries.

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

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

Graph 3: ***Geographical distribution of SMEG Net Signatures, million EUR***[156]



[156] Source: ECFIN.

E - 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 2015 allowed to confirm the eligibility of financial intermediaries (FI's) and final recipients, contractual compliance (transposal of the Commission's requirements into the contractual documentation), process compliance (observance of processes prescribed by the Commission) and performance (achievement of predefined targets/objectives). The EIF monitoring report 2015 did not indicate major deviations.

- **Audits and internal controls:**
  - As stated in ECFIN L2's 2015 Annual Activity Report, no issue is pending.
  - A positive Statement of Assurance was received from the EIF as at 31/3/2016.
  - In August 2012 the ECFIN Unit R4 has launched an ex-post control of the EIF guarantee calls paid under CIP-SMEG 07 Facility. The provisional scope and objective of this ex-post control includes reviewing of the sample of guarantee calls initiated since 2007 to-date with the objective to examine their legality and regularity and to review related sound financial management aspects. L2 Financial Intermediaries (FI) have been sampled. ECFIN L2 received R4's related report on the 31st of August 2015. After thorough investigations and detailed review of R4's observations in coordination with the EIF, ECFIN L2 replied to R4 as at 9/11/2015 (ref. ARES(2015)5484815), rejecting most of the observations. R4 accepted those extensive explanations in its final report (officially finalized on 23/12/2015 and sent to ECFIN L Director on 4/1/2016 – ref. ARES(2015)6031782), which confirms a Most Likely Error Rate (MLER) nearing 0% (0,002%), hugely below the materiality threshold and acceptable error rate of 2%. Thus, R4 concludes that "there is reasonable assurance that SMEG07 guarantee calls and related payments and recoveries were implemented in compliance with the legal, regulatory and contractual provisions".
  - ECFIN L2 also accompanied the ECA to an audit visit to the FI "Ziraat Bankasi" in Istanbul (7-9/9/2015) within the framework of the ECA's controls for the DAS 2015 (ECA's random selection process). The official report from ECA has been communicated to ECFIN Director General as at 22/1/2016, stating 3 non-eligible costs (out of a 10 operations sample), leading to an error rate calculation in amount of 1,63%, below the 2% 'acceptable' threshold.

- The first part of the relevant monitoring on 'return and decommitments of funds' (foreseen in ECFIN L2's 2015 monitoring plan) was successfully carried out: as a result, the procedure on the "Transfer of GIF revenues and repayments to Horizon 2020 and COSME" was agreed with the responsible DGs – BUDG, GROW, and RTD on 09/11/2015 (Ares(2015)4949413). Therefore, while the process was begun in 2015, the relevant Recovery Orders will only be issued in 2016.

- Efficiency indicators regarding SMEG:
    - number of findings/minor observations (stemming from ECFIN's monitoring activities): no findings, 7 minor observations (of which, 100% closed as at writing date);
    - number of OLAF inquiries: none;
    - number of IAS inquiries: none;
    - number of open recommendations in action plans established following ECA, IAS, IAC or ex-post control recommendations: none;
    - number of operations outside official 2015 procedures: none;
    - number of erroneous operations in 2015: none;
    - return to fiduciary account in 2015 linked to errors: none;
    - results on the checks on the balance of the TA in 2015: no errors/discrepancies.

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

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

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

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

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 31/12/2015:	Commitments: EUR 23,6 million Payments: EUR 20,64 million*

** including regularized interest of EUR 0,34 million.*

A - <u>Summary</u>

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

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

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

As of 30/09/2015, EIF has signed 36 guarantee agreements in 18 member states for a total cap amount of EUR 21,90 million, supporting EUR 284,91 million of aggregate volume of micro-loans. During the implementation of the Facility, 18 490 micro-borrowers and vulnerable persons and 33 222 jobs have been supported.

As of 30/09/2015, the European Progress Microfinance Facility including both Guarantees (EPMF-G) and Funded instruments (EPMF – FCP FIS) already provided 45 999 micro-loans to final recipients reaching the volume of EUR 390,4 million.

Currently the market demand exceeds the original budgetary allocation of EUR 23,6 million.

B - Description

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

Decision No 283/2010/EU[157] of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion.[158]

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

Policy objectives and scope

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

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

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

Implementation arrangements

The 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.

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.

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

[158] (OJ L 87/1, 7.4.2010).

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 also seeks to promote a balanced geographic distribution and the set target is to cover at least 12 Member States until 31 December 2016. As of 30/09/2015, the Facility covers 18 Member States. The EPMF Guarantee Facility shall remain in full force and effect until 31 December 2020. However, as the budget of the EPMF Guarantee Facility has been fully utilised by Q2 2014, no new transactions took place.

Added value

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

(c) The financial institutions involved in implementation;

European Investment fund (EIF).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 23 600 000
Aggregate budgetary payments as at 31/12/2015	EUR 20 649 387

(e) The performance of the financial instrument, including investments realised (as of 30/09/2015);[159]

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients,	EUR 284,91 million
and corresponding number of eligible final recipients;	24 227 eligible FRs[160]

[159] EPMF FMA - 2015 Annual Implementation Report

[160] estimate based on an average loan amount per FB as at 30/9/2015 = 11 760 EUR

Amount committed to financial intermediaries	EUR 21,90 million[161]
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 407 million[162]
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 217,45 million 18 490 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 310,6 million[163]

Impact on employment

For the entire period as of 30 September 2015, EPMF achievements for the Guarantee Facility component of the programme were as follows:

- Number of micro-loans: 19 574
- Total amount of micro-loans: EUR 217,45 million
- Total number of employees (in the supported micro-enterprises): 33 222

Additional operational information

- As of 30/09/2015, 36 Guarantee Agreements have been signed in 18 Member States for a total guarantee cap amount of EUR 21,90 million.
- In 2016, the demand from microfinance providers will remain significant and the new EaSI Microfinance Guarantee (EPMF-G successor programme) is already covering fast and effectively the needs of the microfinance market.

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

- As of 30/09/2015 the European Progress Microfinance Facility including both Guarantees (EPMF- G) and Funded instruments (EPMF – FCP FIS) already provided 45 999 micro-loans to final recipients reaching the volume of EUR 390,4 million, compared to the initial programme target of 46,000 micro-loans with the volume of EUR 500 million. The Facility is on track to reach the initial programme target, as new loan inclusions will take place until 2018.

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

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

[161] Total guarantee cap amount.

[162] The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.

[163] The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.

(g) The balance of the fiduciary account;
At the end of the financial year 31/12/2015 EUR 5 078 009

	In EUR
Balance on the fiduciary account (current account)	5 078 009
Term deposits/Bonds (if applicable)	7 519 799
Term deposits < 3 months (cash equivalent)	7 519 799
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Other assets **(if applicable)**	
= Total assets	12 597 808

Impact of negative interest rates on EPMF-G : no impact as at 31/12/2015.[164]

(h) Revenues and repayments;
Aggregate additional resources as at 31/12/2015 EUR 349 387,07

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

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

Called guarantees as at 31/12/2015 EUR 6 886 878

(k) The target leverage effect, and the achieved leverage effect;
As of 30/09/2015, based on the signed Guarantee agreements, the total guarantee cap amounts to EUR 21,90 million and the expected volumes of micro-loans to final recipients are estimated to EUR 284,91 million that brings the expected leverage effect to 13,00 which is much higher than the minimum target leverage estimated at 6,67.

As for achieved leverage until 30/09/2015, the total guarantee cap amount of EUR 21,90 million has supported so far EUR 217,45 million of new micro-loans, implying a leverage of 9,93.

[164] Negative interest on some sub-accounts of the Trust Account were more than offset by positive interests on other sub-accounts , so, all in all, the Facility was not hampered by negative interests.

D - Strategic importance/relevance

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

As at 30/9/2015, the EPMF-G already contributed to provide more than 217,4 million EUR of financing to 18 490 Final Recipients through 19 574 underlying loans, accounting for an estimated 310,6 million EUR investment amount.

See below some information on the impact of EU Financial Instruments for micro-entrepreneurs SMEs (The economic environment for micro-finance).[165]

At the aggregate EPMF Facility level (including both Guarantee and Funded Instruments),[166] the gender breakdown for the 43 332 natural persons benefitting from loans under the Facility show that considerable outreach to females was achieved (36,9% of the micro-borrowers guaranteed were women).

In addition, 49,2% of individual micro-borrowers who received support under the Facility so far, were either unemployed or inactive at the time they received their loan. Furthermore, a clear majority (88,2%) of micro-enterprises, which received financing under the Facility, were established no earlier than three years since the micro-loan inclusion date.

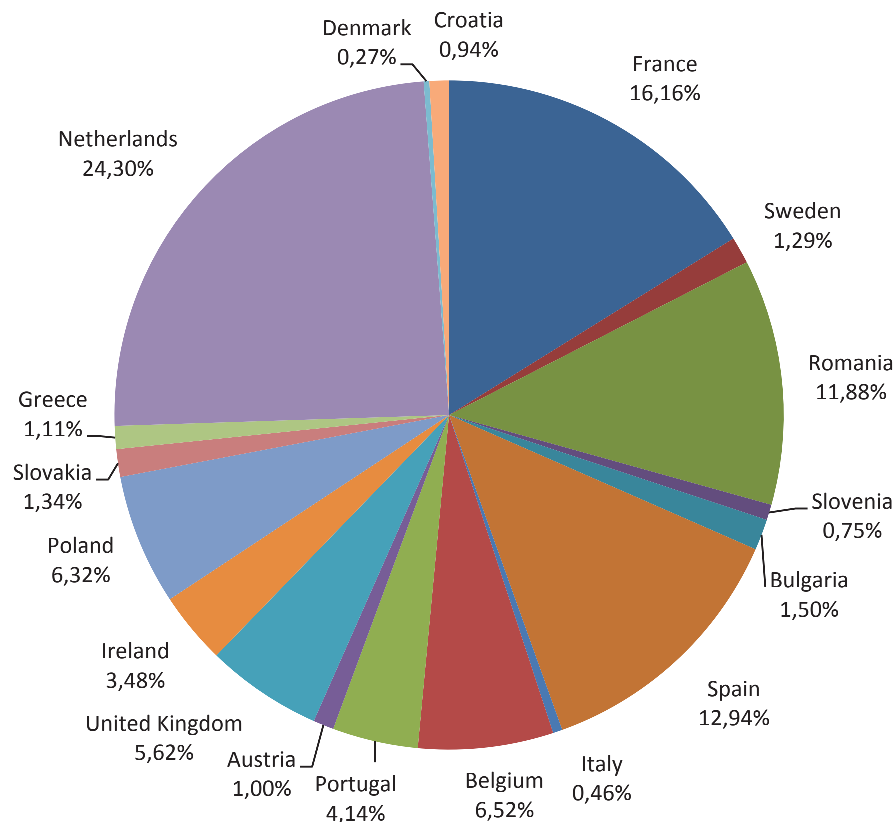
At Facility level, individuals which were final recipients of micro-loans were, by and large, educated at the secondary level (40,3%). Nevertheless, EPMF continues to be of importance in serving the financing needs of individuals with more substantial education beyond the secondary level (39,7%).

Regarding the age group, with respect to final recipients who are natural persons the outreach to individuals in disadvantaged age groups (younger and older people combined) remains at noteworthy levels (17,9%).

The share of each participating country in the total amount of financing already provided (EUR 217,45 million as of 30/09/2015) by the EPMF – G instrument to eligible final recipients is presented in the following graph.

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

[166] EPMF – Annual Implementation Report 2015 – Social Reporting Analysis. The data used in this paragraph is based on a survey of a sample of micro-borrowers.



E - <u>Key points and issues</u>

- ***Main issues for the implementation & general outlook:***
  - In terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2015, 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.

- ***Main risks and solutions in place to mitigate these***:
  - Contractual and process compliance of the microfinance providers is ensured through contractual reporting and monitoring after the signature of the guarantee agreements in accordance with the EIF internal procedures.

- In addition, the Commission safeguards that the requirements included in the Facility's Fiduciary and Management Agreement are fully respected by both EIF and the microfinance providers.
- In order to encourage utilisation by the microfinance provider, a commitment fee is charged if not at least specific percentage of the Agreed Portfolio is reached during a contractually defined Availability Period.
- Furthermore, the observance of specific requirements set out in the Facility's Fiduciary and Management Agreement with regard to reporting, monitoring and auditing, data protection, promotion and visibility, protects the interests of the Union against any risks of contractual, processes and performance non-compliance.

2.3. EaSI Microfinance and Social Entrepreneurship

Policy DG in charge:	DG EMPL
Implementing DG in charge:	DG EMPL
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 193 million [167]
Expected Overall Budget as at 31/12/2015:	EUR 193 million

A - Summary

As has been shown by ex-ante evaluations,[168] it is essential to provide financial instruments for microfinance and social enterprises in order to successfully achieve the objectives of the EaSI programme. In line with the outcome of ex ante evaluations, debt finance, risk-sharing instruments, and equity investments are likely to be used.

B - Description

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

Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on a European Union Programme for Employment and Social Innovation ("EaSI") and amending Decision No 283/2010/EU establishing a European Progress Microfinance Facility for employment and social inclusion.[169]

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

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

[169] (OJ L 347/238, 20.12.2013).

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

Policy objectives and scope

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

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

The instruments provide support not directly to final recipients, but rather to relevant intermediaries, i.e. microfinance providers and social enterprise investors.

"Microfinance Instrument" targets:

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

"Social Entrepreneurship financial Instrument" will target

- social enterprises, regardless of their legal form.[170]

Implementation arrangements

The Delegation Agreement between EC and the EIF was signed on 22/06/2015.

Added value

The Delegation Agreement signed with the EIF ensures that EaSI Microfinance and Social Entrepreneurship is accessible for a broad range of financial intermediaries (microcredit providers, both banks and non-banks, and social enterprise investors) which are experienced in financial transactions with self-employed and micro-entreprises.

From a technical point of view, the EIF is instructed to provide guarantees to the financial intermediaries to cover a portion of expected losses of a portfolio of newly generated self-employed and micro-entreprises transactions with a higher risk profile.

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

[170] 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.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 59 799 200

Aggregate budgetary payments as at 31/12/2015 EUR 9 905 000

(e) The performance of the financial instrument, including investments realised (as of 31/12/2015);[171]

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients; - *of which for Microfinance* - *of which for Social entrepreneurship*	EUR 341,83 million 30 190 eligible FRs EUR 308,83 million 29 874 eligible FRs EUR 33 million 316 eligible FRs
Amount committed to financial intermediaries - *of which for Microfinance* - *of which for Social Entrepreneurship*	EUR 27,18 million (total guarantee cap amount) EUR 23,64 million EUR 3,53 million
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable - *of which for Microfinance* - *of which for Social entrepreneurship*	EUR 488,32 million[172] EUR 441,18 million EUR 47,14 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients; - *of which for Microfinance* - *of which for Social Entrepreneurship*	EUR 6,81 million 416 eligible FRs EUR 6,81 million 0

[171] EaSI - 2015 Annual Operational Report.

[172] The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.

Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable. - *of which for Microfinance* - *of which for Social Entrepreneurship*	EUR 9,72 million EUR 9,72 million 0

Impact on employment
For the entire period as of 31 December 2015, EaSI achievements for the Microfinance Guarantee Instrument were as follows:

- Number of micro-loans: 416
- Total amount of micro-loans: EUR 6,81 million

EaSI achievements for the Social Entrepreneurship Guarantee Instrument are not available since there was only one agreement signed on 17/12/2015.

Additional operational information

- As of 31/12/2015, 11 Guarantee Agreements (10 Microfinance, 1 Social Entrepreneurship) have been signed in 8 Member States for a total guarantee cap amount of EUR 27,18 million.

EaSI Microfinance Guarantee Instrument

- Based on forecasts subject to variations a further EUR 24,4 million in operations is expected to be signed with Financial intermediaries for Microfinance by the end of Q3 2016.
- In 2016, the demand from microfinance providers will remain significant and the new EaSI Microfinance Guarantee (EPMF-G successor programme) is already covering fast and effective the needs of the microfinance market.

EaSI Social Entrepreneurship Guarantee Instrument

- Based on forecasts subject to variations a further EUR 9,8 million in operations is expected to be signed with Financial intermediaries for Social Entrepreneurship by the end of Q3 2016.

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

Not applicable for 2015.

(g) The balance of the fiduciary account;

At the end of the financial year 31/12/2015 EUR 3 795 596

	In EUR
Balance on the fiduciary account (current account)	3 795 596
Term deposits/Bonds (if applicable)	6 054 427

Term deposits < 3 months (cash equivalent)	6 051 042
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	193
= Total assets	9 850 216

Impact of negative interests for EaSi : no impact in 2015.[173]

(h) Revenues and repayments;

Not yet applicable.

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

Not yet applicable.

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

Not yet applicable.

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

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

Considering the fact that EaSI Guarantee Financial instrument was at the beginning of its implementation in 2015, that the first operation was signed on 30/9/2015 and that the data presented in the 2015 EaSI Annual Operational Report is as of 31/12/2015, the calculation of the achieved leverage effect as at 31/12/2015 cannot provide us with meaningful conclusions. Nevertheless, the expected leverage from the first 11 operations signed (10 Microfinance, 1 Social Entrepreneurship) is estimated at 5,7 (expected financing of 342m/budgetary commitment of 59,8m).

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

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

Considering the facts that a) EaSI Guarantee Financial instrument was at the beginning of its implementation in 2015, b) the first operation was signed on 30/9/2015 and c) data presented in the 2015 EaSI Annual Operational Report is as of 31/12/2015, the basic indicators of the instrument cannot provide us with meaningful conclusions.

[173] There was no impact of negative interest either in the Trust Account or in the sub accounts.

For informative reasons, at the end of 2015, the EaSI Guarantee financial instrument already provided EUR 6,81 million of financing to 416 eligible Final Recipients. According to the Annual Impact Report provided by EIF with data as of 30/09/2015, all the above 416 final recipients involved microloans disbursed by a financial intermediary in Ireland.

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

- ***Main issues for the implementation:***
  - At the current stage, EaSI Guarantee financial instrument is fully deployed covering the already anticipated increased market demand. The main issues arising for the implementation of the instrument are the necessity to ensure sufficient and on time available funding in order to facilitate the ongoing implementation of the Programme.
- ***Main risks:***
  - in comparison to the existing Progress Microfinance (EPMF-G), EaSI may provide a strengthened capacity-building element to help mitigate this risk.
  - The risks related to social enterprises are linked to the fact that that market has not yet developed and the EU financial instrument has to help building it. Given the level of its development and the changes in the socio-economic environment, the market also tends to change very rapidly. This might cause a situation where the instrument in question may not be fit anymore for future situations.
- ***General outlook:***
  - In the area of social entrepreneurship there was an initially slower take up but taking into account the novelty of the offer, this is not unusual. Based on the pipeline, we expect significantly higher levels of implementation in the next years. In the area of Microfinance, EaSI has already committed to financial intermediaries the amount of EUR 23,64 million (42,2% of the total amount of EUR 56 million foreseen for Microfinance) within a period of only 3 months of initial implementation (30/9/2015-31/12/2015).

2.4. Loan Guarantee Facility under COSME

Policy DG in charge:	DG GROW
Implementing DG in charge:	DG GROW

Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 717 million[174]
Current Overall Budget:	EUR 827 million[175]

A - Summary

The capped portfolio guarantees offered under the LGF and implemented by the EIF under the COSME Delegation Agreement signed in July 2014 created strong market demand from financial intermediaries and the whole 2014-2015 budget available was already exhausted by mid-2015. Thanks to the guarantee provided by the European Fund for Strategic Investment (EFSI), the EIF was able to continue signing COSME LGF guarantee agreements in the second half of 2015.Thanks to EFSI, it was possible to deliver an even more significant contribution to providing financing for riskier SME transactions as would have been the case without the EFSI guarantee. It is expected that especially start-ups and smaller SMEs, which find it hardest to access finance, will benefit from the enhanced LGF. As of 31 December 2015, more than 51 000 SMEs already received financing for almost EUR 1 300 million.

B - Description

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

Loan Guarantee Facility (LGF) under the Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) – 2014 to 2020 -Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 – 2020) and repealing Decision No 1639/2006/EC (O.J. L347, 20.12.2013).

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

Policy objectives and scope

In line with the Europe 2020 strategy, the overall policy objective of the COSME Financial Instruments is to improve access to finance for SMEs in the form of equity and debt. Under the LGF, this will be achieved by incentivising financial intermediaries to provide financing to those SMEs which the financial intermediary would under its normal business practices not finance due to the higher risks involved.

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

[175] This amount is composed of the amounts committed towards the LGF for the year 2014-2015, the amounts allocated towards the LGF in 2016-2017 as currently foreseen in the COSME work programmes and the indicative amounts allocated to the LGF between 2018-2020. The 2016-2020 amounts are indicative and subject to change, in line with Article 17 of the Basic Act which stipulates that the allocation of funds to the loan guarantee and equity facilities shall take into account the demand from financial intermediaries. It includes the contribution to the SME Initiative where applicable.

The Loan Guarantee Facility (LGF) provides:

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

The LGF consists of:

- o capped guarantees for debt financing covering any type of loans, including subordinated and participating loans, bank guarantees, leasing transactions and working capital financing;
- o securitisation of SME debt finance portfolios, providing guarantee coverage on a part of the mezzanine tranche of a securitised SME lending portfolio coupled with an undertaking by the originating institutions to build up a new SME loan portfolio.

The LGF covers, except for loans in the securitised portfolio, loans up to EUR 150 000 and with a minimum maturity of 12 months. The LGF may also cover loans above EUR 150 000 in cases where SMEs would not meet the innovation criteria specified under the SME window in the Debt Facility of the Horizon 2020 programme (the InnovFin SME Guarantee Facility).

Implementation arrangements

The LGF is implemented by the EIF on behalf of the Commission, as part of the single EU debt financial instrument for EU enterprises' growth and research and innovation (R&I), together with the InnovFin SME Guarantee Facility set up under the Horizon 2020 programme. The Delegation Agreement signed with the EIF on 22 July 2014 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.

Target final recipients under the capped portfolio guarantees and the securitisation transactions are SMEs without a specific sector focus. The guarantee instrument is planned to last until 31 December 2034 (until last operations are wound down). Individual guarantee agreements to be signed by the entrusted entity will have a maximum duration of 10 years.

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

The EIF is responsible for evaluating and selecting the financial intermediaries by applying selection criteria and processes set out in the Delegation Agreement. The related open call for expression of interest for financial intermediaries published by the EIF is available at

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 237 635 125
Aggregate budgetary payments as at 31/12/2015 EUR 131 191 898

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

Amount of EU Contribution committed to financial intermediaries, *out of which thanks to EFSI frontloading,* and the corresponding number of financial intermediaries , *out of which thanks to EFSI frontloading*;	EUR 274,7 million *EUR 168,3 million* 26 FIs *18 FIs*
Amount of financing expected to be provided by financial intermediaries to eligible final recipients, *out of which thanks to EFSI frontloading* , and expected number of eligible final recipients *out of which thanks to EFSI frontloading*;	EUR 7 068,3 million *EUR 4 637,6 million* 110 000 Eligible FRs *71 000 Eligible FRs*
Amount of financing already provided by financial intermediaries to eligible final recipients, *out of which thanks to EFSI frontloading;* and the corresponding number of eligible final recipients, *out of which thanks to EFSI frontloading*;	EUR 1 292,4 million *EUR 346,9 million* 51 099 Eligible FRs *9 351 Eligible FRs*
Amount of EU Contribution committed to financial intermediaries, *out of which thanks to EFSI frontloading,* and the corresponding number of financial intermediaries , *out of which thanks to EFSI frontloading*;	EUR 274,7 million *EUR 168,3 million* 26 FIs *18 FIs*
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 1 846,3 million

Additional LGF operational information

As the resources available under the LGF in 2015 were not sufficient to satisfy market demand (i.e. total of applications received from Financial Intermediaries by the EIF) for the financing of SMEs, a second amendment of the COSME Delegation Agreement was signed in July 2015, allowing for the combination of LGF resources with additional risk-bearing capacity under the European Fund for Strategic Investment (EFSI) so as to avoid disruption of the succesful rollout of the LGF. The LGF Enhancement under COSME and the InnovFin SMEG Enhancement under Horizon 2020 are the first debt products set up in 2015 under the SME window of EFSI.

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

(g) The balance of the fiduciary account;

	(in EUR)
Balance on the fiduciary account (current account)	14 831 058[176]
Term deposits/Bonds (if applicable)	110 659 942
Term deposits < 3 months (cash equivalent)	*110 659 942*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Other assets **(if applicable)**	49
= Total assets	125 491 049

Impact of negative interest rates on COSME LGF: No impact as at 31/12/2015.[177]

(h) Revenues and repayments;
EUR 0.

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

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;
EUR 172 243.

(k) The target leverage effect, and the achieved leverage effect;
The target leverage effect indicated in the COSME legal base is in the 1 to 20 – 1 to 30 range for the debt instrument over the lifetime of the programme, with an overall value of financing expected to be mobilised by the EU contribution ranging from EUR 14,3 billion to EUR 21,5 billion.[178]

The achieved leverage effect
Based on the amount of financing already provided by financial intermediaries to eligible final recipients compared to the aggregate budgetary commitments as at 31 December 2015, the leverage achieved amounts to 1 to 5.

[176] Including EUR account and sub-accounts in tradable currencies (BGN, CZK, DKK, GBP, HUF, PLN, RON).
[177] Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained positive in 2015.
[178] Amounts computed based on the initially foreseen budget for the COSME financial instruments, with an assumed split of 52% of budget allocated towards the LGF and 48% of budget allocated towards the EFG.

The "Expected Leverage for Signed Operations"

Based on the maximum financing available to SMEs under the operations signed with financial intermediaries as at 31 December 2015 (EUR 7 068,3 million, including the operations signed thanks to EFSI) , the expected leverage for the operations signed in 2015 is almost 1 to 30.

D - Strategic importance/relevance

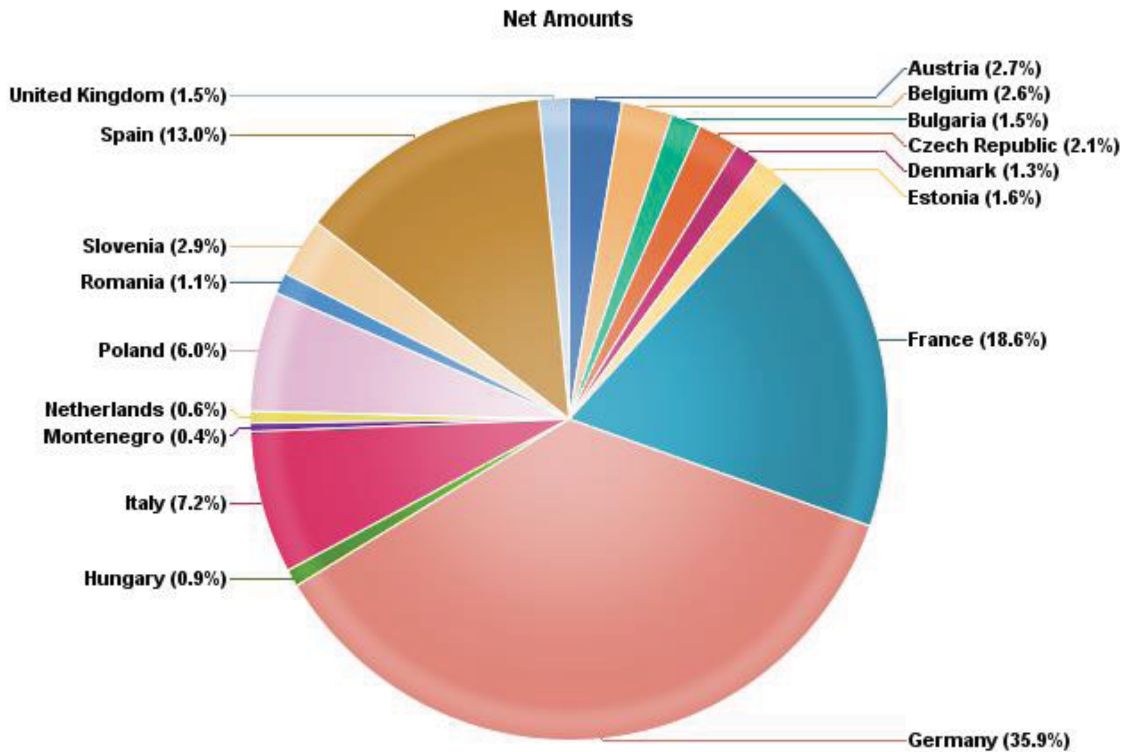
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

As at 31 December 2015, the LGF already contributed to provide around EUR 1 292 million of financing to more than 51 000 SMEs, out of which almost EUR 347 million of financing were provided to more than 9 300 SMEs thanks to the support from the EFSI guarantee.

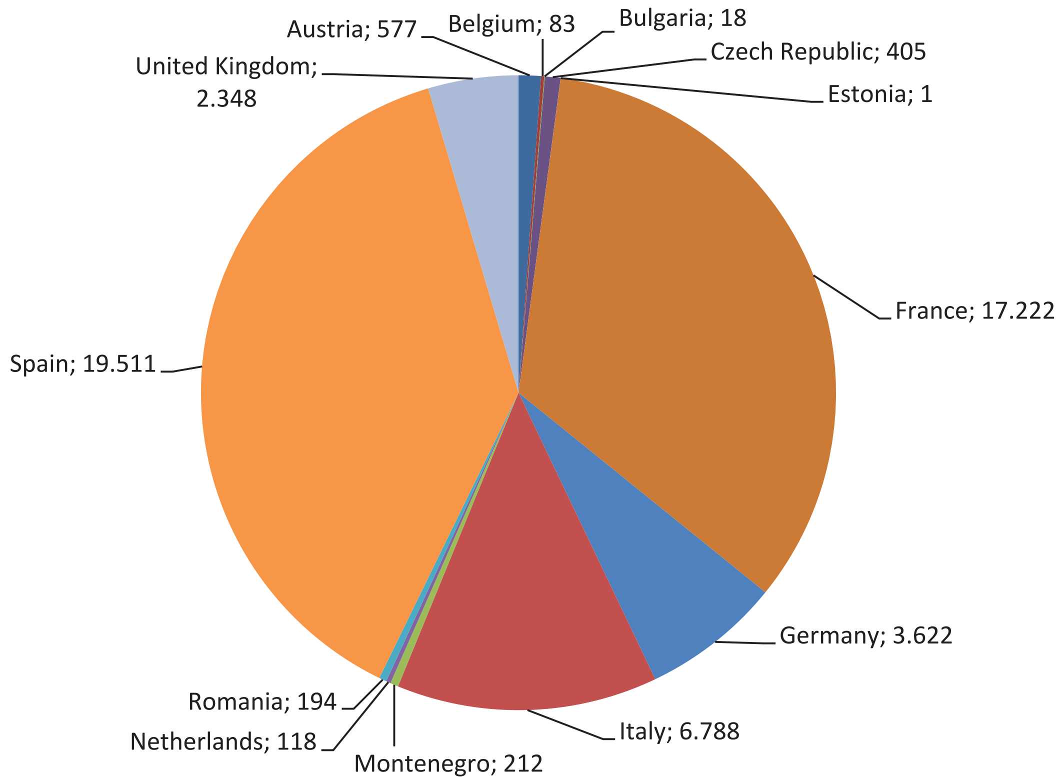
This shows that the LGF, by providing financing to riskier SMEs that otherwise would not have had access to such financing, has an important impact on the real economy in the EU and other participating countries of the COSME programme. Furthermore, the combination of resources with EFSI allows addressing sub-optimal investment situations in the Member States at a much faster pace than would have been possible under LGF on its own, significantly speeding up the much needed financing of the economy.

At the end of 2015, 27 guarantee agreements have been signed with 26 financial intermediaries located in 17 participating countries, with actual financing already provided to SMEs in 13 countries, as set out in the graphs below.

Graph: **Geographical distribution of LGF net signatures in participating countries**



Graph: **Geographical distribution of SMEs (by number of SMEs having received financing)**



E - Other key points and issues

- ***Main issues for the implementation:***
  - Due to the currently foreseen release of the guarantee provided under EFSI once additional COSME LGF appropriations become available in subsequent years, we expect budget shortages as early as of 2017 while market demand for the LGF is not expected to diminish.[179] It would therefore be important to investigate additional ways of financing the COSME financial instruments, both under EU and EFSI budget, in order to help those SMEs which without the COSME support would not be able to get the financing they need.
- ***Main risks:***
  - No risks were identified with regard to eligibility of financial intermediaries and final recipients, contractual compliance process and performance.
- ***General outlook:***
  - The very strong market demand continues in 2016 as shown by the latest pipeline reports received from the EIF and support provided from EFSI will continue to allow frontloading also in 2016.
  - A third amendment to the COSME Delegation Agreement becomes effective in April 2016 to allow for the implementation of the securitisation option under the SME Initiative. It is expected that Member States interested in this option may decide for a pooling of resources with the COSME LGF.

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

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

A - Summary

RSI (Risk-Sharing Instrument for SMEs and small midcaps, with maximum 499 employees) was launched to improve access loan finance for RDI investments. The RSI guarantee facility is part of the RSFF implementation and is carried out by the European Investment Fund (EIF).

The Risk-Sharing Instrument has so far provided over EUR 2,33 billion in guarantees and counter-guarantees to 36 banks and guarantee societies: this has enabled them to support up to an estimated 4 133 innovative SMEs and small midcaps (estimated corresponding investment amount: EUR 4 660 million). In only two years' time, these financial intermediaries now cover 18 countries in the European Union and Associated Countries.

[179] Given the fact that the availability period under a guarantee agreement typically ranges between two and three years, financial intermediaries who have succesfully rolled out new higher risk lending products under the LGF (e.g. dedicated start-up loans) will most probably apply for successor guarantees with the EIF.

B - Description

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

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

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

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

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

Policy objectives and scope

The RSFF, co-developed by the European Commission and the EIB, was established in June 2007. In early 2012, within this programme a new pilot guarantee facility, RSI (Risk-Sharing Instrument for SMEs and small midcaps, with maximum 499 employees) was launched to improve access loan finance for RDI investments.

Implementation arrangements

The RSI guarantee facility is part of the RSFF implementation (see the relevant section in this report) and is carried out by the European Investment Fund (EIF). No new commitment were made since 31/12/2013.

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 270 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 270 000 000

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

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

The instrument has so far provided over EUR 2,33 billion in guarantees and counter-guarantees to 36 banks and guarantee societies: this will enable them to support up to an estimated 4 133 innovative SMEs and small midcaps via loans, financial leases, and loan guarantees.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 3 301 million 3 000 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 6 000 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 2 336 million 4 133 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 4 660 million

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

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	9 206 481
Term deposits/Bonds (if applicable)	252 396 069
Term deposits < 3 months (cash equivalent)	*87 999 525*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	*85 516 422*
Bonds non-current	*78 880 122*
***Other assets* (if applicable)**	250 938
= Total assets	261 853 488

Impact of negative interest on RSI: no impact as at 31/12/2015.[180]

Please note that the figures provided are also included in RSFF.

(h) Revenues and repayments;
For the period 2012-2015 the following revenues and repayments were received by the EU on the EU RSI Account:

[180] Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained slightly positive in 2015.

Total operating revenues[181]: EUR 1 848 325
Repayments: NONE

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

(j) The accumulated figures on impairments of assets of equity;
Called guarantees as at 31/12/2015 EUR 6 666 985

(k) The target leverage effect, and the achieved leverage effect;
The expected leverage effect is above 12 with an amount of financing expected to be provided by financial intermediaries of EUR 3 241 million and an EU contribution of EUR 270 million.

The achieved leverage effect is above 8,5 with an amount of financing expected to be provided by financial intermediaries of EUR 2 336 million and an EU contribution of EUR 270 million

D - Strategic importance/relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;
The Risk Sharing Instrument (RSI) under the 7th Framework Programme is a guarantee facility dedicated for loan and lease finance addressing the finance gap for innovative SMEs and Small Midcaps (enterprises with up to 499 employees).

As at the end of 2015, the instrument has so far provided over EUR 2,33 billion in guarantees and counter-guarantees to 36 banks and guarantee societies: this will enable them to support up to an estimated 4 133 innovative SMEs and small midcaps via loans, financial leases, and loan guarantees and had thus an important impact on the real economy of the EU as described below. In only two years' time, these financial intermediaries now cover 18 countries in the European Union and Associated Countries.

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

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

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

[181] Revenues and repayments reported include those notified by the entrusted entities as well as those stemming from the economic outturn account.
.

Current Overall Budget:	EUR 1 060 million *

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

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

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

B - Description

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

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

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

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

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

Policy objectives and scope

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

Implementation arrangements

The EIF implements this guarantee instrument, which will be delivered by financial intermediaries (such as banks). Financial intermediaries will be guaranteed against a proportion of their potential losses by EIF, which will also offer counter-guarantees to guarantee institutions.

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

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

Selection procedure: 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

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

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

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

(c) The financial institutions involved in implementation;
European Investment Fund (EIF).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 291,7 million
Aggregate budgetary payments as at 31/12/2015 EUR 291,7 million

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

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients,	EUR 3 693 million
- of which Operations made possible thanks to EFSI	EUR 2 318 million
and corresponding number of eligible final recipients;	8700 eligible FRs

Amount of investments expected to be made by eligible final recipients due to the financing, if applicable - of which Operations made possible thanks to EFSI	EUR 5 276 million EUR 3 311 million
Amount of financing already provided by the instrument to eligible final recipients, - of which Operations made possible thanks to EFSI and the corresponding number of recipients;	EUR 310 million EUR 99 million 727 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 443 million

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

NA.

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	11 801 310
Term deposits/Bonds (if applicable)	282 254 343
Term deposits < 3 months (cash equivalent)	*82 619 529*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	*1 120 056*
Bonds non-current	*198 514 758*
***Other assets* (if applicable)**	5
= Total assets	294 055 658

Impact of negative interest rates on the Facility: no impact as at 31/12/2015.[182]

(h) Revenues and repayments;

Revenues[183]: EUR 511 548

[182] Even with market conditions deteriorating over time, the negative net interest generated on short term deposits were balanced by positive income on debt securities and other fixed income securities.

[183] Revenues and repayments reported include those notified by the entrusted entities as well as those stemming from the economic outturn account.

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

NA

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

Impairments : EUR 163 029

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

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

The expected leverage effect as at 31/12/2015 equals 9,24 with an amount of financing expected to be provided of EUR 2 694 million and an EU contribution of EUR 291,7 million.

The achieved leverage effect as at 31/12/2015 equals 1,1 with an amount of financing provided of EUR 310,1 million and an EU contribution of EUR 291,7 million.

D - Strategic importance/relevance

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

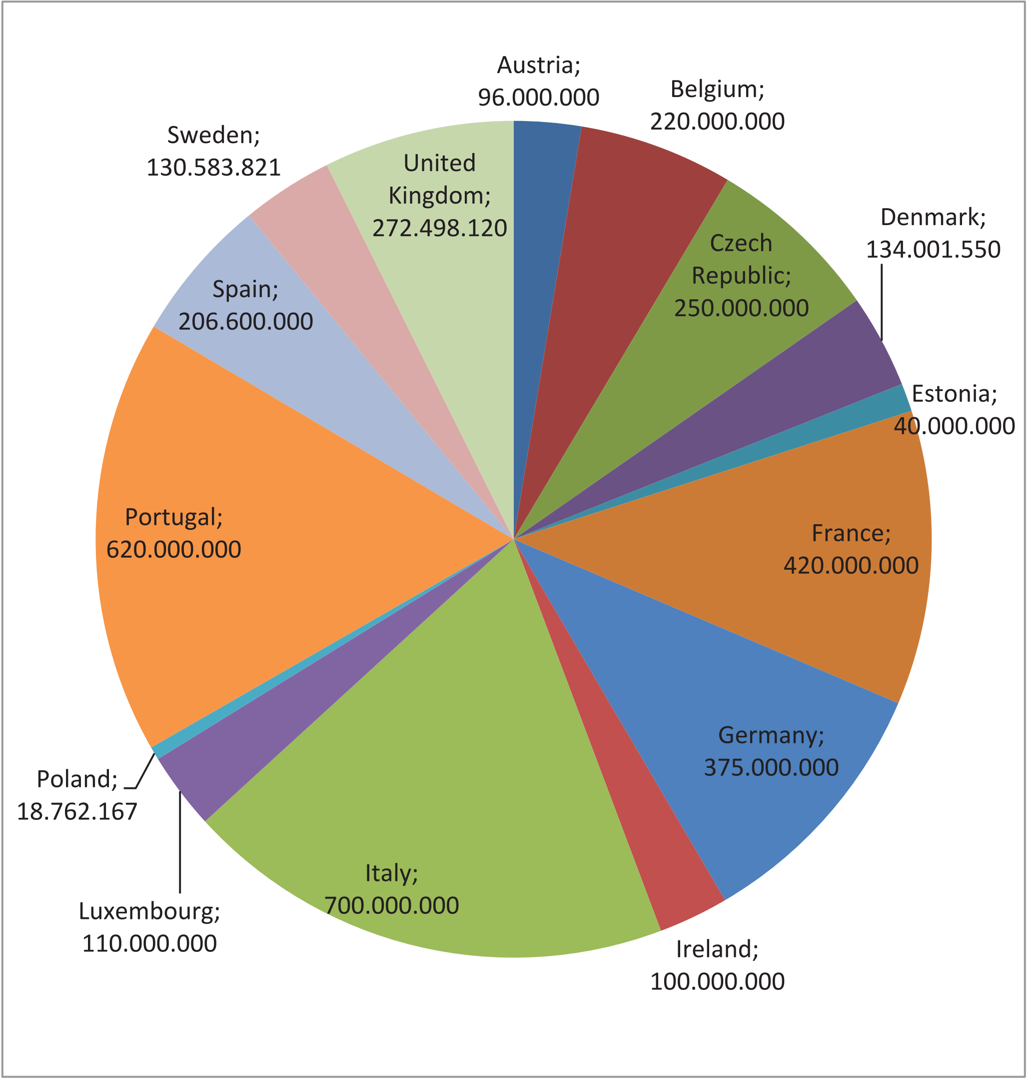
As at 31/12/2015, the Innovfin SME Guarantee already contributed to provide 310 million EUR of financing to 727 Final Recipients, accounting for an estimated 443 million EUR investment amount, and had thus an important impact on the real economy of the EU as described below

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

- increase in private finance and address the financing gap for innovative SMEs and Small Midcaps seeking loan finance for their riskier investments in RDI**;**
- support, via risk-sharing (guarantees and counter-guarantees), for innovative SMEs and Small Midcaps investing across Horizon 2020 Societal Challenges through better access to longer-term loan and lease finance, for loan amounts between EUR 25,000 and 7.5 million;
- allow, in combination with the COSME Loan Guarantee Facility which focuses on increasing the competitiveness of SMEs in general, improved access to finance for SMEs (and Small Midcaps) as part of a single EU debt financial instrument for SMEs.

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

Graph: **Maximum portfolio volume of guaranteed loans by country as at 31/12/2015**



E - Other key points and issues

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

2.7. The Cultural and Creative Sectors Guarantee Facility

Policy DG in charge:	DG CNECT and DG EAC
Implementing DG in charge:	DG CNECT
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 121 million[184]
Current Overall Budget:	EUR 121 million [185]

A - Summary

The Cultural and Creative Sectors Guarantee Facility is a facility under which the European Commission through the European Investment Fund (EIF) will provide guarantees and

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

counter-guarantees on debt financing to Financial Intermediaries in order to improve access to finance to SMEs from cultural and creative sectors. Thanks to the CCS GF, Financial intermediaries selected by the EIF will be able to provide additional debt financing to SMEs in Participating Countries. In addition, the action will provide expertise/capacity building to the financial institutions wishing to build dedicated portfolios of loans targeting cultural and creative SMEs. This may result in an increase in the number of financial institutions which are willing to work with cultural and creative SMEs as well as maximising the European geographical diversification of targeted financial products for the sector.With a total budgetary appropriation for CCS GF of EUR 121million in the 2016-2020 period and a targeted leverage effect of 5,7 the financial instrument may leverage around EUR 690 million of additional funding or the cultural and creative industries.[186]

B - Description

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

REGULATION (EU) No 1295/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 December 2013 establishing the Creative Europe Programme (2014 to 2020) and repealing Decisions No 1718/2006/EC, No 1855/2006/EC and No 1041/2009/EC.[187]

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

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

Policy objectives and scope

The Cultural and Creative Sectors Guarantee Facility (CCS GF) is part of the Creative Europe programme. The general objective of the Cultural and Creative Sectors Guarantee Facility is in line with those of the Creative Europe Programme which is to foster the safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sectors, with a view to promoting smart, sustainable and inclusive growth, in line with the Europe 2020 strategy.

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

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

[186] Since the CCS was not yet launched in 2015, no operations data, geographical breakdown, performance indicators or other effective operational data are available for reporting as at writing date.

[187] (OJ L 347, 20.12.2013, p. 221–237)

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

Added value
The Guarantee Facility has been the subject of an impact assessment, in-depth analysis of the pre-existing market gap, market testing with a sample of financial institutions and a dedicated study on 'Access to finance for cultural and creative sectors'.[188]

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

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

(c) The financial institutions involved in implementation;
European Investment Fund.

C - Implementation[189]

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

Aggregate budgetary commitments as at 31/12/2015	EUR 1 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 0

Nota: planned commitments: EUR 14 828 833 for year 2016
EUR 21 931 000 for year 2017
EUR 121 million for 2016-20 (indicative).[190]
payments: No payments in year 2015
EUR 9 766 000 for year 2016
EUR 6 096 000 for year 2017

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

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

(g) The balance of the fiduciary account;
NA.

[188] http://ec.europa.eu/culture/library/studies/access-finance_en.pdf
[189] Since the CCS was not yet launched in 2015, no operations data, geographical breakdown, performance indicators or other effective operational data are available for reporting as at writing date.
[190] Note: this amount does not include a further (maximum) EUR 2 million expected recoveries from the preceding financial instrument the MPGF.

(h) Revenues and repayments;
NA.

(i) The value of equity investments, with respect to previous years;
NA (guarantee fund).

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

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

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

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

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

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

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

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

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

- ***Main issues for the implementation:***
  - signature of a Delegation Agreement with the EIF in the course of year 2016.
  - To reach a sufficient critical mass of Financial Intermediaries to ensure a successful start to the programme.
- ***Main risks:***

- o no specific risk identified.
- ***General outlook:***
  - o 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.
  - o The scheme itself will start in earnest after a signature of Delegation Agreement between the European Commission and the EIF, expected in Q2 of year 2016.

2.8. Student Loan Guarantee Facility - ERASMUS+	
Policy DG in charge:	DG EAC
Implementing DG in charge:	DG EAC
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 517 million
Current Overall Budget:	EUR 517 million

A - Summary

The Erasmus+ Master Student Loan seeks to make available EUR 517 million (with a total commitment of EUR 61,35 million at 31/12/2015) of guarantees to support mobility, equity and study excellence via guarantees to financial institutions which agree to offer loans for Master's studies in other Erasmus+ Programme countries on favorable terms for mobile students (regardless of their social background), with an expected leverage of 5,7, unlocking EUR 3 billion in student loans. The main priority in 2016 is to ensure a broad geographical coverage so that students across Europe will be able to access loans supported through the facility in 2016.

B - Description

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

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

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

Policy objectives and scope

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

Implementation arrangements

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 61 348 000
Aggregate budgetary payments as at 31/12/2015 EUR 19 782 558

Nota: Commitments EUR 54 million foreseen in 2016
EUR 402 million for 2017-20 (indicative)
Payments EUR 19,8 million for 2015
EUR 26,1 million for 2016-17 (indicative)

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

2015 saw the launching of the financial instrument; despite a deteriorating interest climate, a small interest was realised on the investment. In order to minimise risks on negative interest, an avoidance strategy is being implemented (via active treasury management).

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	517 000 000 200 000
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	3 000 000 000
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	1 099 379 85 Master students
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	1 099 379

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

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	3 783 048
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	*12 000 104*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	NA
= Total assets	15 783 152

In order to minimise risks on negative interest, regular cooperation is ongoing and an avoidance strategy is being implemented:

- a reduction of the Minimum Reserve from 10 to 5 million euro is being agreed;
- also a "call account" with the EIF is being set up.

The balance of the fiduciary account at 31/12/15 stands at EUR 3 783 047,77 in cash positions and EUR 12 000 104,17 in treasury assets.

(h) Revenues and repayments;
NA.

(i) The value of equity investments, with respect to previous years;
NA (guarantee fund).

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

(k) The target leverage effect, and the achieved leverage effect;
The targeted leverage is 5,7.

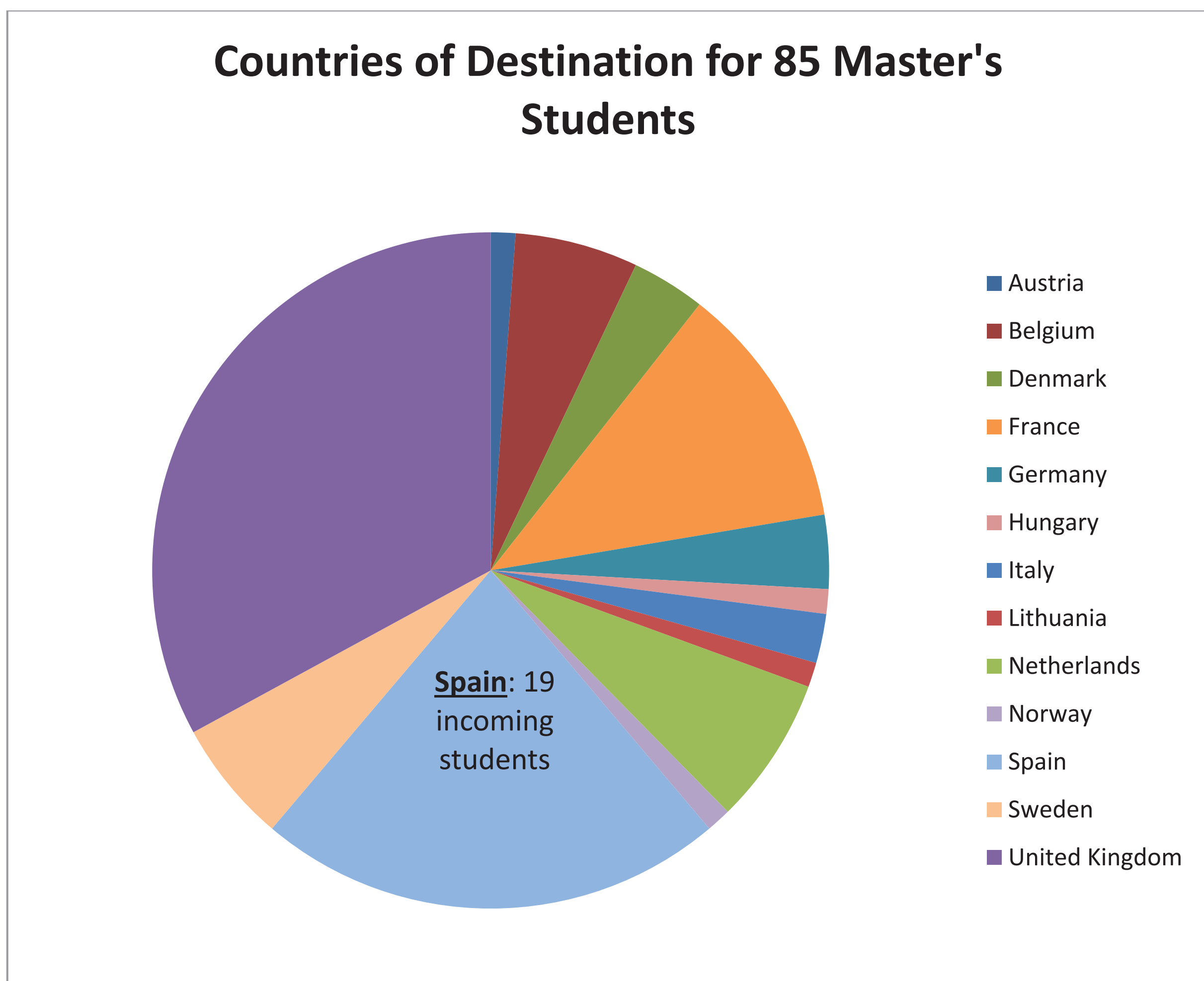
EU contribution of EUR 517 million is targeted to unlock about EUR 3 billion in student loans.

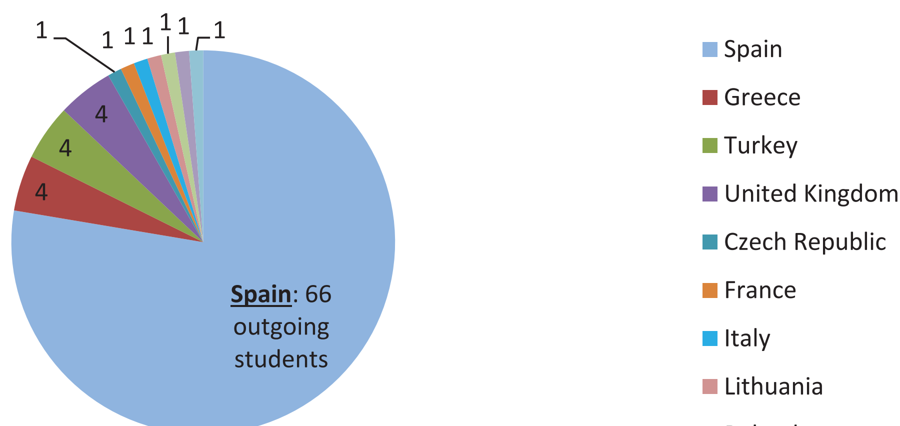
D - Strategic importance/relevance

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

A call for Expression of Interest by Financial Intermediaries was published by the EIF in February 2015. As at the end of 2015, the ERASMUS+ Student Loan Guarantee Facility contributed a provision of almost EUR 60 million of financing (through 2 signed guarantee agreements totalling EUR 9 720 000), enabling to provide Erasmus+ Master Loans to an estimated 4 000 eligible Final Recipients during the next 3 years.

A first guarantee agreement was signed in June 2015, just ahead of the new academic year 2015-2016, enabling a bank from Spain to provide the first 85 Master Loans for Spanish students going abroad to take their Master's degree (66 students), as well as 19 students from other countries coming to Spain. About half of the Erasmus+ Programme Countries are either a country of origin or of destination for benefiting Master students.





To support mobility, equity and study excellence, the Student Loan Guarantee Facility (EU contribution of EUR 517 million unlocking EUR 3 billion in student loans) targets enabling up to 200 000 students, regardless of their social background, to take their Master degree in another Erasmus+ Programme country (by 2023, as signed guarantee agreements have a 3-year duration).

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

E - Other key points and issues

- ***Main issues for the implementation:***
  - a sufficient critical mass of Financial Intermediaries to ensure a successful implementation of the programme.
  - The build-up towards an adequate geographical spread of Financial Intermediaries, so as to ensure wide availability of the student loans across the 33 Erasmus+ Programme Countries.
  - The number of loans supported through the instrument are sufficient to meet student demand.
- ***Main risks:***
  - Negative interest: loss of capital.
  - As HEIs are organised in academic years, demand tends to be limited to specific periods: June to October, and to a lesser extent, November to January for some courses beginning in January.
- ***General outlook:***
  - based on market testing carried out by the EIF and direct contacts at information events for potential Financial Intermediaries, there is a positive forecast demand for the guarantees.
  - However, a rapid turnaround of the contracting process will be necessary to ensure loans can be made available for the academic year 2016-17.

2.9. Private Finance for Energy Efficiency Instruments (PF4EE)	
Policy DG in charge:	DG CLIMA
Implementing DG in charge:	DG CLIMA
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 80 million[191]
Current Overall Budget:	EUR 80 million *(2014-2017)*[192]

A - Summary

The PF4EE is a guarantee instrument providing access to finance for energy efficiency (EE) investments which implement National Energy Efficiency Action Plans (NEEAP) of Participating Countries, or other programmes in line with EU Directives relating to Energy Efficiency. The final recipients include private individuals, home-owner associations, SMEs, corporates and/or public institutions/bodies.

It is implemented under indirect management by the European Investment Bank. The delegation agreement (DA) was signed on 8 December 2014.

The instrument aims to increase lending activity and to improve financing conditions for final recipients through, among others, lower pricing, longer maturities and lighter securities requirements.

B - Description

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

Regulation (EU) N° 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) Article 17.[193]

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

Policy objectives and scope

The PF4EE is a guarantee instrument which is implemented under indirect management by the European Investment Bank. The delegation agreement (DA) was signed on 8 December 2014.

The PF4EE is conceived as a pilot initiative in the years 2014-2017 to provide access to adequate and affordable commercial financing for eligible energy efficiency (EE) investments targeted by schemes developed by Participating Countries to implement their National Energy Efficiency Action Plans (NEEAP) or other programmes in line with EU Directives relating to Energy Efficiency.

Implementation arrangements

The PF4EE instrument provides to financial intermediaries (FIs):

[191] The overall budget envelope of the PF4EE is defined in the Commission Implementing Decision C(2014)1709 of 19 March 2014 on the adoption of the LIFE multiannual work programme for 2014-2017 and it is referred to the period 2014-2017.

[192] Including EUR 3,2 million for the Expert Support Facility.

[193] (OJ L 116/1, 17.04.2014)

- a portfolio-based credit risk protection (Risk Sharing Facility or RSF), combined with
- expert support services for the FIs in order to support the implementation of the PF4EE instrument and
- long-term financing.

The RSF is designed to mitigate the credit risk faced by FIs when lending to final recipients undertaking eligible EE investments. By means of collateral deposited on the collateral account, the RSF will cover losses at the collateral rate incurred under EE loans included in the portfolio to be built by the FIs for the financing of EE investments.

The size of the EE loans provided to beneficiaries range from EUR 40 000, which can be reduced to accommodate small investments within the residential sector, to EUR 5 million and in exceptional cases up to EUR 15 million.

EU added value

The RSF aims to increase lending activity and to improve financing conditions for final recipients through, among others, lower pricing, longer maturities and lighter securities requirements. The EIB loan for EE to the FIs may complement the RSF. Such EIB loans for EE will be provided by the EIB at competitive rates and with long-maturities.

The final recipients include private individuals, home-owner associations, SMEs, corporates and/or public institutions/bodies, undertaking EE investments in line with the NEEAP of each Member States.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 50 000 000
Aggregate budgetary payments as at 31/12/2015 EUR 12 126 667

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

The PF4EE delegation agreement was signed on 8 December 2014. Agreements with three financial intermediaries were signed in 2015. No final recipients yet.

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

NA

(g) The balance of the fiduciary account;

EUR 11 626 667

	In EUR
Balance on the fiduciary account (current account)	11 626 667
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	

Bonds non-current	
***Other assets* (if applicable)**	221 600
= Total assets	11 848 267

Impact of negative interest on PF4EE: no impact as at 31/12/2015.[194]

(h) Revenues and repayments;
EUR 0

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

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;
EUR 0

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

- *The target leverage effect*

The EU budget allocation foreseen in the LIFE regulation for the programming period 2014-2017 amounts to EUR 80 million (4% of which will finance the Expert Support Facility and are not considered in the calculation of the leverage).

The total amount of loan financing by the EIB is expected to reach up to approximately EUR 430 million. Additional debt financing is expected from other financial intermediaries. The total investment in EE over this period could be at around EUR 540 million. However, on the basis of the three first operations signed in 2015 (CZ, ES and FR) and the pipeline, the EIB now targets to achieve EUR 1 billion of new investments in energy efficiency.

The target leverage effect (defined also as Target Investment Leverage) as indicated in the Delegation Agreement is 8.

- *The achieved leverage effect*

The Delegation Agreement (DA) was signed in December 2014. Agreements with three financial intermediaries were signed in 2015. No final recipients yet. The calculation will follow the same rationale as outlined for the target leverage factor.

- *The "Expected Leverage for Signed Operations"*

The Delegation Agreement (DA) was signed in December 2014. Agreements with three financial intermediaries were signed in 2015. No final recipients yet.

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

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

The Delegation Agreement (DA) was signed in December 2014. Agreements with three financial intermediaries were signed in 2015. No final recipients yet.

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

- **Three main issues for the implementation**:

[194] Notwithstanding the current market conditions, no negative interest was generated since the payments to the Trust Account.

- the PF4EE instrument will provide valuable piloting experience for possible up scaling. This piloting phase will allow in particular to test the most appropriate level of protection (i.e. minimise) to be provided to financial intermediaries in about 10 banks in different Member States for different categories of beneficiaries.
- Since its structure is fully decentralized (i.e. the risk protection is provided by the Commission by means of collateral deposited on collateral accounts, set for each financial intermediaries and managed by the EIB) the PF4EE is designed to allow for scalable levels of finance using structural funds. In this respect Managing Authorities of Member States can replicate (or provide financial contributions to) this instrument which ensures that the impact of the contribution provided remain within the relevant geographical area, building on the existing ex-ante assessment[195] and benefiting from the basic legal structure of the PF4EE instrument as described in the Delegation Agreement.
- The EIB is committed under the Delegation Agreement art. 17 to carry out by 2017 a specific evaluation of the cash collateral approach to assess the effectiveness of the cash collateral approach, including through a comparison with alternative unfunded approaches, such as financial guarantees provided by the Union through entrusted entities or directly to Financial Intermediaries.

- **Main risks identified:**
  - considering that lending is implemented through financial intermediaries, the assessment of compliance of final recipient and eligible investments and impact indicators with the provisions set in the Delegation Agreement is challenging. EIB's monitoring and reporting on these critical aspects will need to be scrutinized by the PF4EE Board.
  - Accordingly with the provision of the Delegation Agreement Annex 1, section 7.2 the assessment of eligibility of Final Recipient will need to be performed against specific requirements and financing should only support Eligible Energy Efficiency Investment.
  - As mentioned in the Delegation Agreement Annex 5a, Section III, operations will be chosen having regard to the fields of intervention of the PF4EE and carefully monitored and evaluated to assess the impact on energy efficiency and GHG saving and other impact indicators.
- **General outlook:**
  - after the publication of the "Request for proposals in order to become a financial intermediary under the PF4EE" in January 2015, the EIB reported that so far 10 banks manifested an interest to implement the PF4EE. The EIB signed three agreements with 3 banks in different Member States (Czech Republic, Spain and France) in Q3 and Q4 2015.
  - An additional operational achievement within the year was the conclusion of the public procurement process for the selection of the technical expert and the actual delivery of the first expert support training to the bank from the Czech Repulic.
  - As at writing date, 5 additional operations are expected by the end of 2016.

[195] "Ex-ante evaluation of a new Financial Instrument to foster investment in EE by private financial institutions (PF4EE)", Annex 2 to the LIFE multiannual work programme 2014-2020 - Commission Implementing Decision C(2014)1709.

Brussels, 24.10.2016
SWD(2016) 335 final

PART 2/2

COMMISSION STAFF WORKING DOCUMENT

Activities relating to financial instruments

Accompanying the document

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on financial instruments supported by the general budget according to Art. 140.8 of the Financial Regulation as at 31 December 2015

{COM(2016) 675 final}

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3. Risk Sharing Instruments

3.1. Risk-Sharing Finance Facility under the FP7 (RSFF)

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 960,73 million
Current Overall Budget:	EUR 960,73 million

A - Summary

The RSFF, officially launched in July 2007, was one of the new, innovative funding mechanisms of FP7. It is a debt finance instrument, jointly developed by the Commission and the European Investment Bank (EIB). The RSFF facilitated access to finance by providing loans and guarantees to a wide range of beneficiaries — including SMEs, mid-sized enterprises, larger companies, research institutions, universities and research infrastructures —investing in RDI.

The RSFF has reached and easily exceeded almost all its operational and intermediate objectives. Three evaluative assessments clearly demonstrate that RSFF is well on its way to realising longer-term objectives and wider achievements.

Loan agreements have been signed with 114 R&I promoters, with a total loan volume (active loans) of EUR 11,31 billion and the instrument had been implemented in 25 countries.

B - Description

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

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

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

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

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

Policy objectives and scope

The RSFF, co-developed by the European Commission and the EIB, was established in June 2007. The RSFF facilitates access to finance by providing loans and guarantees to a wide range of beneficiaries — including SMEs, mid-sized enterprises, larger companies, research institutions, universities and research infrastructures —investing in RDI.

Implementation arrangements
The EU and the EIB are risk-sharing partners for loans provided by the EIB directly or indirectly to beneficiaries. The European Union, through FP7 budget resources, and the EIB have set aside a total amount of up to EUR 2 billion (up to EUR 1 billion each) for the period 2007-2013 to cover losses if RSFF loans are not repaid.

Added value
Through those EU/EIB contributions for risk-sharing and loss coverage, the EIB is able to extend a loan volume of EUR 10 billion to companies and the research community for their investments in R&D and Innovation.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 960,73 million
Aggregate budgetary payments as at 31/12/2015	EUR 960,73 million

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

The results of the RSFF under FP7 covering from 2007 until 2013 showed a total number of 114 RDI operations, which were signed, and loan volume of EUR 11 313 million, and 112 disbursed operations (EUR 10 220 million).

[196]The origination period of the instrument has closed as from 31/12/2013.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	*EUR 11 313 million* *114 eligible FRs*
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	*EUR 22 000 million*
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	*EUR 10 220 million* *112 eligible FRs*

[196] European Investment Bank (2014).

Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	*EUR 20 400 million*

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

EUR 440 million have been assigned to InnovFin Horizon 2020 Loan Services for R&I Facility which is the successor financial instrument of the Risk-Sharing Finance Facility under the FP7 (RSFF).

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	14 833 000
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	*127 815 000*
Term deposits > 3 months< 1 year (current assets)	*0*
Term deposits > 1 year (non-current assets)	
Bonds current	*193 968 000*
Bonds non-current	*579 017 000*
***Other assets* (if applicable)**	11 640 000
= Total assets	927 273 000

Please note that the figures provided include RSI figures.

Impact of negative interest on RSFF: no impact as at 31/12/2015.[197]

(h) Revenues and repayments;

For the period 2007-2015, the following revenues and repayments were received by the EU on the EU RSFF Account:

Total operating revenues: EUR 178,78 million
Of which expected loss recovery: EUR 12,11 million

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

N/A.

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

Impairment of assets as at 31/12/15 10,7 million

[197] Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained slightly positive in 2015.

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

The target leverage of the Debt facility - defined as the total funding (i.e. Union funding plus contribution from other financial institutions) divided by the Union financial contribution - was expected to range from an average of 5 to 6,5, depending on the type of operations involved (level of risk, target recipients, and the particular debt financial instrument facility concerned).

Together with the EIB window of the Facility, the achieved leverage effect is close to 12 with an amount of financing expected to be provided to final beneficiaries of EUR 11 313 million (the reached loan volume) and an EU contribution of EUR 960,73 million.

D - Strategic importance/relevance

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

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 11,3 billion versus an initial forecast of EUR 5 billion).

The RSFF has reached and easily exceeded almost all its operational and intermediate objectives. Three evaluative assessments clearly demonstrate that RSFF is well on its way to realising longer-term objectives and wider achievements.

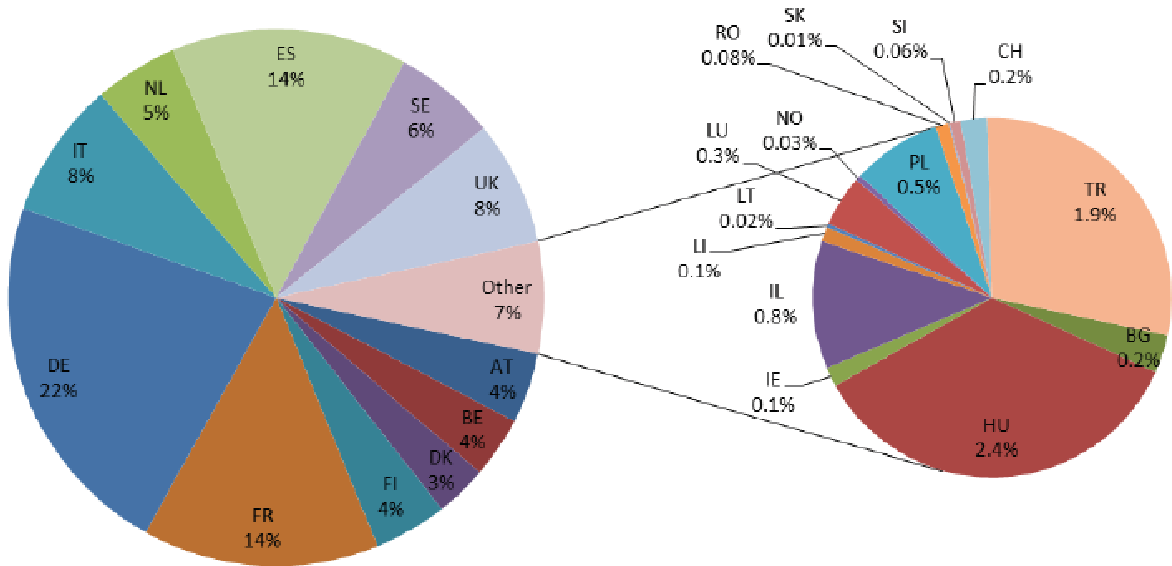
The first interim evaluation[198] concluded that the RSFF had been successfully introduced into the EU's research funding scheme within FP7, was a model example of an EU financial instrument, and should be further developed and strengthened. Recommendations included the need to better target SMEs and research infrastructures. The second interim evaluation[199] concluded that the RSFF had proved to be attractive to RDI companies and had met or exceeded its loan volume targets and enabled EIB to increase the bank's capacity to make riskier loans.

By the end of 2013, 127 RSFF operations had been approved by the EIB, with a total loan volume of EUR 16,2 billion, and the Bank had signed loan agreements with 114 R&I promoters, with a total loan volume (active loans) of EUR 11,31 billion. The sector diversification was broad, and the instrument had been implemented in 25 countries. The origination period of the instrument ended as from 31/12/2013.

[198] For the report by a group of independent experts on the first interim evaluation of the RSFF, see Mann et al. (2010).

[199] For the report by a group of independent experts on the second interim evaluation of the RSFF, see http://ec.europa.eu/research/evaluations/pdf/archive/other_reports_studies_and_documents/interim_evaluation_report_rsff.pdf

Graph: Allocation of the portfolio by country



E - Other key points and issues

At the end of 2015, reflows of EUR 440 million had been reallocated to the 'Loans Service for R&I' successor debt instrument in Horizon 2020.

3.2. Horizon 2020 Loan Services for R&I Facility	
Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 1 060 million
Current Overall Budget:	EUR 1 060 million

A - 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 helps addressing riskier projects or sub-investment grade promoters carrying out RDI investments across all Horizon 2020's Societal Challenges. A particular approach is

foreseen to address the financing needs of midcap companies (with employees between 500 and 3 000 employees).

The InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee instruments offers better access to risk finance in an open, demand-driven way through direct loans or hybrid/mezzanine investments made available by the EIB as well as through risk-sharing (guarantees) involving other banks and financial intermediaries.

The InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee cover a broad spectrum of final recipients with a flexible loan financing approach, and are complemented by a dedicated guarantee facility for loans and leases for innovative SMEs and Small Midcaps. For 2014-2020, the EU contribution of EUR 1 060 million is targeted to mobilise an amount of financing of EUR 13 250 million for the target final recipients.

B - Description

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

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

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

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

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

Policy objectives and scope
The goal is to improve access to debt financing — loans, guarantees, counter-guarantees and other forms of debt and risk finance — for public and private entities and public-private partnerships engaged in research and innovation activities requiring risky investments in order to come to fruition. The focus is on supporting research and innovation with a high potential for excellence.

The target final recipients are potentially legal entities of all sizes that can borrow and repay money and, in particular, SMEs with the potential to carry out innovation and grow rapidly; mid-caps and large firms; universities and research institutes; research infrastructures and innovation infrastructures; public-private partnerships; and special-purpose vehicles or projects.

Implementation arrangements
The Loan and Guarantee Service for Research and Innovation is implemented by the EIB and by financial intermediaries (banks). Financial intermediaries will be guaranteed against a proportion of potential losses by EIB, which will also offer counter-guarantees to guarantee institutions. This is a demand-driven instrument, with no prior allocations between sectors, countries or regions, or types or sizes of firm or other entities.

The Delegation Agreement signed with the entrusted entity ensures that the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee are accessible

for large firms and medium and large midcaps, universities and research institutes, R&I infrastructures, public-private partnerships, and special-purpose vehicles or projects.

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

The funding of the Loan and Guarantee Service for Research and Innovation has two main components:

- demand-driven, providing loans and guarantees on a first-come, first-served basis, with specific support for beneficiaries such as SMEs and mid-caps. This component shall respond to the steady and continuing growth seen in the volume of RSFF lending, which is demand-led. This demand-driven component will be supported by the budget of the Horizon 2020 Access to Risk Finance programme.
- Targeted, focusing on policies and key sectors crucial for tackling societal challenges, enhancing competitiveness, supporting sustainable, low-carbon, inclusive growth, and providing environmental and other public goods. That component helps the Union address research and innovation aspects of sectorial policy objectives and will be supported by other parts of Horizon 2020, other frameworks, programmes and budget lines in the Union budget, particular regions and Member States that wish to contribute with their own resources (including through Structural Funds) and/or specific entities (such as Joint Technology Initiatives) or initiatives.

The expiry date of the instrument is expected to be in 2027-2030.

Added value
This financial instrument aims to improve access to risk finance for R&I projects emanating from large firms and medium and large midcaps, universities and research institutes, R&I infrastructures (including innovation-enabling infrastructures), public-private partnerships, and special-purpose vehicles or projects (including those promoting first-of-a-kind, commercial-scale industrial demonstration projects). Firms and other entities located in Member States or in Associated Countries are eligible as final recipients.

This instrument will help address sub-optimal investment situations stemming from poor prospects within firms or other entities for the creation or commercialisation of products or services of societal importance (in the sense of Horizon 2020's Societal Challenges) or that constitute a public good. Overall, it will improve access to risk finance.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 645,5 million[200]

[200] Including the transfer from RSFF to H2020 as indicated under 'additional information' of point h

Aggregate budgetary payments as at 31/12/2015 EUR 645,5 million

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

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 4 398,2 million 65 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 11 379 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 2 399,2 million 39 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 6 207 million

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

None

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	5 840 000
Term deposits/Bonds (if applicable)	630 186 000
Term deposits < 3 months (cash equivalent)	*92 728 000*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	*17 959 000*
Bonds non-current	*519 499 000*
***Other assets* (if applicable)**	2 367 000
= Total assets	638 393 000

Impact of negative interest on the Facility: no impact as at 31/12/2015[201]

(h) Revenues and repayments;

Aggregate additional resources as at 31/12/2015 EUR 0

[201] Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained slightly positive in 2015.

Additional information

It should be noted that EUR 440 million have been paid back by the EIB further to the signature of the 8th amendment to the RSFF cooperation agreement and to reflows stemming from 2015 RSFF activities. In accordance with Article 52.3 of the Horizon 2020 Rules for Participation, this amount has been transferred to its successor debt instrument under Horizon 2020 (Horizon 2020 Loan Services for R&I Facility)

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

N/A.

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

Impairment of assets as at 31/12/15 90,25 million

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

The target leverage effect equals 12,5 with an amount of financing expected to be provided by financial intermediaries of EUR 13 250 million and an EU contribution of EUR 1 060 million.

The achieved leverage effect as at 31/12/2015 is close to 3,7 with an amount of financing provided of EUR 2 399,2 million and an EU contribution of EUR 645,5 million.

The expected leverage effect as at 31/12/2015 is close to 6,8 with an amount of financing signed provided of EUR 4 398,2 million and an EU contribution of EUR 645,5 million.

D - Strategic importance/relevance

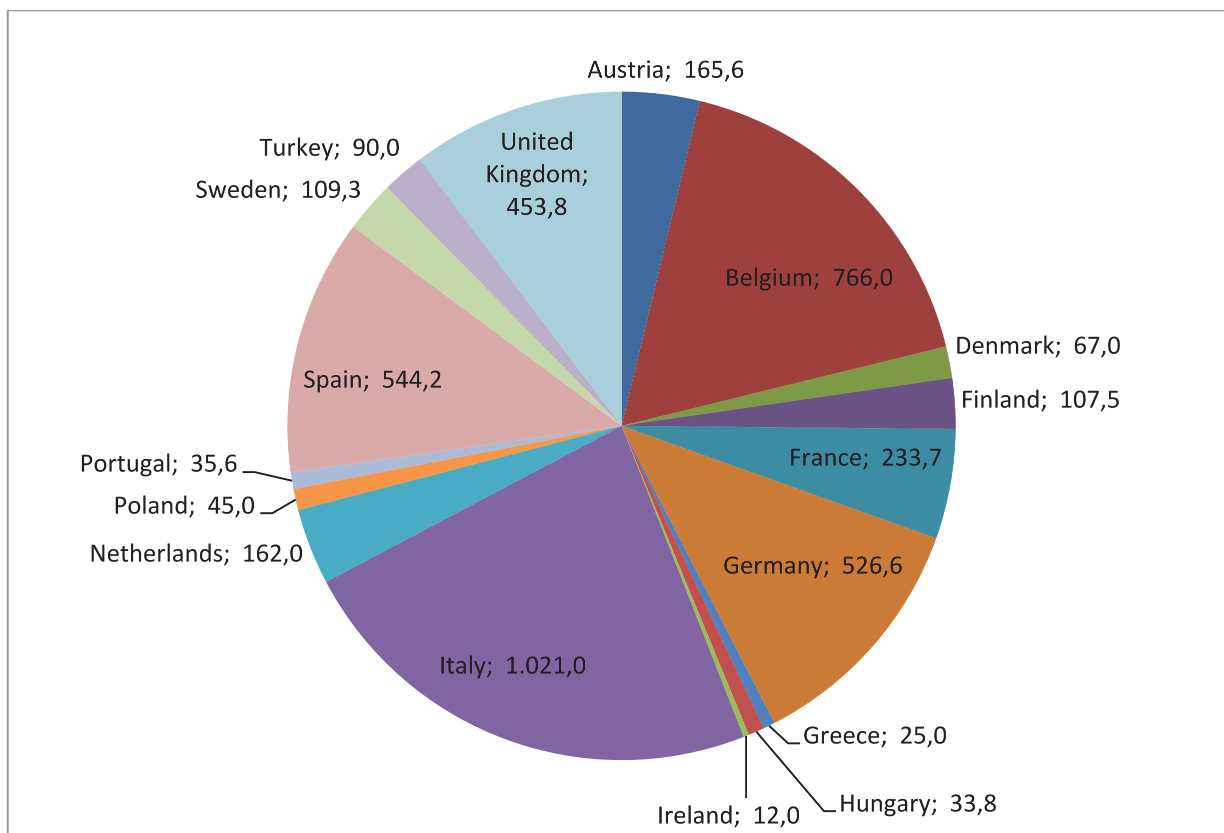
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

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.

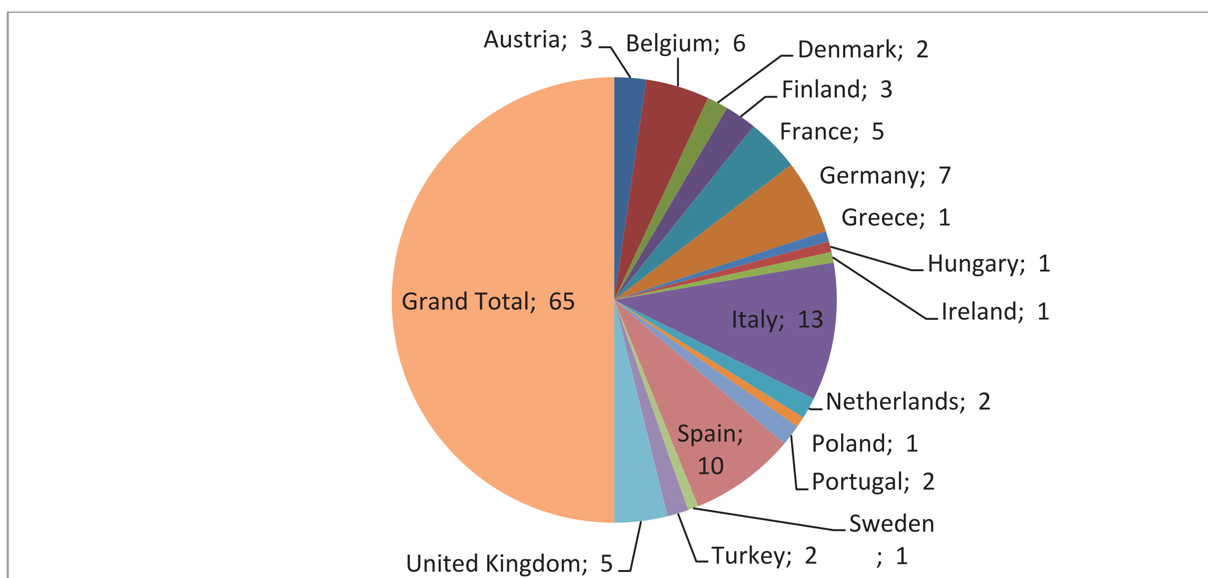
For direct loans or hybrid/mezzanine investments, the indicators are the number and volume of loans or investments made. For intermediated loans, the indicators are the number of agreements signed with financial intermediaries and the number and volume of loans made. Targets and milestones (performance indicators) are set for EIB to incentivize implementation and to reach envisaged volumes of lending, target groups as well as satisfactory geographical coverage.

For 2014-2020, the EU contribution of EUR 1 060 million is targeted to mobilise an amount of financing of EUR 13 250 million for the target final recipients.

Graph: signed loans EU+EIB windows as at 31/12/2015 in million EUR



Graph: Number of operations by country as at 31/12/2015



E - Other key point and issues

- **Main issues for implementation**:
  - critical for the implementation of the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee will be attractiveness of the instrument, its stronger focus on midcap companies (with up to 3 000 employees) and the possibility to develop new financing approaches, if necessary, to respond to financing needs coming from the various Societal Challenges of Horizon 2020.

- However, the contractual arrangements between the EU and the EIB foresee sufficient flexibility to develop such new financing approaches and also to create policy-driven sub-facilities which could address specific needs (provided that additional budget resources become available).

- **Main risks**:
  - no risks identified.
- **General outlook:**
  - based on the very satisfactory implementation of the preceding loan instrument supported by FP7, (the RSFF), on-going demand for loans to finance riskier RDI investments, first indications for a robust project pipeline for the next 12 months, and a stronger focus on the midcap target group, the outlook for the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee is generally positive.
  - It can be reasonably expected that across Horizon 2020 Societal Challenges (i.e. Energy, Bio-economy, Transport, Health), companies will seek EIB loan finance or risk sharing (via guarantees) to support medium and longer-term RDI investments. Target volumes for the Loan Service for R&I instrument with Horizon 2020 budget envisage lending of at least EUR 5 to 6,5 billion for the entire period 2014-2020.
  - In addition, under EIB's own complementary window for RDI investments, which will be part of the overall loan finance approach for RDI investments, a similar lending volume, i.e. a further EUR 5 to 6,5 billion (EUR 13 billion in total) can be expected.

3.3. Loan Guarantee Instrument (LGTT)

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 205 million

**) The initial overall budget foreseen in Regulation (EC) 680/2007 for the LGTT instrument was EUR 500 million. The EIB was required to provide an equal amount. Regulation (EU) No 670/2012 reduced the overall budget re-deploying EUR 200 million from the funds dedicated to the LGTT to the pilot phase of the Project Bonds Instrument. Subsequently, after agreement with the EIB, EUR 50 million was re-deployed into the TEN-T Programme for grant funding. Finally, 45 M EUR have been returned to the budget as one transaction did not take place. Therefore, the total amount of the EU contribution available to support LGTT projects is EUR 205 million.*

A - Summary

LGTT was a guarantee scheme set up in 2007/2008 and is a risk sharing facility for revenue based projects.

No new LGTT transactions were closed in 2015 due to the lack of eligible demand-risk TEN-T projects.

The EC and EIB signed a Delegation Agreement for a Debt Instrument under the Connecting Europe Facility (CEF) on 22 July 2015. In accordance with the terms of the CEF Debt Instrument, the PBI and LGTT portfolios were merged in 1 January 2016, effectively terminating the initial ramp-up phase of the LGTT portfolio as of 31 December 2015. The CEF Debt Instrument allows for the creation of a range of financing products to achieve the policy objectives of the CEF financial instrument across three sectors. This is an important development as PBI and LGTT were single product instruments but will now be incorporated in the common CEF Debt Instrument.

B - Description

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

Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks,[202] as amended by Regulation (EU) No 670/2012 of the European Parliament and of the Council of 11 July 2012:[203]

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

Policy objectives and scope

The LGTT is a loan guarantee instrument to facilitate finance for transport infrastructure projects. The legal basis establishes that the EU contribution is to be used for the provisioning and capital allocation for guarantees to be issued by the European Investment Bank (EIB) on its own resources under the loan guarantee instrument Risk-sharing in this context means that both partners, the EU represented by the Commission and the EIB, share financial risk, to accelerate and implement TEN-T infrastructure projects.

Implementation arrangements

The practical implementation is done on the basis of a cooperation agreement between the Commission and the EIB that was originally signed on 11 January 2008 and subsequently amended in 2013 following the adoption of Regulation (EU) 670/2012.

Technically, the guarantee facilities provided by the EIB under LGTT to the private sector (project sponsors/ promoters) serve to enhance the credit rating of the senior debt issued to finance the project by reducing traffic risk. The EIB provides a guarantee in the form of a contingent credit line, which may be drawn upon by the project promoter during the first 5 to 7 years of operation, if the revenues generated by a project are not sufficient to ensure repayment of the senior debt, in case the actual revenues from the project fall below the forecasted level.

LGTT was available for transactions approved by the EIB of Directors by the end of 2014 with the financial close until end of 2016. Guarantees can be called for the first 5 to 7 years operation, the latest draw down date of a project in the current portfolio is end of 2021.

Added value

LGTT brought value added to the projects by covering traffic risk during ramp-up and thus improving the ability of borrowers to service senior debt. LGTT has clearly facilitated

[202] (OJ L 162/1, 22.6.2007)
[203] (OJ L 204/1, 31.7.2012)

financial close in a difficult market situation of the financial crisis in all transactions which used it.

(c) The financial institutions involved in implementation;

The European Investment Bank (EIB)

C - Implementation

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

Aggregate budgetary commitments as at 31-12-2015 (voted appropriations by the budget authority)	EUR 205 000 000
Additional budgetary commitments as at 31-12-2015 (generated revenues)	EUR 6 881 251*
Aggregate budgetary payments as at 31-12-2015	EUR 211 881 251

*Note: * With regard to the regularistation of revenues of the LGTT account, an amount of EUR 6,88 million was added to the account in terms of revenues generated in the period 2008-2012. The value of the accumulated surplus for the period 2013-2015 is EUR 19,48 million.*

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

During the period 2008-2015, the LGTT has supported five motorway projects (of which one was excluded from the risk-sharing portfolio when the agreement was restated in 2014, and one of which (IP4 Amarante-Vila Real PPP project) where the LGTT Agreement has now been terminated (Baixo-Alentejo PPP project), one port infrastructure project and one high speed rail project. The total amount of LGTT guarantees signed as of 31-12-2015 is EUR 517 million. The outstanding total amount of signed LGTT guarantees towards the five remaining transactions where EU capital is at risk in the portfolio as of 31-12-2015 is EUR 472 million. This is illustrated in the table below:

In million EUR

Project	Financial close	Type	LGTT guarantee	Project cost (sum of equity, debt, grants)
A5	Mar 2009	road	25	633
Eix Transversal C25	Jul 2010	road	70	815
A8	May 2011	road	60	562
LGV SEA	Jun 2011	rail	200	7 846
London Gateway[204]	Dec 2011	port	117	1 698

[204] This project ended in refinancing at the end of March 2016, leading to the termination of the LGTT facility.

TOTAL			472	11 554

Source: LGTT Annual Operational report to the Commission prepared by the EIB as at 31-12-2015

Overall, the instrument is expected to provide at least the EUR 472 million of guarantee to projects as at 31-12-2015.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	N/A
Total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	N/A
Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	N/A
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	As at 31-12-2015, the outstanding guarantee provided to the current portfolio of five projects (final recipients) is for a total of EUR 472 million.
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	The amount of project costs of the projects (final recipients) supported under the current portfolio guarantee is EUR 11 554 million (equity, debt and grants).

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

In 2013 the net interest income (net revenues less costs) covering the years 2008-2012 stood at EUR 6,88 million. The amount was returned to the Commission and recommitted and paid back into the instrument and included in the First Loss Piece, in line with the legal basis. The value of the accumulated surplus for the period 2013-2015 is EUR 19,48 million.

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (cash and cash equivalents)	7 878 000

Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months< 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current (AFS current)	883 000
Bonds non-current (AFS non-current)	206 672 000
***Other assets* (if applicable) (ST receivables)**	22 620 000
= Total assets	**238 053 000**

Impact of negative interest on LGTT (in EUR) as at 31/12/2015: EUR 1 000.[205]

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

According to the audited statements for 2015 the total revenues attributable to the Commission for the year amount to EUR 4,25 million. The revenues cover revenues from operating activities, including first loss piece remuneration, and financial revenues.

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

N/A.

(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 31.12.2015

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

The specific basic act, as amended, does not define the target leverage effect.
The achieved leverage effect.
The leverage effect is quantified as the aggregate of the amounts raised to finance LGTT Projects (including inter alia equity, quasi-equity, subordinated debt, mezzanine debt and senior debt but excluding grants) divided by the aggregate amount of the EU Contribution. On 31 December 2015, the leverage effect amounted to 37,2[206].

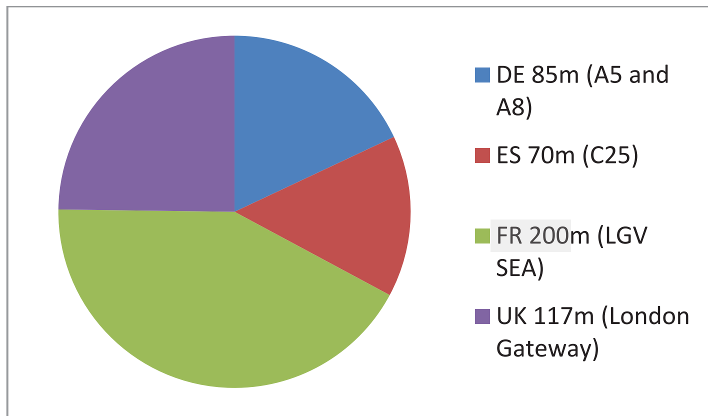
D - Strategic importance/relevance

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

As at the end of 2015, the LGTT already supported nearly 500 million EUR of financing to five eligible projects, with nearly EUR 12 billion of total investment.

Country breakdown and value of of LGTT support to projects as at 31 December 2015:

[205] Interest expense on cash and cash equivalents of EUR 1 000 netted by interest revenue of EUR 2 000.
[206] Source LGTT Operational reporting to the European Commission As of 31st December 2015



E - Other key points and issues

Main issues

The critical issues for the implementation of the LGTT instrument, including aspects relevant for future design and development of new instruments have been examined in the ex-post Evaluation carried out by the Commission in 2014.[207]

The ex-post evaluation pointed out the following issues:

- the LGTT instrument had a fairly narrow scope of application limited to projects on the TEN-T network whose revenues were generated from the traffic (this excluded all availability-payment based PPPs).
- The instrument was not flexible enough to be successfully adapted to a drastically changed market environment (near-disappearance of revenue-risk PPPs in TEN-T transport).

These lessons learned were reflected in the design of the Connecting Europe Facility Debt Instrument (CEF DI): the instrument was devised in a flexible way so as to allow for changes in market gaps and needs. Also, the instrument will not focus on a single type of transactions linked to a unique risk category (i.e. focus on only revenue-risk PPPs).

General outlook

As of 1 January 2016, the LGTT Portfolio was merged with the new Debt Instrument under the Connecting Europe Facility, as foreseen in article 14.3 of Regulation (EU) 1316/2013.

Under the CEF Debt Instrument, the Bank has also developed a new financing product as a successor to the LGTT product. That product, Senior Debt Credit Enhancement (SDCE), is a guarantee product for senior bank loans, similar to the PBCE product for project bonds. SDCE will cover a broader range of risks than LGTT, which is restricted to mitigating traffic risk during the traffic ramp-up period following project completion. As the SDCE product will be available for traffic risk projects, it can provide greater risk mitigation, where the market need exists, than the existing LGTT product. The SDCE product is expected to be piloted in 2016.

[207] http://ec.europa.eu/transport/themes/infrastructure/studies/doc/2014_ex-post_evaluation_of_the_loan_guarantee_instrument_for_ten-t_projects.pdf

3.4. Project Bond Initiative

Policy DG in charge:	DG Mobility and Transport, DG Energy, DG Communications Networks, Content and Technology
Implementing DG in charge:	DG Mobility and Transport, DG Energy, DG Communications Networks, Content and Technology
Operating Body in charge:	European Investment Bank
Initial Overall Budget Envelope:	EUR 230 million
Current Overall Budget:	**EUR 230 million**
TEN-T sub-account	EUR 200 million
TEN-E sub-account	EUR 10 million
ICT sub-account	EUR 20 million

Summary

The Project Bond Initiative is a financial instrument developed, set up, and supported jointly by the Commission and the EIB. It was launched in 2012 with the aim of stimulating capital market financing for infrastructure projects in the areas of Trans-European networks in transport and energy as well as broadband networks. The Project Bond Initiative provides credit enhancement to bond issues which is attractive inter alia to institutional investors such as insurance companies and pension funds.

As at 31-12-2015 the Project Bond Initiative supported eight transactions in all three sectors and five Member States. Five projects were supported by EU funds.

The PBI has served as a catalyst to attract debt capital market investment to targeted infrastructure projects and opening up new financing sources for infrastructure projects as alternatives to bank financing.

The EC and EIB signed a Delegation Agreement for a Debt Instrument under the Connecting Europe Facility (CEF) on 22 July 2015. In accordance with the terms of the CEF Debt Instrument, the PBI and LGTT portfolios were merged in 1 January 2016, effectively terminating the initial ramp-up phase of the PBI portfolio as of 31 December 2015. The CEF Debt Instrument allows for the creation of a range of financing products to achieve the policy objectives of the CEF financial instrument. This is an important development as PBI and LGTT were single product instruments but will now be incorporated in the common CEF Debt Instrument.

A - Description

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

Regulation (EU) No 670/2012 of the European Parliament and of the Council of 11 July 2012 amending Decision No 1639/2006/EC, establishing a Competitiveness and Innovation

Framework Programme (2007-2013)[208], 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[209]

Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility[210]

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

Policy objectives and scope: Pilot phase of the Project Bonds Initiative

The Project Bond Initiative is a financial instrument developed, set up, and supported jointly by the Commission and the EIB.

It aims at stimulating capital market financing for infrastructure projects in the areas of Trans-European networks in transport and energy as well as broadband networks by improving the credit quality of the senior debt such that it can be financed by a bond issue which is attractive *inter alia* to institutional investors such as insurance companies and pension funds.

In addition to financing provided for the benefit of individual projects, the objective is to pave the way for the creation of a new asset class for EU infrastructure, in which institutional investors could invest. This way, the Project Bond Initiative intends to open up new sources for infrastructure financing in the context of constrained public budgets and restricted bank lending to infrastructure projects with long-term maturities.

Implementation arrangements

The 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).

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 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.

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

In 2015, the PBI was merged with the debt instrument under the CEF, as foreseen in Article 14(3) of Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility.The actual portfolio merger occured on 1 January 2016.

Added value

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[208] (OJ L 204/1, 31.7.2012)
[209] (OJ L 162/1, 22.5.2007)
[210] (OJ L 348, 20.12.2013)

This new merged portfolio will be supported by a portfolio first loss piece of which the EU will hold 95% of the risk. This merged portfolio and portfolio first loss piece will allow for an improved risk diversification allowing for a better use of the EU funds committed to the merged instrument. This will in return increase the leverage and allow for a more wide deployment of the instrument.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

B - Implementation of the financial instrument

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

In million EUR

	Total (2015)
TEN-T sub-account	
Commitment	**200**
Payments	**200**
TEN-E sub-account	
Commitment	**10**
Payments	**10**
ICT sub-account	
Commitment	**20**
Payments	**20**
Aggregate PBI	**Total (2015)**
Commitment	**230**
Payments	**230**

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

The EIB has been working on transactions in the three sectors. Eight projects have been signed in 5 Member States as of 31.12.2015, out of which three (Castor project, Gwynt y Mor, and West of Duddon Sands) have been entirely signed on the EIB own resources. The details of those five signed with EU funds are as follows:

- One energy project, i.e.:
  - **i)** The Greater Gabbard offshore transmission project (OFTO) was signed in November 2013. The size of the project bond-credit enhancement (PBCE) for this transaction is EUR 45,7 million for a project size of EUR 351 million (including debt and equity). The Union contribution under TEN-E is EUR 10 million.

- Three transports projects signed:
  - The Port of Calais signed in July 2015. Total project cost of EUR 863 million was financed by a EUR 504 million project bond and EUR 358 million from other sources. The total PBCE amount to EUR 50 359 000.
  - the construction of A11 Motorway in Belgium. Total project cost of EUR 657,5 million was financed by a EUR 577,9 million project bond and EUR 79,6 million of equity; the total PBCE provided amounts to EUR 115 580 000;

- the construction of the A7 Motorway in Germany. The total project cost of EUR 772,6 million was partly financed by a EUR 429,1 million Project Bond; the total amount of PBCE amounts to EUR 85 827 400;

- one broadband project signed in 2014, Axione Infrastructures, where credit enhancement of ca. EUR 38 million under the PBI supported a EUR 189 million bond issue by a French provider of wholesale ,broadband network services. The total project cost is circa EUR 257 million. The amount of Union contribution to this project is EUR 20 million.
- Since 31 December 2015, two additional projects were signed in Q1 2016 with EU budget support, i.e. the N25 New Ross Bypass PPP Project in Ireland,- where total project cost of EUR 169 million was financed by a EUR 145 million project bond supported by EUR 21,8 million PBCE Facility, and the Passante di Mestre motorway in Italy (total project cost of EUR 1,300 million was financed by EUR830 million senior bonds, which was supported by EUR166 million PBCE).

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	As at 31-12-2015 the EU provided EUR 230 million towards the PBI instrument. There is a single financial intermediary – the EIB.
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	As of 31-12-2015, the Pilot Phase of the **Project Bond Initiative has provided a credit enhancement of EUR 335 million** to five projects,supported by EU funds.
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	As of 31-12-2015 the Pilot Phase has mobilised circa EUR 2,9 billion of capital cost for the five projects supported.

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

Pilot phase of the Project Bonds Initiative

As of 31-12-2015 no revenues were recovered to the EU budget, committed and reused by the instrument as internal assigned revenue.

However, in 2015, financial revenues earned on PBI sub-accounts amounted to EUR 1 312 000, as per the PBI audited financial statements at 31 December 2015.

(g) The balance of the fiduciary account;

The balance on the fiduciary accounts amount overall to EUR 7 021 000 as per the audited financial statements of the Project Bond Initiative at 31.12.2015. The total assets (adjusted to account for the above mentioned payment made in December) are broken down as follows:

	EUR
Balance on the fiduciary account (current account)	7 021 000
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 month s< 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current (AFS current)	13 938 000
Bonds non-current (AFS non-current)	202 934 000
Other assets **(if applicable) (ST receivables)**	12 376 000
= Total assets	**236 269 000**

Impact of negative interest on PBI (in EUR) as at 31/12/2015: EUR -1 000[211]

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

Two main sources of revenues are foreseen in the agreement: 1) treasury income and 2) risk related income.

1) The total treasury income in 2015 amounted to EUR 1 311 968.

2) During the ramp-up period where the Portfolio of projects is being built (initially set to 31 December 2016), no cash distribution of risk-related income was made to remunerate the First Loss Piece (FLP) holders, in line with the waterfall principles established in the cooperation agreement.

Following the signature of the Connecting Europe Facility Debt Instrument Delegation Agreement with the European Investment Bank on 22 July 2015, the Portfolios of PBI projects for Transport, Energy and Information and Communication were merged with the LGTT Portfolio into the CEF Debt Instrument on 1 January 2016.

The total FLP remuneration receivable at 31 December 2015 amounts to EUR 12 375 581.

Further to the signature of the CEF Debt Instrument Delegation Agreement the end of the ramp-up period was anticipated to 31 December 2015, therefore the FLP remuneration receivable will be settled in cash in 2016.

No repayments took place so far.

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

N/A.

[211] Interest expense on cash and cash equivalents of EUR 5 000 and interest revenue of EUR 4 000

(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 31.12.2015

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

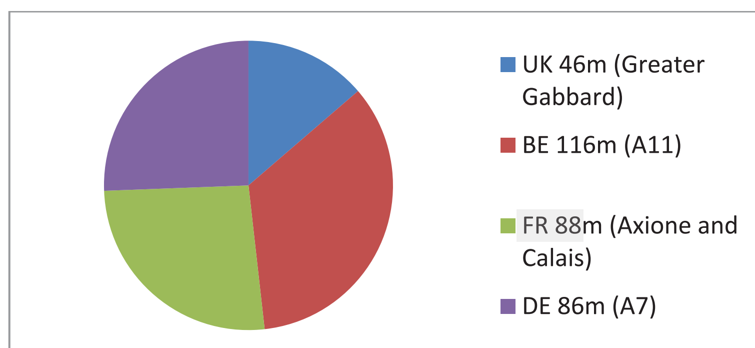
The leverage effect is quantified as the aggregate of the amounts raised to finance the PBI projects supported by EU funds divided by the aggregate amount of the EU Contribution. On 31 December 2015, the leverage effect amounted to approximately 12,6[212].

A - <u>Strategic importance/relevance of the financial instrument</u>

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

As at end of 2015, the PBCE projects backed with EU funds already contributed to provide EUR 335 million of financing to five eligible projects and had thus an important impact on the real economy of the EU, including overall investment of nearly EUR 3 billion.

Country Breakdown and Value of Project Bond Credit Enhancement provided with EU budget support as at 31 December 2015



Pilot phase of the Project Bonds Initiative

In view of EU Regulation No. 670/2012 (Article 1(1)), the Pilot Phase of the Project Bond Initiative required a full scale independent evaluation to be concluded in 2015, whose conclusions would enable the Commission to consider proposing appropriate regulatory changes, if deemed necessary.

An independent evaluation was carried out and concluded in 2015. This evaluation drew upon the results of the previous external evaluation concluded in June 2014 and was carried out by external consultants.

The evaluation concludes that going forward, the Project Bond Credit Enhancement product is clearly needed by the market. While market conditions have evolved since the launch of the initiative to an extent that triggered a change in the type of credit enhancement needed, the evaluation points out that the additionality of the instrument needs to be assessed from a long-

[212] Total project costs EUR 2091 m / EU contribution EUR 230 m.

term perspective, as it is intrinsically linked to the economic environment (i.e. stage of development of capital markets, state of public finances, investment behaviour of the private sector, the regulatory environment, etc.). Based on these considerations, the evaluation argues that in the future the product is needed as it will be able to counterbalance the market volatility or uncertainty by providing long term and competitive solutions to finance crucial infrastructure projects in Europe. An extra argument in favour of the continuity of the product is that a temporary interruption in the use of the Project Bond Credit Enhancement might result in the loss of the knowledge gained and might put a stop to the market developments achieved so far with infrastructure still a new asset class for many investors.

B - Key points and issues

Main issues

The critical issues for the implementation of the PBI were assessed as part of the PBI evaluation concluded in December 2015. The recommendations included:

- Focussing on projects of highest EU added value
- Developing further debt capital market financing for infrastructure projects
- Maintaining a sufficient product utilzation rate
- Developing tailored solutions for TEN-E and ICT
- Better address current market needs, through for example a focus on projects in less mature markets

Main risks

The uptake of the PBI or similar instruments is dependent on the overall market conditions, in particular, the comparative cost of bank debt and the investors' risk appetite.

General outlook

A number of the recommendations made by the evaluation point to improvements which have already been reflected in the design of the products to be offered under the Connecting Europe Facility and the European Fund for Strategic Investments, both launched in July 2015.

3.5. Risk sharing debt instrument under the Connecting Europe Facility (CEF DI)

Policy DG in charge:	DG Mobility and Transport DG Energy DG CNECT
Implementing DG in charge:	DGs MOVE, ENER and CNECT
Operating Body in charge:	European Investment Bank Other possible entrusted entities
Initial Overall Budget Envelope:	Up to 8,4% of the funds from the CEF

	Regulation (EU) 1316/2013
Current Overall Budget:	Aggregate budgetary commitments as at 31/12/2015: MOVE EUR 140 000 000 ENER EUR 89 289 000 CNECT EUR 17 499 729 *Nota : the total envelope over the period is up to 8,4 % of the funds from the CEF Reg. as amended by the EFSI Regulation, so +/- EUR 2,4 billion.*

A - Summary

The Debt Financial instrument under the CEF will tackle one of the key failures identified in the market, i.e. the insufficient involvement of private investors in infrastructure financing throughout the Union, particularly on cross-border and riskier projects.

The objective of the Debt Instrument under the CEF is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage. The financial instrument shall help finance projects of common interest with a clear European added value, and facilitate greater private sector involvement in the long-term financing of such projects in the transport, energy and broadband sectors.

B - Description

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

Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/210[213].

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

Policy objectives and scope

The goal of the CEF Debt Instrument is to contribute to overcoming deficiencies of the European debt capital markets by offering risk-sharing for debt financing. Debt financing shall be provided by entrusted entities or dedicated investment vehicles in the form of senior and subordinated debt or guarantees.

The Debt Instrument will consist of a risk-sharing instrument for loans and guarantees as well as for Project Bonds. The project promoters may, in addition, seek equity financing under the Equity Instrument (currently under development).[214]

[213] (OJ L 348, 20.12.2013)

The instrument builds on the existing Project Bond Initiative and the Loan Guarantee for TEN-Transport. However, given that not all CEF eligible projects where market failures have been identified can be financed by capital markets or on a project financing basis and to face efficiently a changing market environment, the instrument deploys a wide toolbox available of debt products, including senior and subordinated funded and unfunded products.

All operations under the Debt Instrument are supported by a risk sharing mechanism with the EIB where the EU budget takes the first loss piece of the portfolio of such operations. The first loss provisioning provided by the EU budget is shared among all projects in the three sectors covered by the CEF. This allows for higher diversification and hence maximises the number of projects that can be supported by the CEF Debt Instrument. Also, the portfolios and first-loss pieces of the existing Project Bond Initiative and of the Loan Guarantee for TEN-T transport have been merged together with the CEF Debt Instrument.

With the introduction of EFSI, the CEF Steering Committee has approved a complementary approach of the interplay between EFSI and the CEF debt instrument and possible future products, where CEF concentrates on innovative, demonstrator (for example using the CEF DI for the first time in a sector, or mode, in a Member State) and pilot products and initiatives (equity/hybrid/new products), taking into account the overall portfolio risk of such an approach - while recognising also the need to strike a balance between commitments under both funding sources, especially in the early stages.

Implementation arrangements

Risk-sharing instrument for loans and guarantees

The risk-sharing instrument for loans and guarantees is designed to create additional risk capacity in the entrusted entities. This shall allow the entrusted entities to provide funded and unfunded subordinated and senior debt to projects and corporates in order to facilitate promoters' access to bank financing. If the debt financing is subordinated, it shall rank behind the senior debt but ahead of equity and related financing related to equity.

The unfunded subordinated debt financing does not exceed 30 % of the total amount of the senior debt issued.

The senior debt financing provided under the Debt Instrument does not exceed 50 % of the total amount of the overall senior debt financing provided by the entrusted entity or the dedicated investment vehicle.

Project Bonds

The risk-sharing instrument for project bonds is designed as a subordinated debt financing in order to facilitate financing for project companies raising senior debt in the form of bonds. This credit enhancement instrument aims at helping the senior debt to achieve an investment grade credit rating. It ranks behind the senior debt but ahead of equity and financing related to equity.

The subordinated debt financing does not exceed 30 % of the total amount of the senior debt issued.

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[214] European Commission (2014b), *Ex-Ante Assessment on the Potential Use of Financial Instruments within the Connecting Europe Facility*, March 2014.

Combination with other sources of funding

Funding from the Debt Instrument may be combined with other budgetary contributions listed below, subject to the rules laid down in Regulation (EU, Euratom) No 966/2012 and the relevant legal base:

- other parts of the CEF;
- other instruments, programmes and budget lines in the Union budget;
- Member States, including regional and local authorities, that wish to contribute own resources or resources available from the funds under the cohesion policy without changing the nature of the instrument.

Duration of the Debt Instrument

The last tranche of the Union contribution to the Debt Instrument shall be committed by the Commission by 31 December 2020. The actual approval of debt financing by the entrusted entities or the dedicated investment vehicles shall be finalized by 31 December 2022.

Expiry

The Union contribution allocated to the Debt Instrument shall be reimbursed to the relevant fiduciary account as debt financing expires or is repaid. The fiduciary account shall maintain sufficient funding to cover fees or risks related to the Debt Instrument until its expiry.

EU added value

This CEF Debt Instrument merged portfolio is supported by a portfolio first loss piece of which the EU holds 95% of the risk. This merged portfolio and portfolio first loss piece will allow for an improved risk diversification allowing for a better use of the EU funds committed to the merged instrument. This will in return increase the leverage and allow for a more wide deployment of the instrument bringing affordable financial support to projects targeted under CEF.

(c) The financial institutions involved in implementation;

The European Investment Bank (EIB)

Other Entrusted entities (not yet designated at this stage; entities to be selected in accordance with Regulation (EU, Euratom) No 966/2012

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015:

MOVE	EUR	140 000 000
ENER	EUR	89 289 000
CNECT	EUR	17 499 729

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

N/A (as no investments yet).

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

N/A.

(g) The balance of the fiduciary account;

N/A.

(h) Revenues and repayments;

N/A.

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

N/A.

(j) The accumulated figures on impairments[215] of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

N/A.

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

The target (expected) leverage of the Debt Instrument — defined as the total funding (i.e. Union contribution plus contributions from other financial sources) divided by the Union contribution — is expected to range from 6 to 15, depending on the type of operations involved (level of risk, target beneficiaries, and the debt financing concerned). Assuming the full possible budgetary allocation of EUR 2,4 billion is made available to the instrument, total funding of EUR 18 billion to EUR 45 billion could be attracted thanks to the Union contribution.

D - Strategic importance/relevance

(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 instruments to be deployed under the CEF (Debt Instrument and possibly Equity Instrument) will tackle one of the key failures identified in the market, i.e. the insufficient involvement of private investors in infrastructure financing throughout the Union, particularly on cross-border and riskier projects. The objective of the financial instruments under the CEF is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage. The CEF financial instruments shall support the financing of projects of common interest with a clear European added value, and facilitate greater private sector involvement in the long-term financing of such projects in the transport, energy and broadband sectors. At the same time, CEF financial instruments shall be designed such as to enhance the development of a sustainable financial environment – both capital markets and banks.

E - Other key points and issues

General outlook

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

The CEF Debt Instrument has an important role to play in the financing of infrastructure through providing complementary support to EFSI, in particular to pilot new products, sectors, or financings in Member States.

The pipeline for the CEF Debt Instrument is relatively strong (though there may be some projects that are allocated to EFSI rather than CEF at the time of project approval) as set out below:

Project	Sector
A7 Phase 2	TEN-T
Port Of Cork - Ringaskiddy Port Development	TEN-T
Pedemontana Veneta	TEN-T
Greener Shipping Financing Tools Pilots	TEN-T
New Heraklion Airport (Kasteli)	TEN-T
LNG-KrK	TEN-E
Poland Gas PCI Programme	TEN-E
Italy- France Interconnector	TEN-E

3.6. Natural Capital Financing Facility (NCFF)

Policy DG in charge:	DG ENV and DG CLIMA
Implementing DG in charge:	DG ENV
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 60 million[216]
Current Overall Budget:	EUR 60 million *(2014-2017)*

A - Summary

NCFF provides direct and indirect financing for natural capital investment projects. The financing may consist in loans or equity. It finances revenue-generating or cost-saving projects which promote the conservation, restoration, management and enhancement of natural capital that contribute to the Union's objectives for biodiversity and climate change

[216] The overall budget envelope of the NCFF is defined in the Commission Implementing Decision C(2014)1709 of 19 March 2014 on the adoption of the LIFE multiannual work programme for 2014-2017 and it is referred to the period 2014-2017.

adaptation, e.g. through ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste.

The NCFF is a risk sharing financial instrument which is implemented under indirect management by the European Investment Bank.

The NCFF will finance up to 75% of total project cost for direct investments. When investing in equity funds, the maximum share is 33%.

B - Description

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

Regulation (EU) N° 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) Article 17.[217]

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

Policy objectives and scope

NCFF provides direct and indirect financing for natural capital investment projects. The financing may consist in loans or equity. It finances upfront investment and operating costs for revenue-generating or cost-saving projects which promote the conservation, restoration, management and enhancement of natural capital that contribute to the Union's objectives for biodiversity and climate change adaptation, e.g. through ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste.

Projects will fall into four broad categories:

- Payments for Ecosystem services (PES): projects involving payments for the flows of benefits resulting from natural capital, usually a small scale bilateral transaction with a well identified buyer and seller of an ecosystem service. They are based on the "beneficiary pays" principle, whereby payments take place to secure critical ecosystem services.
- Green Infrastructure (GI): GI is a strategically planned network of natural or semi-natural areas with other environmental features designed and managed to deliver a wide range of ecosystem services. It incorporates green spaces (or blue if aquatic ecosystems are concerned) and other physical features in terrestrial (including coastal) and marine areas. On land, GI is present in rural and urban settings. GI projects have the potential to generate revenues or save costs based on the provision of goods and services, e.g. water management, air quality, forestry, recreation, flood/erosion/fire control, pollination, increased resilience to the consequences of climate change.
- Biodiversity offsets: they are conservation actions intended to compensate for the residual, unavoidable harm to biodiversity caused by development projects. They are based on the "polluter pays" principle, whereby offsets are undertaken for compliance or to mitigate reputational risks. Projects aimed at compensating damages done to Natura 2000 sites according to Article 6(4) of the Habitats Directive are not eligible for financing under the NCFF.

[217] OJ L116/1, 17.04.2014

- Innovative pro biodiversity and adaptation investments: they are projects involving the supply of goods and services, mostly by SMEs, which aim to protect biodiversity or increase the resilience of communities and other business sectors.

Implementation arrangements
The NCFF is a risk sharing financial instrument which is implemented under indirect management by the European Investment Bank. The delegation agreement was signed on 18 December 2014.

The NCFF is currently implemented in a pilot phase, which will allow testing different financing options to focus on the most suitable approaches in a potential second phase. The EIB has the possibility to invest the available funds up to the end of 2019. The overall EU budget contribution foreseen for this period is EUR 60 million, including EUR 10 million for the Technical Support Facility.

Added value
The added value of the NCFF is to address current market gaps and barriers to the private financing of projects in the field of biodiversity and climate change adaptation. The aim is to establish a pipeline of replicable, bankable investments that will serve as a "proof of concept" and that demonstrate to private investors the attractiveness of such investments for the longer term. A further aim is to leverage funding from private investors for this pipeline of investments.

The NCFF will support projects that the EIB normally does not invest in, because they are too small, the time to ensure an investment return is too long, or the perceived credit risk of biodiversity and climate change adaptation investments is too high. To this end the EIB and the Commission agreed on a risk sharing mechanism whereby the EU funds will absorb first losses in case of project failure, thereby reducing the credit risk faced by the EIB.

When assessing the EU added value of potential projects, the EIB will investigate not only the contribution to the nature, biodiversity and climate change adaptation objectives, but also the potential for demonstration effect, replicability, transferability and the ability of the investment to leverage additional funding. The aim is to invest in some 9 to 12 operations. The broad geographical coverage is to enhance the effectiveness of the pilot phase.

A technical support facility is provided for capacity building measures to help the development of successful projects. This support will be provided to operations expected to be eligible for receiving finance from the NCFF and will develop competences in preparatory, management, monitoring, evaluation, audit and control activities.

(c) Financial institutions involved in implementation;

European Investment Bank (EIB)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 30 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 11 750 000

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

The Delegation Agreement was signed in December 2014, no operation was signed by the end of 2015.

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

N/A

(g) The balance of the fiduciary account;

A payment of 3 250 000 EUR was made on the 29 December 2014, followed by two additional payments in 2015 (15 January and 7 May).

	In EUR
Balance on the fiduciary account (current account)	**11 750 000**
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	
= Total assets	**11 750 000**

Impact of negative interest on NCFF: no impact as at 31/12/2015.

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

N/A.

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

N/A.

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

N/A.

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

• **<u>The target leverage effect</u>**.

The EU budget allocation foreseen in the LIFE regulation for the programming period 2014-2017 amounts to EUR 60 million. That amount includes EUR 50 million for the Investment Facility and EUR 10 million for the Technical Support Facility.

The total contribution by the EIB is deemed to reach EUR 100-125 million. An amount of EUR 120-240 million is the target aggregate amount of finance available to eligible final recipients supported by the Financial Instrument. For the avoidance of doubt, this amount does not include the financing that eligible final recipients make available from their own resources.

The target leverage effect as indicated in the Delegation Agreement is 2-4 (EUR 120-240 million divided by EUR 60 million of Union contribution) over the lifetime of the financial instrument (31 December 2019).

- **The achieved leverage effect**: NA for 2015

D - Strategic importance/relevance

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

The Delegation Agreement was signed in December 2014, and no operation was signed by 31/12/2015.

E - Other key points and issues

- **Main issues**:

The key implementation issues to meet the aims and requirements of the facility are:

- to identify and develop financially viable projects which have a positive impact on biodiversity and climate adaptation;
- to ensure sufficient uptake in a broad range of sectors, in view of future replicability;
- to ensure a good geographical spread among Member States, in particular in smaller Member States or where financing constraints are more acute.

- **Main risks identified:**
  - low uptake is a risk. Publicity and communication, and the support facility will be important in this context.
  - when implementing the NCFF, it will be taken into account that the EIB, financial intermediaries and final recipients may have limited experience with the nature and biodiversity and climate adaptation aspects of investment projects, including the proper monitoring and reporting. This is inherent to the innovative and pilot character of the instrument. The Support Facility may be used to address such issues.
  - projects will be closely monitored to ensure that biodiversity and climate adaptation objectives are achieved, in line with the LIFE Regulation.
- **General outlook:**

The first two operations are expected to be signed in the second half of 2016. Both concern indirect operations, one in the form of a loan, the other in the form of an investment in an equity fund. The most recent EIB pipeline received in early 2016 lists five additional potential operations: one indirect loan and four direct loans. Most potential operations cover more than one project category, in particular projects using payments for ecosystem services, Green Infrastructure and Pro Biodiversity and Adaptation businesses. The entities proposing the potential operations come from five different MS but the investments would involve a larger number of MS. This is in line with the aim to have a balanced geographical spread.

3.7. EU SME Initiative (*focus on indirect Commission management part, i.e. COSME/H2020)*[218]

Policy DG in charge:	DGs ECFIN, RTD, GROW, REGIO, AGRI
Implementing DG in charge:	DGs RTD, GROW, REGIO, AGRI
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 175 million (ceiling for contributions from each COSME and Horizon 2020)[219]
Current Overall Budget:	EUR 1 137 million (ERDF)

A - <u>Summary</u>

SME support is a main focus of the European Structural and Investment Funds (ESIF), and financial instruments play an increasingly important role within ESIF support. The basic act governing ESIF interventions is the so-called Common Provisions Regulation (CPR; see below for more information).

Within the financial instruments "family", the SME Initiative is a real novelty, in that it combines different EU funding resources in one financial instrument – namely resources from ESIF, COSME or Horizon 2020 and EIB Group resources. Thereby, it increases the leverage of (both public and private) additional resources to be mobilised for SME support. Its overall aim is to enhance access to finance for SMEs, to stimulate economic growth and entrepreneurship. Access to finance is a real issue in the economy of at least several Member States in Southern and Eastern Europe: the problem is not so much the lack of liquidity in the market, but the missing transmission of that liquidity into the real economy, so that SMEs have adequate access to finance at reasonable conditions, which enables them to invest, develop their competiveness and grow. Often, a lack of collateral on the SME side is the main reason why banks are not willing to lend.

There are several crucial elements of the SME Initiative which ensure its contribution to the objectives of better SME access to finance and, thereby, enhanced SME competitiveness, innovativeness and growth – e.g. its unique and targeted products, the enhanced leverage, the early deployment and frontloading of payments, but also the streamlined and comparatively light documentation necessary to implement it. The aspect of geographical diversification in the sense of Cohesion Policy, i.e. the fact that the policy focuses explicitly on less developed regions, is also fully taken into account: the single dedicated national programme (SDNP),

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[218] Article. 46 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council ("Common Provisions Regulation"/"CPR") provides for the reporting framework for financial instruments under shared management including – in connection with Article 39(10) CPR – the SME Initiative. According to Article 111 CPR, each year by 31 May (in 2017 and 2019 by 30 June), Managing Authorities have to provide their Annual Implementation Reports on the preceding year, which must include, as an annex, the information on financial instruments set out in Article 46 CPR. That latter article also stipulates that "each year, starting in 2016, the Commission shall, within six months of the deadline for the submission of the annual implementation reports referred to in Article 111 … provide summaries of the data on the progress made in financing and implementing the financial instruments." Hence, most of the data relevant with regard to the implementation of financial instruments under shared management will only be available on 30 November each year, and this is true also for 2016.

[219] There is an aggregate ceiling of EUR 8 500 million for ERDF and EAFRD according to Article 39 CPR.

although being a national Operational Programme, can have regional compartments so that the regional allocations to the SME Initiative remain clearly visible.

Concrete implementation in terms of loans provided to final recipients through financial intermediaries has taken place so far (i.e. as of 31/12/2015) only in Spain. In Malta, the SME Initiative was at the state of ongoing negotiations between the EIF and financial intermediaries responding to the EIF's call for expression of interest. In four other Member States (Bulgaria, Italy, Romania, Finland), preparations for implementing the SME Initiative were underway.

The target volume of new loans to be generated for all Spanish regions is EUR 5 723 million, out of which EUR 2 976 million are guaranteed by the ESIF contribution (at a guarantee rate of 50%).

B - Description

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

The EU SME Initiative may receive funding from the following four programmes.

COSME:
Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 - 2020) and repealing Decision No 1639/2006/EC (OJ L 347/33 of 20 December 2013). The European Commission has established financial instruments that aim to facilitate and improve access to finance for SMEs in their start-up, growth and transfer phases, complementary to the Member States' use of financial instruments for SMEs at national and regional level.

H2020:
Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC (OJ L 347/104 of 20 December 2013) and pursuant to the Decision No 2013/743/EU of the Council of 3 December 2013 establishing the Specific Programme implementing Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020), the European Commission has established financial instruments that aim to ease access to the risk financing for final recipients carrying out research and innovation projects.

ERDF and EAFRD (Article of the 39 CPR):
On 17 December 2013, Regulation (EU) No 1303/2013 of the European Parliament and the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347/320 of 20 December 2013) was adopted.

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

Policy objectives and scope
The SME Initiative has been presented on 27-28 June 2013 in the Commission's and EIB's joint report to the European Council, to complement and utilise synergies between existing

SME support programmes at national and EU level. More specifically, the SME Initiative is a joint instrument, combining EU funds available under COSME and Horizon 2020 and ERDF-EAFRD resources in cooperation with EIB/EIF in view of generating additional lending to SMEs.

Implementation arrangements

Three financial instruments could be implemented under the SME Initiative, and they boil down in substance to two alternative ways of operating, namely:

(*) uncapped guarantees providing capital relief to financial intermediaries for new portfolio of debt finance to SMEs and

(**) securitisation instruments (with two possibilities, i.e. option n°2 securitisation instrument with MS contribution used exclusively for the participating MS and option n°3 securitisation instrument with several MS contributions pooled and used to provide protection on the aggregate exposure, particularly to the mezzanine tranches guaranteed by EIF).

The period of time during which the participating Member State may commit some funds to the EIF shall expire on 31 December 2016. As it will be defined in the funding agreement that shall be signed between the EIB and the participating MS, the selected financial intermediary will originate new debt finance no later than the end of the eligibility period (i.e. 31/12/2023).

In terms of budget, the Common Provisions Regulation foresees a global ceiling (for all Member States) of EUR 8,5 billion of aggregate ERDF-EAFRD to be committed under the SME Initiative, and a ceiling by Member State of 7 % of their allocation from the ERDF and EAFRD. In that scenario, the corresponding maximum COSME and Horizon 2020 contributions would amount to EUR 175 million each over the 2014-2016 period.

As of 31/12/2015, financial intermediaries were selected in Spain[220]. The instrument's implementation in Spain and Malta is based on their respective Operational Programmes signed in December 2014 and their Intercreditor and Funding Agreements signed in January and July 2015. Also, in 2015, four other Member States (Bulgaria, Italy, Romania and Finland) confirmed their interest to participate and were preparing the necessary framework and documentation to do so.

Added value

As indicated in the legal base, the added value of the EU contribution results in a minimum leverage effect (of 4 in the cases of Spain and Malta) over the lifetime of the financial instrument for the ERDF contribution. Based on the minimum leverage of the instrument agreed in the Single Dedicated National Programme, it is estimated that the total amount of investments/loan volumes mobilised would be around EUR 6 billion for Spain and Malta (based on all available funds, i.e. ERDF, H2020, EIB/EIF and private (bank) funds).

A portion of the new Debt Finance portfolio equal to at least 20 times the contribution under the COSME Regulation and/or 9 times the contribution under the H2020 Regulation should fulfil respectively the COSME and/or H2020 eligibility criteria. Therefore, the table under point k) is summarising the overall leverage that should be reached for each option. The new debt finance originated by the selected financial intermediary should also include an amount equal to 20 times the COSME and/or 9 times the H2020 contribution.

[220] The EIF has a dedicated website providing more information on these financial intermediaries http://www.eif.org/what_we_do/guarantees/sme_initiative/smei_signatures.pdf

(c) The financial institutions involved in implementation;

European Investment Bank
European Investment Fund

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015: 14 356 506 [221]

Aggregate budgetary payments as at 31/12/2015: 12 531 780[222]

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

No data yet available.

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

No amounts returned to the instrument as internal assigned revenue as at 31/12/2015.

(g) The balance of the fiduciary account;

N/A (due to aggregation with other funds under H2020).

(h) Revenues and repayments;

No data yet available.

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

N/A.

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

No impairments of assets, no called guarantees as at 31/12/2015.

(k) The leverage effect;

The target leverage effect

The target leverage may vary between the different national instruments depending the risk sharing arrangement in the Intercreditor Agreements. The following table shows for illustrative purpose the calculation of the target leverage for the SME Initiative in Spain, in accordance with the agreed approach for such calculation. The figures represent the different risk covers/risk takers as defined in the Intercreditor Agreement: in absolute and percentage terms, the loan portfolio will have a senior tranche/risk cover accounting for 69% of its size, an upper mezzanine (4,5%), middle mezzanine (0,5%) and lower mezzanine (3,0%) part as well as a junior tranche (23%). Summing those amounts up, the part of the portfolio that is backed by the guarantee is obtained: EUR 2 862 million.

[221] From H2020 only (nota for info: 677,27 million EUR for ERDF; for ERDF, please see comments above).
[222] From H2020 only (nota for info: 457,84 million EUR for ERDF; for ERDF, please see comments above).

Since for the SME Initiative in Spain a guarantee rate of 50% was agreed, the originating banks will retain 50% of the risk, and the overall portfolio is thus double the amount above, i.e. EUR 5 723 million. These are loans to SMEs. Dividing this aggregate amount of EUR 5 723 million by the aggregate support provided through ERDF and Horizon 2020, EUR 816,8 million, provides the leverage targeted, namely 7,0.

Calculation of target leverage for the SME Initiative in Spain

SIUGI Risk Cover	Risk taker	Maximum Risk Cover Size (EUR)	Target Rating (at least)
Senior Risk Cover	EIB	1 974 461 538,46	Aa3
Upper Mezzanine Risk Cover	EIF	128 769 230,77	Baa3
Middle Mezzanine Risk Cover	Horizon 2020	14 307 692,31	Ba1
Lower Mezzanine Risk Cover	ESIF	85 846 153,85	Ba2
Junior Risk Cover	ESIF	658 153 846,15	Not Rated
Guaranteed Portfolio without originator (corresponds to 50% because of a 50% guarantee rate)		*2 861 538 461,54*	
Originator's risk (bank own risk)		*50%*	
Total amount of the guaranteed loan portfolio (100%)		*5 723 076 923,08*	
Total ERDF/COSME/Horizon2020		*816 800 000,00**	
Leverage in relation to ERDF (but based on ERDF, H2020, EIB and EIF funds)		**7,0**	

* EU contribution including management costs and fees

The achieved leverage effect

N/A as at 31/12/2015.

The Expected Leverage for Signed Operations

The expected leverage effect for signed operations over the ESIF contribution is factor 7.

D - Strategic importance/relevance

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

SME support is a main focus of the European Structural and Investment Funds (ESIF). This is reflected by the CPR223's thematic objective 3 "Enhancing the competitiveness of SMEs", under which in 2014-2020 according to preliminary figures about EUR 59 billion will be devoted to supporting SMEs (EUR 32,4 billion by the ERDF and EUR 26,6 billion by the EAFRD). The investment priorities as laid down in the ERDF Regulation (No 1301/2013) illustrate the objectives of the ESIF programmes: promoting entrepreneurship, developing new business models for SMEs, supporting SMEs' growth and innovation capacities.

While much of this support is still provided through grants, financial instruments play an increasingly important role. Within the financial instruments "family", the SME Initiative is a real novelty, in that it combines different EU funding resources in one financial instrument, thereby increasing the leverage of (both public and private) additional resources to be mobilised for SME support.

In the Single Dedicated National Programmes (SDNPs) that Member State have to establish to devote ESIF resources to the SME Initiative, the progress in implementing the SME Initiative is measured against output indicators (e.g. the number of SMEs receiving support, the ERDF amount committed to cover the New Debt Finance portfolio (for the uncapped guarantee option) and the ERDF amount used to cover the existing portfolios of debt finance to SMEs (for the securitisation option)) as well as against result indicators (e.g. reduction in the market failure for debt finance, improvement of SMEs' access to finance, or the minimum leverage that the instrument sets out to achieve).

The Single Dedicated National Programmes for Spain (ERDF contribution of EUR 800 million) and Malta (ERDF contribution of EUR 15 million) were signed at the end of 2014. The Intercreditor and Funding Agreements for Spain were signed on 26 January 2015 and the guarantee agreements between the EIF and the selected financial intermediaries on 1 October 2015. The Maltese authorities signed their Intercreditor and Funding Agreements on 15 July 2015, and the guarantee agreements were close to finalisation and signature as of end-2015.

In 2015, four other Member States confirmed their interest to participate and were preparing the necessary framework and documentation to do so: Bulgaria (ERDF contribution of EUR 102 million), Italy (ERDF contribution of EUR 100 million), Romania (ERDF contribution of EUR 100 million) and Finland (ERDF contribution of EUR 20 million). While the respective Single Dedicated National Programmes committing these ERDF amounts to the SME Initiative were approved in November and December 2015 in case of Bulgaria and Italy, those of Romania and Finland were in a mature draft state as of end-2015.

The aspect of geographical diversification in the sense of Cohesion Policy, i.e. the fact that the policy focuses explicitly on less developed regions, is also fully taken into account: the SDNP, although being a national Operational Programme, can have regional compartments so that the regional allocations to the SME Initiative remain clearly visible and traceable. The

[223] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006

target volume of new loans to be generated for all Spanish regions is EUR 5 723 million, out of which EUR 2 976 million are guaranteed by the ESIF contribution

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

- ***Main issues, for the implementation:***
  - the firm political will and commitment to implement the SME Initiative with all its novel elements (e.g. the various funds it brings together) is a *conditio sine qua non* for implementing it successfully. This also means that the different services involved within the Government (even more so if national and regional players come in) have to cooperate very effectively and efficiently.
  - Moreover, a continuous reality check and reassessment needs to be carried out regarding the two options/financial products – are they really the ones best placed to improve SME access to finance? Are they adequately designed to meet the needs of SMEs (and financial intermediaries)? Is the financial volume dedicated to them appropriate? The SME Initiative has to ensure it complements – through its particular set-up and its specific products – existing financial instruments (and grants) and provides synergies with them.
  - While the uncapped guarantee instrument was ready for implementation (e.g. in Spain) at the beginning of 2015, Commission services and the EIF worked together throughout the second half of 2015 to prepare the provisions for the instrument's option 2, securitisation (which is the option Italy has chosen). As at end-2015, these common provisions were in a fairly mature state, but not finalised yet.
- ***Main risks:***
  - To be seen once more Member States embark on implementation on the ground.
- ***General outlook:***
  - The central problem of the economy of at least several Member States in Southern and Eastern Europe is not the lack of liquidity in the market, but the missing transmission of that liquidity into the real economy, so that SMEs have adequate access to finance at reasonable conditions, which enables them to invest, develop their competiveness and grow. Often, a lack of collateral on the SME side is the main reason why banks are not willing to lend. In such a context, products offered by the SME Initiative such as the uncapped guarantee instrument are very well-suited to tackle the main obstacles for SMEs to get appropriate access to finance. Hence, in principle, the main rationale for the SME Initiative remains fully valid.
  - The implementation in Spain and Malta as well as the preparations for implementation in four other Member States (Bulgaria, Italy, Romania, Finland) progressed according to plan in 2015, and the Commission was satisfied to see an increased takeup of the instruments. It is expected to continue in 2016 with the outstanding steps to be completed timely in the course of 2016 (i.e. agreement on the Operational Programmes for Romania and Finland and Intercreditor and Funding Agreements for these two countries plus Bulgaria and Italy).

4. Dedicated Investment Vehicles

4.1. The European Progress Microfinance FCP-FIS	
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 31/12/2015:	Commitments: EUR 80 million Payments: EUR 74 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 01/04/2016, including increase in budget commitments from 2008 to 2013.*

A - Summary

The EPMF FCP-FIS is managed by the Management Company (EIF). 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 30/09/2015, EIF had signed 42 loan agreements in 14 member states including a Commission contribution of EUR 74 million while 24 841 micro-enterprises and vulnerable persons had been supported under the Facility for a total microloans volume of EUR 172,94 million and 41 112 jobs[224] supported.

As at 30/09/2015, the entire programme (EPMF-G + EPMF-FCP FIS) provided 45 999 micro-loans to final recipients, reaching the volume of EUR 390,4 million.

[224] EPMF FCP – 2015 Annual Implementation Report

B - Description

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

Decision No 283/2010/EU[225] of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion.[226]

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

It is established as an umbrella fund, which may have several sub-funds. The Fund has been launched with an unlimited duration provided that the Fund will however be automatically put into liquidation upon the termination of a sub-fund if no further sub-fund is active at that time. At 31 December 2013, the Fund has had a single sub-fund - the European Progress Microfinance Fund (the "Sub-fund") - created with a limited duration ending on 30 April 2020.

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

Policy objectives and scope

The Fund is an unincorporated co-ownership of securities and other eligible assets. The Fund does not have legal personality. The Fund is therefore managed in the exclusive interests of the Unit-holders (the European Union, represented by the Commission, and the EIB) by the Management Company (EIF) in accordance with Luxembourg laws and the Management Regulations.

The specific investment objective of the Fund is to increase access to, and availability of a range of financial products and services in the area of microfinance for the following target groups (see also the objectives under the EPMF-Guarantee Facility above):

- persons starting their own enterprise, including self-employment;
- enterprises, especially microenterprises;
- capacity building, professionalization, and quality management of microfinance institutions and of organisations active in the area of microfinance;
- local and regional employment and economic development initiatives.

Implementation arrangements

The FCP-FIS is managed by the Management Company (EIF) which is vested with the broadest powers to administer and manage the Fund and the sub-fund(s) in accordance with the Management Regulations and Luxembourg laws and regulations and, in the exclusive interest of the Unit-holders, to exercise all of the rights attaching directly or indirectly to the assets of the Fund.

The EIF has the exclusive authority with regard to any decisions in respect of the Fund or any sub-fund(s), and shall act with the diligence of a professional management company and in good faith in the exclusive interests of the Unit-holders.

The 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.

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

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

Unit classes are issued and redeemed at the option of the Management Company at prices based on the Fund's net asset value per Unit of the related redeemable Unit classes at the time of issue or redemption.

The following classes of Units are available for subscription under the single sub-fund of the Fund:

- Junior Units

Junior Units are subordinated to the Senior Units and shall bear the first net losses in the Sub-Fund's assets. Junior Units are reserved for the European Commission.

- Senior Units

Senior Units are senior to Junior Units and shall only suffer a net loss in the Sub-fund's assets if the cumulated Net Asset Value of all Junior Units together has been reduced to zero.

The financial contribution from the Union budget to the EPMF Fonds Commun de Placement – Fonds d'Investissement Spécialisé (EPMF FCP-FIS) for the period from 1 January 2010 to 31 December 2015 amounts to EUR 80 million. In addition, the European Investment Bank has matched the overall Union contribution into the EPMF. Consequently, the Commission is a founding investor in the Specialised Investment Fund, contributing with 44% (80 million EUR) of the total funding. The EIB is the other investor with a contribution of 100 million EUR. The Commission has subscribed for junior units, thus bearing the first loss.

In accordance with the EPMF FCP-FIS's Management Regulations, the Investment Period ends on 7 April, 2016. However, the Management Company may decide to extend the Investment Period subject to the unanimous approval of the Sub-Fund's Meeting of Investors.

The Facility is implemented via debt and equity instruments (FCP-FIS); the implementation foresees also support measures, such as communication activities, monitoring, control, audit and evaluation which are directly necessary for the effective and efficient implementation of the Decision No 283/2010/EU and for the achievement of its objectives.

Added Value

The Fund constitutes one of the EU core measures to mitigate the consequences of the economic crisis. By providing debt, equity and funded risk sharing instrument to MFIs located within the EU, it aims to increase the access to, and availability of, microfinance for the most vulnerable. The microenterprise segment is the cornerstone of the EU economy: more than 90% of EU businesses and almost all start-ups are microenterprises. Some 66% of business start-ups are made by unemployed people. The Fund enables economic independence for micro-entrepreneurs who might otherwise have difficulties in accessing funds for business start-ups, in the current context of reduced credit supply. It provides concrete support for economic growth, employment creation and social inclusion.

(c) The financial institutions involved in implementation;

The Fund is managed by the EIF as a Management Company. The Management Company has to comply with the requirements of the investors as set out in the legal documentation (Management Regulations and Prospectus) and with the obligations arising from the governing law of Luxembourg.

EIF is vested with the broadest powers to administer and manage the Fund and the sub-fund(s) with the diligence of a professional management company and in good faith in the exclusive interests of the Unit-holders.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 80 000 000
Aggregate budgetary payments as at 31/12/2015 EUR 74 000 000

(e) The performance of the financial instrument, including investments realised (as of 30/09/2015);

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 390,8 million 60 012 eligible FRs[227]
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 558,3 million[228]
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 172,9 million 24 841 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 247 million[229]

Note: No further budgetary commitments have been made by the Commission since the end of the commitment period on 31/12/2013.

Additional operational information

As of 31/12/2015 the total contributions of the shareholders (Commission and EIB) to the EPMF FCP amounted to EUR 172,66 million (Commission contribution = EUR 74 million to FLP and EIB contribution to second loss piece = EUR 98,66 million) therefore any investment of the Fund (mainly senior loans) was made in accordance to the ratio 1:1,33 between the Commission and EIB.

As of 30/09/2015, 42 Agreements have been signed in 14 Member States including a Union contribution of EUR 74 million, with a clear geographical balance between Eastern and Western Europe.

On 31/12/2015, the signed agreements between EIF and the Intermediaries amounted to some EUR 172,66 million (Commission contribution = EUR 74 million and EIB contribution = EUR 98,66 million) and aimed at leveraging an additional contribution from the intermediaries of EUR 218,14 million, in order to have a total of EUR 390,8 million (expected volume) in micro-loans to final recipients.

[227] Estimate based on an average loan amount per FB as at 30/9/2015 = 6 512 EUR
[228] The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.
[229] The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.

Impact on employment

For the entire period as of 30 September 2015 (latest data available as at writing date), EPMF achievements for the FCP-FIS component of the programme were as follows:

- Total amount of micro-loans: EUR 172,94 million
- Total number of employees (in the supported micro-enterprises): 41 112 [230]

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

As of 30/09/2015, the European Progress Microfinance Facility including both Guarantees and Funded instruments already provided 45 999 micro-loans to final recipients reaching the volume of EUR 390,4 million, compared to the initial programme target of 46,000 micro-loans with the volume of EUR 500 million. The Facility is on track to reach the initial programme target, as new loan inclusions will take place until 2018.

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

N/A.

(g) The balance of the fiduciary account;

N/A.

(h) Revenues and repayments;

Revenues:	EUR 12,7 million
Repayments:	EUR 31,3 million

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

EUR 71 million[231]

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

N/A.

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

As of 30/09/2015, based on the signed loan agreements, the total target volumes of micro-loans to final recipients are estimated to EUR 390,8 million, bringing the expected leverage effect to 5,2 (the expected volumes of microloans divided by EUR 74 million of Commission's contribution); this is much higher than the minimum target leverage of 2,33.

As for achieved leverage until 30/09/2015, the Commission's contribution paid of EUR 74 million has supported so far EUR 172,94 million of new micro-loans, implying a leverage of 2,33.

[230] EPMF FCP-FIS Annual Implementation Report – 2015, data as of 30th September , 2015.

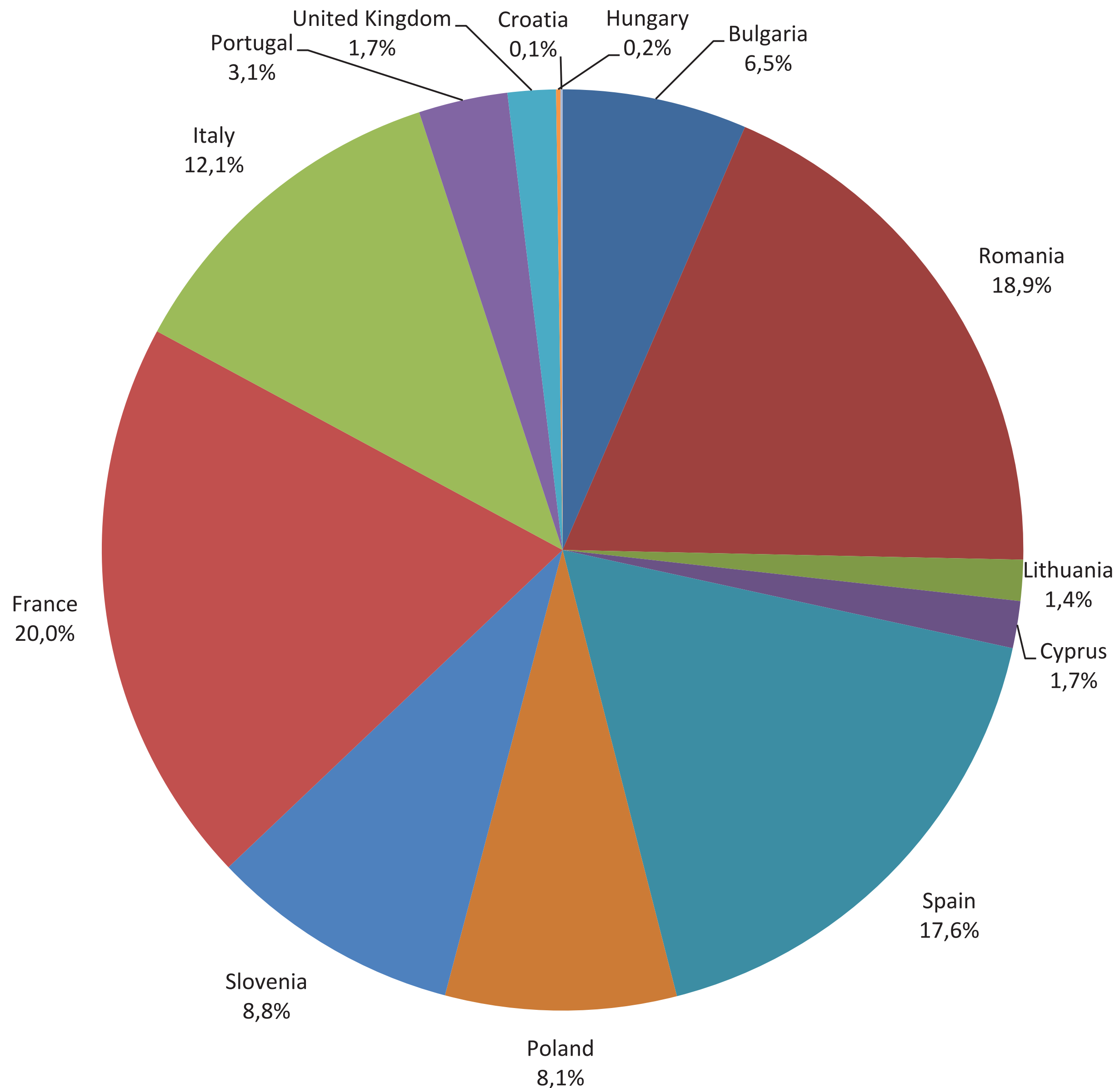
[231] NAV, source : 2015 audited accounts EPMF FCP-FIS

D - Strategic importance/relevance

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

(See part IV above, under section "2.2 European Progress Micro-finance Facility – Guarantee")

The share of each participating country in the total amount of financing already provided (EUR 172,94 million as of 30/09/2015) by the FCP instrument to eligible final recipients is presented in the following graph.



E - Other key points and issues

- ***Main issues for the implementation:***
  - in terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2015, which is also reflected by the

increased lending activity under EPMF FCP. The Microfinance Institutions' demand for stable access to funding clearly remains as inter-bank lending and other sources of funding have not yet picked up again.

  - The continuously decreasing bank lending, the limited capacity and priority of national governments to support microfinance, and the strong market demand for microfinance suggest that there is a clear rationale for intervention at EU-level.
  - Despite its positive effects in the area of employment and social inclusion, without access to stable funding and without the necessary capacity building component, the growth and sustainability prospects of the sector, particularly for non-bank MFIs which are focused on social inclusion lending, remain limited.

- ***Main risks :***
  - risk is inherent in the Fund's activities but is managed through a process of on-going risk identification and measurement, monitoring of the benefited MFIs and other controls regarding the observance of specific portfolio limits and restrictions in order to ensure that the investments are diversified to an extent that an adequate spread of the investment risk is warranted.
  - The EIF as Management Company is responsible for the overall risk management approach and for approving the risk strategies and principles.
  - The Management Company monitors these investments on an on-going basis by analysing regular reports (i.e. quarterly financial covenants compliance, quarterly financial statements and key performance indicators such as portfolio, liquidity, capitalisation and profitability) and through direct contact with each financial intermediary and site visits.
  - The Management Company has in place monitoring process to identify potential deterioration of counterpart creditworthiness and anticipate potential impairments on the portfolio and/or review of the counterpart internal rating.
- ***General outlook:***
  - based on forecasts subject to variations, a further EUR 12,3 million is envisaged for new deals for the EPMF FCP Facility within 2016.

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

Policy DG in charge:	DG MOVE
Implementing DG in charge:	DG ECFIN
Operating Body in charge:	Marguerite Adviser (the Fund Manager)
Initial Overall Budget Envelope:	EUR 80 million
Current Overall Budget:	EUR 80 million from the TEN-T budget (06 03 03 — Financial support for projects of common interest in the trans-European transport network (in 2013 budget nomenclature))

A - <u>Summary</u>

The Marguerite Fund is a Pan-European equity fund developed in the context of the financial crisis and in recognition of the need for successful long-term infrastructure investment in Europe. It supports infrastructure investment within the transport (TEN-T), energy (TEN-E) and renewables sectors in Member States and invests primarily in Greenfield Projects.

The core sponsors include public long-term investors from France (CDC), Italy (CdP), Germany (KfW), Spain (ICO) and Poland (PKO) as well as the EIB and a key investor, the European Commission. In total, the fund raised EUR 710 million of available capital for equity investments (final close reached in December 2012). The Commission aggregate budgetary commitment is EUR 80 million and sourced through the TEN-T budget.

B - <u>Description</u>

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

Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans- European transport and energy networks (OJ L 162, 22.6.2007, p.1). [232]

Commission Decision C(2010) 941 of 25 February 2010 on European Union participation in the 2020 European Fund for Energy, Climate Change and Infrastructure (the Marguerite Fund).

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

Policy objectives and scope

The Marguerite Fund is a Pan-European equity fund developed in the context of the financial crisis and in recognition of the need for successful long-term infrastructure investment in Europe. It supports infrastructure investment within the transport (TEN-T),

[232] (OJ L 162/1, 22.6.2007)

energy (TEN-E) and renewables sectors in Member States and primarily invests in Greenfield Projects

Expected results:

- at least 3,5 times the EU commitment to be invested into TEN-T eligible projects (at least EUR 280 million),
- 30 to 40 % of the total commitments invested in the Transport sector (TEN-T network),
- 25 to 35 % invested in the Energy sector,
- 35 to 45 % invested in the Renewables Energies sector.

The investment period ends in December 2016 (with a possible extension of two more years) while the end-date/maturity of the fund has been set at a maximum term of 20 years from the start of the initial closing (December 2009) but may be extended for up to two additional one-year periods (up to December 2031).

A working group made of the representatives of the co-investors of the Fund has been organised on January 2016 to analyse the options on the future of structure and in particular, to examine a potential extension of the investment period.

Implementation arrangements

The Commission directly manages its investment in the Marguerite Fund; there is no delegation or sub-delegation agreement to any entrusted entity. The cash contributions are paid directly by the EU hence no trust account is established. The Commission is a pari-passu investor alongside its co-investors, sharing equally with other co-investors both costs and returns.

The Investment Adviser "Marguerite Adviser S.A." employs the Advisory Team and provides investment advisory services to the Fund under an Advisory agreement. As such, it is responsible for the day-to-day management and on-going activity of the Fund. The Advisory Team is in charge of origination, due diligence (appraisal), structuring and execution of the investments as well as of monitoring and asset management.

Added value of the Union contribution

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. That funding pool crowded in other sponsors' equity invested in ten projects as of December 2015 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.

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 EU’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 those 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.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 80 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 43 720 000

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

As of 31 December 2015 the Marguerite Fund has committed to invest in ten projects: three projects in TEN-T transport and seven in the renewable energy sector. This represents a total equity commitment by the Fund of EUR 295 million supporting a total project cost of EUR 4 922 million.[233]

Out of the EUR 295 million, the Fund committed EUR 66,8 million of equity to the three TEN-T transport projects (23%). The Fund, is progressing towards the target of EUR 280 million equity investment to TEN-T projects (i.e. 3,5x the EUR 80 million committed by the EU) by the end of the investment period. The other EUR 228,2 million (77%) were committed to the seven projects in the renewable sector. The table below shows the detailed list of the projects.

Projects in fund portfolio (as at 31-12-2015), in EUR million[(1)]		
Project name (Country) – year	**Sector**	**Totals**
C-Power (Belgium) – 2011	Renewables	
Toul (France) – 2011	Renewables	
Massangis (France) – 2012	Renewables	
Aeolus (Poland) - 2012	Renewables	
Chirnogeni (Romania) – 2012	Renewables	
Autovia Arlanzon (A1) (Spain) - 2012	TEN-T	

[233] The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-plots of a larger project, the project total was estimated on the basis of the share of megawatts owned. For the projects still under construction, not all of the finance mobilized was invested as of 31-12-2015.

Poznan Waste-to-Energy (Poland) – 2013	Renewables	
Butendiek (Germany)[3] - 2013	Renewables	
Zagreb Airport (Croatia) - 2013	TEN-T	
N17 – N18 motorway (Ireland) - 2014	TEN-T	
TOTAL EQUITY COMMITMENT[2]		**295**
TOTAL AMOUNT OF MOBILIZED FINANCE[3]		**4 922**

Source: *Services calculations based on fund reports as at 31-12-2015*

Notes:

(1) The EC has a 11,27% share in the fund

(2) Includes contingent equity commitment, from the fund i.e. representing 100% of the fund. Net of divestment of 1/3 stake to CDC Infrastructure that occurred in December 2013. (3) The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-plots of a larger project, the project total was estimated on the basis of the share of megawatts owned.

The ten projects in the portfolio are at various stages of development: some are already fully constructed and operating, some are under construction. In the course of 2015, the fund received distributions for an amount of EUR 8,20 million from several projects. This allowed the fund to cover its operating costs without drawing on investors' capital calls to fund them. However, no cash was distributed by the Fund to investors.

In 2015 no deal has been concluded, but two new investments were negotiated and finalised early 2016:

At the very end of 2015, Marguerite Adviser signed an agreement with Uniper to acquire its shares in AS Latvijas Gaze, a vertically integrated Latvian gas company in charge of the transmission, distribution, storage and supply of natural gas in Latvia. The transaction has been finalised in April 2016 for a net commitment of EUR 110,05 million. The EU paid the capital call corresponding to its part in the Fund (EUR 12,4 million) in late December.

In November 2015, the Alsace Region Assembly has decided to award the Project to equip the region with a new high speed fibre-to-the-home network to the NGE/ Altitude Infra consortium which was supported by Marguerite Fund and the Caisse des Dépôts. The total investment of the project amounts to EUR 480m. Marguerite Fund announced the financial close of the project early April 2016, in which it has a 37% shareholding, alongside the partners mentioned above (total ticket for Marguerite EUR 21.5M).

More projects are currently being developed and the investment pipeline for 2016 is expected to translate into further signings and closings before the investment period term scheduled on 31 December 2016 (if no extension of the period is decided by the Supervisory Board before this date).

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 80 million of commitment to a single financial intermediary, the Marguerite Fund

Amount of financing expected to be provided by financial intermediaries to eligible final recipients , and expected number of eligible final recipients;	Overall, the Fund is expected to invest in full the EUR 710 million into the equity of circa 20 to 30 projects (eligible final recipients). The total amount of finance mobilized across these 20 to 30 projects (Marguerite equity of 710 million, co-investor equity and debt) by the Marguerite equity investment is expected to represent some EUR 10 billion.
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 295 million of equity committed by the Fund to 10 projects (final recipients), which mobilized EUR 4,9 billion of finance in total (Marguerite equity, co-investor equity and debt). [234]
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 4 922 million of finance mobilized[235]

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

N/A.

(g) The balance of the fiduciary account;

N/A, there is no fiduciary account: the Commission makes direct payments to the Fund on the basis of Capital Calls issued by the Fund.

Impact of negative interest on Marguerite: no impact as at 31/12/2015.

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

In the case of the Marguerite Fund, the revenues and repayments consist on the distribution of dividends or redemption of shares (net distributable cash).

Article 20.1 of the Private Placement Memorandum establishing the fund specifies that the Net Distributable Cash will be distributed (either through the payment of dividends or through the redemption of Shares) to Investors pro rata as soon as possible in the reasonable discretion of the Board upon recommendation of the Investment Adviser after the relevant amount becomes available for distribution.

Up to 31/12/2015, no distribution has taken place.

[234] The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-plots of a larger project, the project total was estimated on the basis of the share of megawatts owned.

[235] See detailed definition in the previous footnote

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

Compared to the value for 31.12.2014 the Net Asset Value of the Commission investment in the fund has increased from EUR 36,46 million to EUR 37,9 million. Taking into consideration that payments remain the same[236], this implies a change of the non-realized capital gain of the Commission from EUR 5,2 million to EUR 6,6 million representing an increase of EUR 1,4 million over the course of the year 2015.

In EUR	31/12/2014	31/12/2015
Cumulated payments by EC	31 320 000	31 320 000
Fair value (NAV) of EC stake	36 560 756	37 912 657
Non-realized capital gain (loss) of EC	**5 240 756**	**6 592 657**

Source of Net Asset Value: Quarterly report of the Marguerite Fund to 31 December 2015, p.7

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

Chirnogeni on-shore windfarm project Investment value (EUR 27m) has been fully written down at the end 2015, due to risk of default.
The corresponding loss for the Fund has been compensated by increase of the fair value of the other assets in the portfolio. For that reason, no impairment has been accrued by the European Commission at end of 2015.

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

- **<u>The target leverage effect</u>**:

No target leverage effect was indicated in the legal base. However, the Commission uses an estimated leverage of 125.

The leverage effect was estimated using the following method: total equity commitment provided by the Marguerite Fund is assumed to represent 7,1% of the amount of finance provided to projects (final recipients). The Commission contribution represents 11,27% of total equity commitment provided by the Marguerite Fund or in other terms 0,8% of the amount of finance mobilised by projects. This means that the leverage is 1/0,8% = 125.

Based on this leverage, it is estimated that the total amount of finance mobilised by the instrument (both equity and debt) at the project level (final recipient level) would be around EUR 10 billion across the three sectors (of which circa EUR 4 billion are expected to be allocated to TEN-T transport projects) for the entire duration of the programme compared to the Union contribution of EUR 80 million.

- **The <u>achieved leverage effect</u>**:

The achieved leverage effect as of 31-12-2015 can be assessed by comparing the amount of finance mobilized to that date (EUR 4 922 million) and the amount of EU budget contribution paid into the fund to that date (EUR 31,3 million – corresponding to the payments made for

[236] Cumulated payments did not include the payment made late December 2015 (EUR 12,4m) to reflect the fact that the corresponding shares acquired in AS Latvijas Gaze have not been included in the portfolio at this date. The NAV of EU stake has been computed on the basis of the non audited NAV statements communicated by Marguerite Fund early 2016.(i.e 80/710* 336 474 832= EUR 37 912 657).

the portfolio at end of 2015 which not yet includes the shares acquired in Latvia Gas). This gives a leverage of EU contribution as at 31-12-2015 of 157x.

D - Strategic importance/relevance

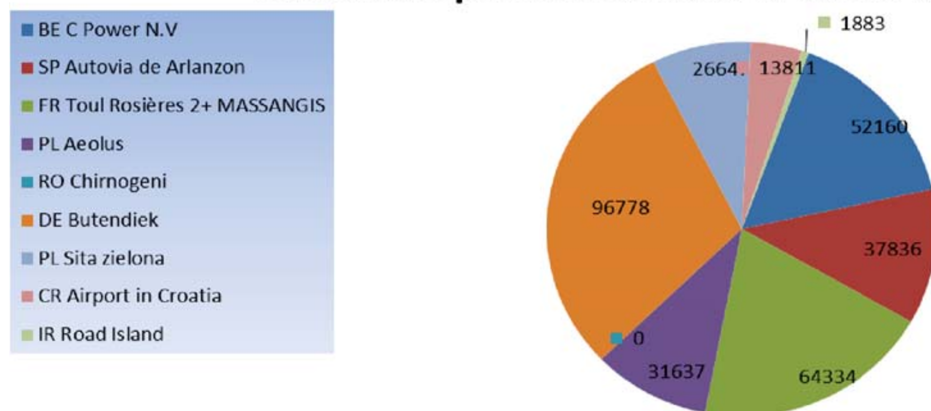
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

As of 31-12-2015, the Fund has committed to invest in three TEN-T projects a total of EUR 66,8 million. As of today the Commission has paid in EUR 43,7 million. The fund commitment represents a multiple of 2,1x of the amounts paid by the Commission to the fund as of 31-12-2015. This is still shy of the 3,5x target established for the end of the investment period, however the fund is progressing in delivering its investment pipeline in the TEN-T transport sector. A new deal in the transport sector (Pedemontana Veneta) is expected to be achieved in the course of 2016.

As of 31-12-2015, the Fund has been successful in helping the EU to deliver the 2020 targets by a successful financing of seven renewable energy projects in five different Member States.This includes investment in an innovative PPP scheme for the waste-to-energy plant in Poznan, Poland; Butendiek which is one of the largest off-shore windfarms in the German North Sea.

The fund was equally successful in catalysing a transfer of knowledge in terms of financial structuring into new markets: the Poznan Waste-to-Energy project was the first Waste-to-Energy project in Poland to be structured as a Private Public Partnership (PPP) with the use of EU structural funds. Also, the Zagreb Airport transaction has sent an important signal that greenfield PPPs with traffic risk in Eastern Europe can be closed, and bring attractive market-returns. The transaction is considered a benchmark for PPP bankability in the region. Zagreb Airport also was the first PPP in the Western Balkans with debt financing contributed by the EIB. Market participants considered that the expertise of the Marguerite Advisor team was crucial in ensuring the deal's workability as the first PPP to close under Croatia's new concession law. Finally, the N17/N18 motorway deal closed in April 2014 signalled a revival in Irish PPP market.

The Marguerite fund also serves as a role model for innovative financial instruments investing in European infrastructure projects. It is unique in bringing several European Development Banks together to finance a common pan-European investment vehicle. It is successful in attracting private funding (via co-investors and commercial bank lending) while demonstrating the business case behind these investments and creating a credible track record of EUR 295 million of equity commitment to ten projects representing EUR 4,9 billion of mobilized finance (equity and debt).



E - Other key points and issues

- **Main issues for the implementation:**
  - The December 2012 payment was subject to a Court of Auditors verification. In its findings, the Court stated that the Commission's participation in the Marguerite fund which invests across three sectors (TEN-T transport, Energy, ICT) violates the principle of *specification* as defined in the Financial Regulation[237]. 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, ICT) and is seen as a way to avoid concentration risk and sectoral correlation.
  - However, DG ECFIN has reflected the findings of the Court of Auditors in the design of new financial instruments under the Multi-Annual Financial Framework 2014-2020. The experience from the Marguerite audit case allowed to preserve a maximum grade of diversification and stay at the same time in line with the principle of specification.
  - For the Marguerite fund, the decision was made to create a new bespoke fund with a relatively original structure. While this allowed to fully respect the requirements of the initial public sponsors in terms of investment guidelines, the fund was not successful in crowding-in private investors' commitments in the successive fundraising rounds. It has to be underlined that the Fund has however demonstrated a remarkable capability of co-investing with private partners at the projects level. 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.
- **Main risks identified:**
  - The Commission Decision has laid down clearly defined rules, terms and conditions as well as specific investment criteria in the Investment Guidelines to be followed by the Fund. The Investment Committee, as well as the Management and Supervisory boards closely monitor the compliance with these guidelines.

[237] Council Regulation (EC, Euratom) 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, now replaced by Regulation (EU) 966/2012

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

- **General outlook:**
  - The Fund constantly develops a pipeline of investment opportunities across the three target sectors (TEN-T transport, renewable energy, energy and ICT). It is in close contact with market participants and actively seeks out new transactions.
  - In the near-term, the fund is expected to close:
    - a second transaction in the field of ICT to invest in a fibre network project in Nord Pas de Calais fibre (EUR 25 million), just after the successful closure of the deal in a similar project in Alsace Region early 2016.
    - a transaction in energy (KRK LNG, EUR 70 million).
    - a transaction in the transport filed (Pedemontana Veneta, EUR 150 million).

4.3. European Energy Efficiency Fund (EEEF)

Policy DG in charge:	DG ENER
Implementing DG in charge:	DG ENER
Operating Body in charge:	Deutsche Bank as Fund manager
Initial Overall Budget Envelope:	EUR 146 334 644,50
Current Overall Budget:	EUR 146 334 644,50

A - Summary

The Fund was established in 2011 with a global volume of EUR 265 million, more than double the direct EU contribution (EUR 125 million), in line with the objective of leveraging[238]. In addition a EUR 20 million technical assistance grant to support project development services was made available. The Fund provides tailored financing (both debt and equity instruments) in particular for energy efficiency projects but also for renewable energy and clean urban transport projects. Beneficiaries are local or regional public authorities or entities acting on their behalf.

The fund has an investment manager, Deutsche Bank, which undertakes the pre-selection and due diligence of the projects before the Management Board (in which the Commission seats) approves them. The Fund has also an Investment Committee and a Supervisory Board (in which the Commission holds 2 seats out of 3) to give general orientations and grant derogation from the investment guidelines.

By now, the Fund has progressively established a solid track record of profitable investments (net profit registered from 2013) and is now actively looking for additional investors. It is also

[238] In addition to the EU contribution, i.e. €125m in the form of junior tranches (first loss piece), the EIB invested € 75m, Cassa depositi e prestiti (CDP) € 60m and Deutsche Bank (DB) € 5m in more senior shares of the Fund.

envisaged to further extend the scope of the Fund to SMEs/private sector beneficiaries once additional investors join in[239].

B - Description

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

Regulation (EU) No 1233/2010 of the European Parliament and the Council of 15 December 2010 amending regulation (EC) No 663/2009 establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy[240]

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

Policy objectives and scope

On 1 July 2011, EUR 146,3 million from the European Energy Programme for Recovery (EEPR) were allocated to a new European Energy Efficiency Fund — EEEF (in the form of a specialised investment fund (SICAV). The EEEF invests in energy efficiency, renewable energy projects, and clean urban transport particularly in urban settings, achieving at least 20 % energy saving or GHG/CO2 emission reduction.

The beneficiaries must be public authorities or public or private entities acting on their behalf, including ESCOs[241].

The Fund was launched on 1 July 2011 with an initial volume of EUR 265 million: in addition to the EU contribution (EUR 125 million in junior 'C-shares'), the European Investment Bank (EIB) invested EUR 75 million (mainly senior 'A shares'), Cassa Depositi e Prestiti SpA (CDP) EUR 60 million (mainly senior 'A shares'); and the designated investment manager (Deutsche Bank) EUR 5 million (mezzanine 'B shares').

Finally, a EUR 1,3 million programme has been established to raise awareness of financing methods and options for EE and RE among national and regional authorities managing Cohesion/Structural funds. EPEC[242] manages this programme.

In accordance with the amending Regulation, the deadline for allocating EU funds to investment projects and Technical assistance (TA) was 31 March 2014. As of 31 December 2015, 10 projects were approved for EUR 120 million. Apart from this, there is no fixed deadline for proposals. The winding down of the instrument will take place probably after 2024.

Implementation arrangements

Fund/Investment Manager

Deutsche Bank (DB) is responsible i.e. for selecting projects and conducting a due diligence process before submitting the projects to the Fund's Investment Committee for advice and to

[239] The deadline of 31 March 2014 was only applicable for the allocation of funds from the EU Contribution, not from other investors.

[240] (OJ L 346, 30.12.2010, p. 5)

[241] 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.

[242] 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.

the Management Board for approval. DB also manages the TA component, submitting TA propositions to DG ENER for approval.

<u>Investment Committee</u>
The Investment Committee (IC) is responsible for assessing projects submitted to it by the fund manager and giving recommendations to the Management Board. Two EIB members and one member from CDP were appointed to the IC.

<u>Management Board</u>
The Management Board (MB) has broad powers to administrate and manage the Fund; it decides on the investments upon recommendation by the IC. However, it cannot decide on major issues (such as change of the statutes and documentation) without approval by the Supervisory Board (SB). It reports quarterly to the SB. It is composed of representatives from the European Commission (1), the EIB (1, the chair) and the CDP (1).

<u>Supervisory Board</u>
The supervisory board (SB)'s main duties include a permanent supervision of the management of the Fund, giving strategic advice to the MB, proposing the annual Fund business plan for Shareholder approval, and approving changes in the investment guidelines etc. It is composed of representatives from the European Commission (2), the EIB (1) and the CDP (1).

Added value
The Fund offers a range of non-standard financial products such as senior and junior loans, guarantees, equity participation or forfeiting schemes which can be combined in a flexible way with standard finance. The Fund is also intended to attract further private and public investors (up to a total volume of EUR 700 million).

In addition, about EUR 20 million of the EU funding was 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 was established to raise awareness of financing methods and options for EE and RE among national and regional authorities managing Cohesion/Structural funds. The programme was managed by EPEC and was succesfully concluded.

(c) The financial institutions involved in implementation;

EIB was entrusted through a Delegation Agreement signed in March 2011 with the Commission to establish the Fund and manage the Union contribution.

Deutsche Bank has been appointed Investment Manager and was sub-delegated the Management of the Technical Assistance facility. CDP is a core investor in the instrument.

C - <u>Implementation</u>

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

Aggregate budgetary commitments as at 31/12/2015[243]	EUR 146 334 644,50
Aggregate budgetary payments as at 31/12/2015[244]	EUR 113 203 765,34

[243] Out of which EUR 125 000 000 committed in the Fund, and EUR 21 334 644,50 in Technical Assistance.
[244] Out of which EUR 99 829 868,36 paid for the Fund, and EUR 13 373 896,98 for Technical Assistance.

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

The EEE F had successfully disbursed EUR 97 million of EU contribution to the allocated projects by the end of the investment period (31 March 2014), providing innovative financing solutions to energy efficiency projects. The technical assistance support has proved to be also very useful to support public authorities in preparing their projects that will subsequently be financed by the Fund. As of December 31, 2015, EUR 120 million have been allocated to 10 projects which will generate some EUR 340 million of final investments[245].

For 2016, the project pipeline contains 9 projects with a total volume of EUR 253 million for which the envisaged EEE F share is EUR 92 million.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 125 million (committed to the EEEF) N/A
Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 265 million not yet determined
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 472 million (based on current investment ratio)
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 120 million (allocated amount) 10 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 219 million for 10 projects signed

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

N/A.

(g) The balance of the fiduciary account;

Balance of Fid. Account as at 31/12/2015 EUR 28,1 million[246]

[245] Out of these, the Fund has signed contracts with 10 projects for EUR 117 million, already generating 219 million final investments.

[246] Two Trust accounts have been created but they are not fiduciary accounts as defined in the "Annex 5 Guidelines art. 140.8". The Fund Trust account is credited with the part of the EU contribution to be used for the Fund as well as interest earned and debited with the payments of EU Contribution to the Fund. Its balance on 31/12/2015 was EUR 25 million. The TA Trust Account is credited with the part of the EU Contribution to be used for the Technical assistance, interest earned, funds recovered from Technical Assistance and debited with payments of EU Contribution to eligible costs for Technical Assistance, external audit costs, funds to be returned

Impact[247] of negative interest on EEE-F: minor impact as at 31/12/2015

(h) Revenues and repayments ;

In line with the contractual arrangements, no revenues nor repayments are expected to be recovered by the Union budget before the closure of the instrument.

Additional information:
The fund has generated an income of EUR 4,16 million in 2015[248] *which are distributed along the income waterfall in order to cover direct operating expenditures, distribute target dividends to A and B shares (Commission's C-shares are not entitled to target dividend) and fully replenish the Commission C shares to their original nominal value.*

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

The nominal value of the equity investments of the Commission into the Fund is EUR 96,88 million as at 31 December 2015. It was EUR 64,29 million as at 31 December 2014[249]. There is no difference between the issue price of the Commission's shares (C Shares) and their Net Asset Value (NAV), following the replenishment of the NAV Deficiency amount as of 31/12/2015.

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

N/A.

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

No target leverage effect was indicated in the legal base.

However, the Commission calculated an estimated leverage of 5,6 (based on a contribution of EUR 125 million to the fund, and expected final investment volume up to EUR 700 million over the lifetime of the financial instrument).

The achieved leverage (total investment volume/amount of EU contribution disbursed) at 31/12/2015 is 2,2. This is calculated as the ratio between the total amount of the investments supported by EEEF (EUR 219 million) and the amount of the EU contribution actually disbursed (EUR 97 million).

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

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

The first objective of the Amending Regulation was to establish a specialised investment Fund to reallocate the EEPR uncommitted appropriations leveraging additional contributions. This has been achieved in 2011 with the support of the European Investment Bank to which the establishment of the Fund and the management of the EU contribution were delegated.

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to the Commission and the Technical assistance management fee. Its balance on 31/12/2015 was EUR 3,1 million.

[247] Even with market conditions deteriorating over time and despite the fact that the bank that holds the fund's account has charged negative interest rates since September 2014, the net interest income generated increased and remained positive in 2015.

[248] Source: 2015 Annual accounts.

[249] Source: 2015 Annual accounts.

The second objective of the EEE-F was to facilitate the financing of energy efficiency investments (portfolio target of 70%), renewable energy (20%) and clean urban transport (10%). The Fund thus mostly concentrates on alleviating specific financial and non-financial barriers to energy efficiency such as high transaction costs, fragmented and small investments, limited access to credit, complex deal structuring, and low confidence of investors and lack of capacity of project promoters. In order to do so, the Fund supports the development of a credible energy efficiency market through the provision of non-standard project finance and dedicated financial products (both debt & equity) supporting in particular the development of Energy Performance Contracting. The portfolio of the Fund currently consists of 68% senior debt, 21% subordinated debt and 11% equity[250]. 79% of the financing has been provided directly to beneficiaries, while 21% has been provided through a financial intermediary.

To tackle the lack of financing and the risk aversion of investors, the EEE-F was established as a layered investment Fund, with three classes of shares. The European Commission invested in junior C shares, absorbing the first losses and taking most of the risk to attract additional investors, including private ones.

The EEE- F also serves as a role model for innovative financial instruments investing in cost-effective and mature sustainable energy projects (with payback periods of up to 18 years) that can attract private capital while demonstrating the business case behind these investments and creating a credible track record. For instance, as of December 2015, the Fund's financing of EUR 117 million has allowed the mobilisation of an additional EUR 102 million on Energy efficiency, Renewable Energies and Clean urban transport projects, thereby generating EUR 219 million of total investments.

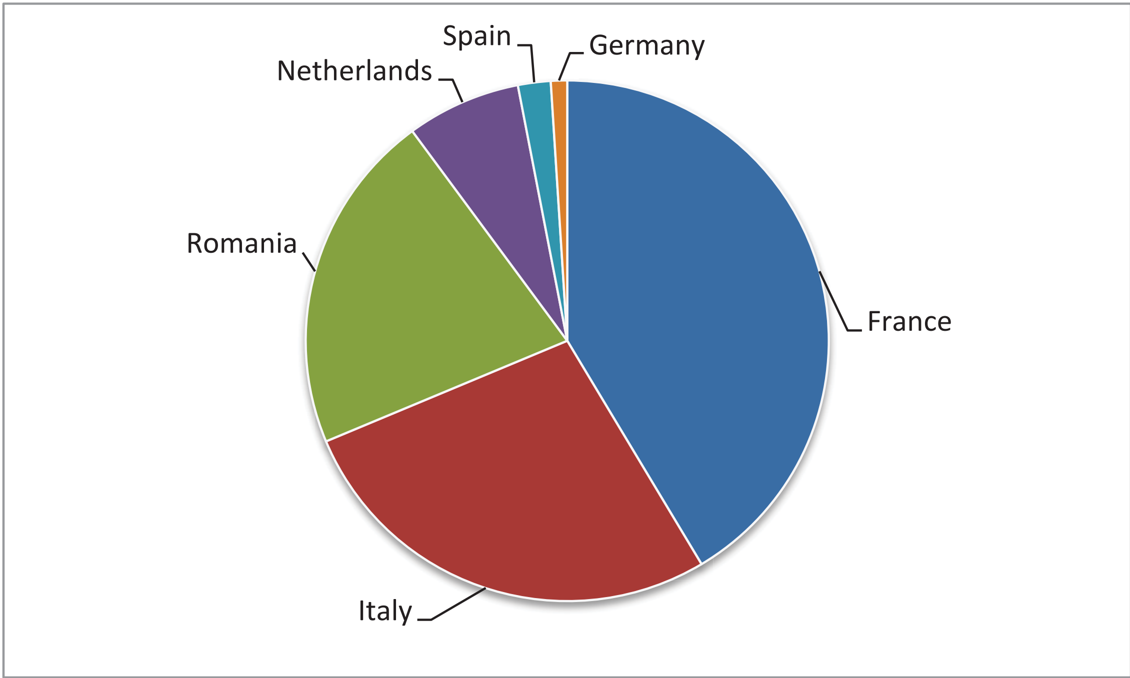


Figure 1 - Investments by country (% of total)

[250] The total value (EUR 12,4 million) of the two projects which have an equity investment component has been taken into account.

Investments by country (% of total)	
France	41
Italy	27
Romania	21
Netherlands	7
Spain	2
Germany	1

E - Other key points and issues

- **Three main issues for the implementation:**

Experience with the EEE-F is very useful to understand the dynamics of the energy efficiency:

  - 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.

- **Main risks identified:**
  - In line with the requirements of the amending regulation (EU 1233/2010), the Commission has laid down clearly defined rules, terms and conditions as well as specific investment criteria in the Investment Guidelines to be followed by the Fund Manager and closely monitored by the governing boards.
  - Significant changes to the founding documents of the fund, the Issue Document and Articles of Incorporation need to be approved by all core investors, so that the Commission cannot be overruled.
  - In addition, the Investment Guidelines of the EEE F may only be amended by resolution of the Management Board and the Supervisory Board. In the Supervisory Board, the Commission has two of four members, including the Chairperson who has a casting vote in case of a tied vote.
  - From an operational perspective, governing boards hold meetings frequently to exert regular control on the fund's investment manager and its operations.
  - It is essential to stress that the investment manager is charged to comply with requirements, in particular procurement rules, and that the fund put in place its own "risk management function" and a "conflict of interest policy".
  - As regards performance, the Investment Manager's fees are calculated on disbursed amount[251] and against key performance indicators to allow for an alignment of interests.

[251] The Investment management fee is calculated as a percentage of the average total outstanding amount of performing investments in Partner Institutions and Investments in Partner Institutions under active restructuring and/or collection within the quarter.

- **General outlook:**

For 2016, the project pipeline contains 9 projects with a total volume of EUR 253 million for which the envisaged EEE F share is EUR 92 million.

By now, the Fund has progressively established a solid track record of profitable investments (net profit registered from 2013) and is now actively looking for additional senior investors to leverage further the Union contribution.

5. Financial Instruments in the Enlargement Countries

5.1. Guarantee Facility under the Western Balkans Enterprise Development and Innovation Facility (EDIF GF 1)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund
Initial Overall Budget Envelope:	EUR 21,9 million
Current Overall Budget:	EUR 21,9 million

A - Summary

The WB EDIF GF I guarantees SME loan portfolios issued by commercial banks for new SME lending. It will, therefore, improve SME access to lending and potentially lowering the cost of borrowing in the Western Balkans, where access to loan finance remains one of the biggest difficulties for SMEs.

The Facility is implemented under indirect management, with the implementation tasks entrusted to the EIF. The budget for the instrument amounts to EUR 21,9 million (of which EUR 1,9 million is a provision for fees to the EIF as the Manager and EUR 20 million is the guarantee capital).

The financial intermediaries have been selected through an open call for expression of interest published in 2013 and the entire amount of the capital had been allocated to guarantees in the course of 2014 and 2015. The achieved leverage effect of the Facility is 5,4, which means that the budget of EUR 21,9 million mobilises some EUR 117,9 million of new loans.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

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

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

Its major objectives are the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument guarantees SME loan portfolios issued by commercial banks for new SME lending. This will entail improving SME access to lending and potentially lowering the cost of borrowing.

Under the instrument, guarantees of first loss of new loans to targeted SMEs with a guarantee rate of up to 70 % and a guarantee cap of up to 25 % in the overall loan portfolio can be used. Exact guarantee rate and cap is being determined on a case-by-case basis.

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

Implementation Arrangements
The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation (through a Fiduciary and Management Agreement). Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF).

Added value
Under the respective guarantee agreements, the intermediary banks, commit to a range of benefits to be transmitted to the final beneficiaries, which is determined on a case-by-case basis. These include: lower interest rates, lower collateral requirements or longer loan maturities. Under the EU guarantee, a new SME loan portfolio is to be created reaching out to those companies that would otherwise not be served by the intermediary.

(c) The financial institutions involved in implementation;

European Investment fund (EIF)

C - <u>Implementation</u>

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

Aggregate budgetary commitments as at	31/12/2015	EUR 21 900 000
Aggregate budgetary payments as at	31/12/2015	EUR 21 900 000

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

The first three operational agreements with the banks were signed on the 18th and 19th of December 2013. Two further agreements were subsequently signed in 2014 with UniCredit Serbia (in August) and CKB Montenegro (September). The sixth Guarantee Facility agreement was signed in April 2015 with Raiffeisen Bank Croatia (RBA). In total, they will make EUR 117,9 million available to SMEs in these countries, allowing them to benefit from reduced collateral requirements for new loans for investment and/or working capital.

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

N/A.

(g) The balance of the fiduciary account;

For Risk-sharing and Guarantee Instruments	
Balance on the fiduciary account (current account)	4 600 997
Term deposits/Bonds (if applicable)	15 514 813
Term deposits < 3 months (cash equivalent)	4 500 156
Term deposits > 3 months < 1 year (current assets)	11 014 657
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	930
= Total assets	**20 116 740**

Impact of negative interests on EDIF GF: no impact as at 31/12/2015.

(h) Revenues and repayments;

N/A.

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

N/A.

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

EUR 127 711

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

The financial envelope of EUR 21,9 million leveraged a total financing of EUR 117,9 million, implying the leverage factor of 5,4. The target leverage effect as indicated in the project application form for EDIF Guarantee Facility over the lifetime of the financial instrument was 7.

D - Strategic importance/relevance

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

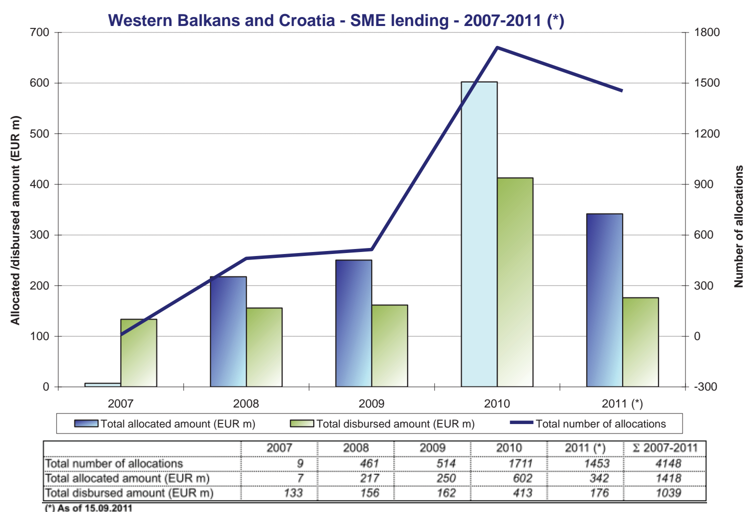
As at the end of 2015, the EDIF already contributed to provide EUR 117,9 milion of financing to 247 eligible Final Recipients.

The financial intermediaries selected through an open call for expression of interest in 2013, with whom guarantee agreements were signed in 2014 and 2015 (Croatia) include:

WB Beneficiary Economy	Loan volume supported	Guaranteed Portfolio	Guarantee Cap
Albania	20	14	3.5
Bosnia & Herzegovina	20	14	3.3
Kosovo	20	14	3.2
Serbia	30	21	5.3
Montenegro	7.9	5.5	1.4
Croatia	20	14	3.1
Total	117,9	82,5	19,8

Access to loan finance remains one of the biggest difficulties for SMEs in the Western Balkans,Additionally, access to bank financing for SMEs in their early stage is almost impossible due to the lack of financial history of the SMEs.

In recent years access to finance of Western Balkans SMEs has increased a lot, in particular thanks to the rapid development of EIB SME loans:



	2007	2008	2009	2010	2011 (*)	Σ 2007-2011
Total number of allocations	9	461	514	1711	1453	4148
Total allocated amount (EUR m)	7	217	250	602	342	1418
Total disbursed amount (EUR m)	133	156	162	413	176	1039

(*) As of 15.09.2011

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

The benefits from the GF could take a number of forms and thus respond to the key constraints in each beneficiary. However, all of the benefits will improve the investment climate by:

- reducing collateral requirements;
- creating lower cost of borrowing for SMEs;

- resulting in longer loan maturities.

In the case of innovative companies, the availability of public sector supported guarantees is usually a precondition for access to credit. Thus the GF is looking to bolster lending into start-up firms in the medium term.

GF is managed by the European Investment Fund (EIF). ElF is the European Union body specialised in SME risk financing and is member of the EIB Group. As Europe's leading developer of risk financing for entrepreneurship and innovation, ElF delivers a wide spectrum of SME financing solutions through selected intermediaries. By sharing the risk in SME development, ElF promotes the implementation of EU policies, particularly in the field of entrepreneurship, technology, innovation and regional development.

E - Other key points and issues

- **Main issues for implementation:**
  - **Provision of regulatory capital relief:** the provision of regulatory capital relief under the Guarantee Agreements has been identified as a pivotal characteristic and its importance in the pooling of a sufficient number of qualified applicants and the selection of the most suitable for the deployment of the instrument cannot be overemphasised. What is more, in individual cases of Intermediaries that have been pre-selected and entered legal negotiations with EIF, it has been presented as sine qua non condition for the conclusion of negotiations with the signature of a Guarantee Agreement if the benefit transferred to the SMEs includes pricing reduction. This should be viewed in the context of the implementation of the Third Basel Accord that strengthens bank capital requirements. Against that background, in 2014, DG Enlargement consented to the granting of the regulatory capital relief to the intermediaries under the Guarantee Facility. This was done on the basis of the provisions of the Fiduciary and Management Agreement that stipulates that "in order to further the objective of the Action, Guarantees should aim to provide regulatory capital relief for Intermediaries".
  - **Increase of budgetary allocation:** the budgetary allocation of EUR 20 million has been fully committed to operations by the end of 2014. Under the current call for expression of interest, the aggregate amount under the applications received exceeded the budget available. It should also be noted that even under the signed operational agreements, the allocated budget per intermediary is less than the one requested by the intermediary, thus, leading to the deployment of portfolios of lower volume. The build-up of the loan portfolio of EUR 117,9 million should be seen in the broader framework of more than 300 thousand SMEs of the region that contributed approximately EUR 22 billion to the GDP of the Western Balkan Beneficiary Economies in 2012. Hence, the multi-country IPA 2014 allocated a further EUR 17,5 million to the instrument. This additional allocation was contracted under a new delegation agreement with the EIF and bears the name EDIF Guarantee Facility II and is reported separately. While the contract for the GF II was signed before year end 2015, the first instalment was not disbursed before January 2016. The EDIF GF II will be reported separately.

- **Main risks identified:**

  Contractual and process compliance is ensured through continuous reporting and monitoring after the signature of the operational agreements in accordance with the

EIF internal procedures.In order to encourage utilisation, a commitment fee will be charged if not at least a contractually set percentage of the Agreed Portfolio Volume (the maximum loan portfolio volume that should be supported) is reached. Furthermore, a trigger event shall occur if halfway through the availability period the committed amount of loans in the portfolio is less than a contractually set percentage of the Agreed Portfolio Volume – in such a case, EIF may forbid the inclusion of more loans in the portfolio.

- **General outlook:**
  The current (EDIF GF I) call for expression of interest expired on 30 June 2014. EIF has received nine applications (more than one for some of the WB Beneficiary Economies) and two expressions of interest. On this basis the 2014 McP IPA allocation of EUR 17,5 million was made and was contracted in 2015 with an intention to serve the existing pipeline. In 2015, the EIF provided the Commission with a market test that assessed further needs on guarantee facilities (beyond the EUR 39,4 million of the GF I and II). The market test showed existing needs and appetite from the local banks. From the 6 beneficiaries, Serbia has expressed the interest to further commit from their IPA national envelope for 2016 EUR 20 million (earmarked for Serbia). However, any further commitment to the Guarantee Facility beyond 2016 will be decided after additional prior assessments and after the results of the second call (EDIF GF II), which was launched in March 2016.

5.2. Guarantee Facility II under the Western Balkans Enterprise Development and Innovation Facility (EDIF GF 2)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund
Initial Overall Budget Envelope:	EUR 17,5 million
Current Overall Budget:	EUR 17,5 million

A - Summary

The WB EDIF GF 2 is the direct continuation and replenishes the WB EDIF GF. The product and objectives are identical but funds are committed in a separate mandate because the WB EDUF GF2 is compliant to the new Financial Regulation of 2014 and Funds are coming from IPA II. Under the WB EDIF GF funds were coming from IPA I and were complying to the old Financial Regulation.
Just like the EDIF GF, the EDIF GF 2 guarantees SME loan portfolios issued by commercial banks for new SME lending. It will, therefore, improve SME access to lending and potentially lowering 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 17,5 million (of which

EUR 1,05 million is a provision for fees to the EIF as the Manager and EUR 16,45 million is the guarantee capital).
The financial intermediaries will selected through an open call for expression of interest that will be published in Q1 2016. Based on the EDIF GF 1 achieved leverage of 5,4 (see above sub. 5.1), the budget of EUR 17,5 million could mobilise some EUR 94,5 million of new loans.

B - <u>Description</u>

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

Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II) (OJ L 77, 15.3.2014, p. 11).

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

The Financial Instrument of the European Union for the Guarantee Facility (both EDIF GF and EDIF GF 2) contributes to achieving the objectives of enhancing socio-economic growth of the Western Balkans.

Its major objectives are the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument guarantees SME loan portfolios issued by commercial banks for new SME lending. This will entail improving SME access to lending and potentially lowering the cost of borrowing.

Under the instrument, guarantees of first loss of new loans to targeted SMEs with a guarantee rate of up to 70 % and a guarantee cap of up to 25 % in the overall loan portfolio can be used. Exact guarantee rate and cap is being determined on a case-by-case basis.

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

Implementation Arrangements
The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation (through a Fiduciary and Management Agreement). Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF).

Added value
Under the respective guarantee agreements, the intermediary banks, commit to a range of benefits to be transmitted to the final beneficiaries, which is determined on a case-by-case basis. These include: lower interest rates, lower collateral requirements or longer loan maturities. Under the EU guarantee, a new SME loan portfolio is to be created reaching out to those companies that would otherwise not be served by the intermediary.

(c) The financial institutions involved in implementation;

The European Investment Fund (EIF)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 17 500 000
Aggregate budgetary payments as at 31/12/2015	EUR 10 000 000

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

The budgetary commitment of this instrument was signed on 23/12/2015 and the implementation did not start before early January 2016. Therefore for this reporting period there is no relevant information on the performance.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 17 500 000 N/A
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	N/A N/A
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	N/A

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

N/A.

(g) The balance of the fiduciary account;

A first payment of EUR 10 000 000 was effectuated at the end of 2015 but only reached the EIF accounts in January 2016. Therefore there is not further information to be reported on the fiduciary account for the current reporting period.

For Equity Instruments	
Balance on the fiduciary account (current account)	10 000 000
Term deposits/Bonds (if applicable)	N/A
Term deposits < 3 months	

Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)	N/A
***Other assets* (if applicable)**	N/A
= Total assets	10 000 000

Impact of negative interests on EDIF GF 2: no impact as at 31/12/2015.

(h) Revenues and repayments;

N/A.

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

N/A.

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

N/A.

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

Target leverage effect is between 4 and 5,2.

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

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification[252];

The WB EDIF GF2 is the direct continuation of the WB EDIF GF and therefore the two instruments share the same objectives. Following the very positive uptake of the EDIF GF, the EIF performed a market research in order to assess whether there was more appetite of guarantees in the Western Balkans. The market test showed that the initial allocation of the EDIF GF was not sufficient to cover all the demand under the Call for Expression of Interest. By the time the call was closed, the EIF had received a total of 10 applications from banks in the eligible region, of which only 6 it was able to service – notably thus not being able to service all 7 economies (Croatia was a beneficiary country under the EDIF GF 1 but not under the EDIF GF 2 as this was signed post accession), and therefore to date no Guarantee Facility has been made available in the former Yugoslav Republic of Macedonia. The Call for the Expression of Interest for the EDIF GF 2 will be launched in all 6 beneficiary countries,

[252] No geographical breakdown as at 31/12/2015 is yet available (the facility having been launched very recently only).

Albania, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia. However, signature of portfolios happen at a first come first served basis.

As at June 2015, the utilisation figures (loans extended to SMEs) were extremely positive across all the transactions, with some banks reaching full utilisation as further detailed by the table below. Indeed some banks are already asking if further replenishment would be possible. It was further expected that at least some of the existing banks would apply for further funding if a new Call for Expression of Interest were to be published.

The market search which provided the basis and justification for the replenishment of the EDIF GF with the signature of the EDIF GF 2 for EUR 17,5 m confirmed that the additionality features of the signed agreements are very strong; and that the continuation of the product would allow the banks to extend financing to even more SMEs that were not served before, mainly due to collateral requirements. Just like in the EDIF GF, in the EDIF GF 2 financing is going to be offered to the SMEs with substantially reduced collateral requirements. In addition, the pricing shall be reduced. The presence of this guarantee may also contribute to financing investments with longer maturities.

E - Other key points and issues

Same as for WB EDIF GF 1 (please see section E under the chapter 5.1 WB EDIF GF 1).

5.3. Enterprise Expansion Fund (ENEF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 11,0 million
Current Overall Budget:	EUR 11,0 million

A - Summary

ENEF targets 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 is a continuation of the one successfully developed by EBRD with the existing LEF facility throughout the region.

• Sector: Generalist – investing in all eligible economic sectors

• Stage: Expansion and development capital. The team will adopt a hands-on approach to foster the implementation of best market practices as promoted by EBRD and EIF.

• Geographical focus: Western Balkan countries (Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, Serbia and Kosovo).

• Capital deployment: Minority investments in c. 15-20 portfolio companies, with sales between EUR 5m and EUR 20m. Typical investment tickets will be in the range of EUR 1-7,5m, 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 14 February 2014 with EIF (Acting as a trustee of the EC and committing own funds), DEG and EBRD subscribing a total of EUR 38,5m in the first closing.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

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

The Financial Instrument of the European Union for the Enterprise Expansion Fund (ENEF) contributes to achieving the objectives of enhancing socio-economic growth of the Western Balkans.Its major objectives are the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument will finance development and expansion capital in established SMEs with high-growth potential in their respective markets through equity participation. Under the instrument, equity and quasi-equity investment can be used.

Implementation arrangements

The Commission is implementing the instrument under indirect management in accordance with Article 139 of the Financial Regulation. Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF). The instrument is implemented under indirect management with the implementation tasks entrusted to the EIF. ENEF Management: the European Bank for Reconstruction and Development (EBRD) is the Investment Advisor responsible for origination, structuring, executing and monitoring investments. An Independent Investment committee decides on investment and divestment proposals. The fund is supervised by the Board of Directors, comprised of EIF, EBRD and DEG.[253] EBRD manages ENEF through its offices in each beneficiary country.ENEF was formally incorporated under Luxembourgish Law on 14th of February 2014 and in the course of the year concentrated on deal origination. The investments under the instrument will start in 2015. Following an investment period of maximum 5 years, its portfolio will be wound up in

[253] *Deutsche Investitions- und Entwicklungsgesellschaft*

a subsequent period of maximum 5 years (duration until 2025). The geographical coverage will be the Western Balkans in line with the Common Implementing Regulation.

EU added value
At the level of the finance-pooling, ENEF will add value through attracting private sector investors to what is perceived as a risky and complex SME market (the Western Balkans) with small, fragmented economies. Furthermore, building on the EBRD experience, ENEF will diversify sources of financing for the high-potential companies, enabling growth and employment creating investments.

(c) The financial institutions involved in implementation;

- EIF – acting as a trustee on behalf of DG NEAR's contribution and investor in ENEF
- EBRD – Investment Adviser of ENEF as well as its investor

Nota : ENEF has received commitments from the following investors:

- *The European Commission (EC) with a contribution of EUR 9,5m invested via the European Investment Fund by means of a Trusteeship,*
- *The European Investment Fund (EIF) with a contribution of EUR 5 million*
- *The European Bank for Reconstruction and Development (EBRD) with a contribution of EUR 19 million (including EUR 3 m from the Italian Investment Special Fund ("IISF")),*
- *The Deutsche Investitions- und Entwicklungsgesellschaft (DEG) with a contribution of EUR 5 million*
- *The Oesterreichische Entwicklungsbank AG (OeEB) with a contribution of EUR 5 million*

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 11 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 10 400 000

Additional Information:
Out of the EUR 11,0 million in the financial envelope envisaged for the instrument, EUR 1,1 million is a provision for fees to the EIF as the Trustee for the Commission, EUR 0,4 million is a provision for technical assistance and EUR 9,5 million is the equity. EUR 10,4 million was paid out to the EIF in its function as a trustee in December 2012.

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

Two investments achieved as at 31/12/2015.

Amount of EU Contribution committed to financial intermediaries*, and the corresponding number of financial intermediaries; * the only financial intermediary here is the EIF	10 400 000 EUR

for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	NA
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , And expected number of eligible final recipients;	77 000 000 EUR (fund size after first closing to be leveraged 1:1 with EBRD co-investment) approx. 15
Amount of financing already provided by financial intermediaries to eligible final recipients*, and the corresponding number of eligible final recipients; * *(2 investments signed in total, but as of 31/12/2015 only one disbursement made altogether)*	3 000 000 EUR 1 FI
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	NA

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

N/A.

(g) The balance of the fiduciary account;

For Equity Instruments	
Balance on the fiduciary account (current account)	8 569 546
Term deposits/Bonds (if applicable)	1 000 726
Term deposits < 3 months	
Term deposits > 3 months < 1 year	1 000 726
Term deposits > 1 year	
Bonds current	
Bonds non-current	

Equity investment (see also point i)[254]	320 602
Other assets (if applicable)	
= Total assets	9 891 142

Impact of negative interests on ENEF : no impact as at 31/12/2015.

(h) Revenues and repayments;

N/A.

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

As at 31/12/2015 EUR 320 602 from the entire EU contribution to ENEF is reported as equity investment. The rest of the funds are in cash.

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

N/A.

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

After the first closing, the EU financial envelope of EUR 11,0 million leveraged another EUR 27,5 million leading to a total Fund size of EUR 38,5m. 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 estimated leverage could reach 77 million. The total estimated leverage factor is then 7. That figure is expected to change after the second closing, which will take place in 2016. The target for the second closing is EUR 55 million. Following the 1:1 pari passu principle the ultimate target leverage can reach up to 10 (after the second closing achieves EUR 55 million).

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

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

In the course of 2015, ENEF had its second closing, which marked the end of the fund raising stage. The size of the fund as of end 2015 is EUR 47,5 million.

A solid pipeline of more than 300 companies will be targeted in Q1-2 2016. Until the end of 2015, more than 360 companies were met for assessment of potential deals. Conversion rate is low but started to pick up towards the end of 2015. From the first contract, at least 12- 18 months are needed to close a deal. The fund manager aims at a realistic rate of 3-4 investments per year.

Experience shows that higher potential industries remain food processing, retail and niche segments in IT and Telecom as well as export- oriented manufacturing.

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

On 1 June 2015, the first investment of the fund was signed. The recipient is Viva Fresh, a retail chain operating in Kosovo. The total amount of the investment is EUR 6 500 000 (tranche 1 for EUR 3 000 000 was committed and disbursed before end 2015 and there is an uncommitted tranche 2 for EUR 3 500 000, which will be disbursed later) to be shared between ENEF and EBRD on 50:50, pari passu basis. The instrument is a loan with performance related remuneration upon a liquidity event and the proceeds will be used to fund the expansion of the retail operations of Viva Fresh.

On 28 December 2015, the second investment of the fund was signed. The recipient is the Bosnian company. The total amount of the investment is EUR 2 000 000 in two equal tranches to be shared between ENEF and EBRD on 50:50, pari passu basis. The instrument is a loan with some performance related remuneration and the proceeds will be used to fund the expansion of the operations of Krajina Klas. The disbursement of tranche 1 is expected in the second half of February or in March 2016.

As of 31 December 2015, the Fund had drawn down EUR 1 972 001 (EUR 303 001 on 19 June 2014 and EUR 1 669 000 on 16 June 2015, to cover the ongoing expenses of the Fund and the first investment), equivalent to 4,1% of the committed capital. The balance of accounts as of 31 December 2015 was EUR 144 618,71.

Further drawdowns will depend on the approval of new investments and potentially the commitment of the second tranches to Viva Fresh and Krajina Klas.

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

- **Three main issues for the implementation:**
  - **Quality Deal flow:** The sufficient deal flow of potential investees is necessary to allow ENEF to invest in viable companies with high growth prospects within the defined Investment Period. Traditionally the economies in the WB region are characterised by companies that are less innovative with low value added products which naturally makes it more difficult to identify viable investee companies.
  - **Lack of knowledge / access to alternative funding instruments in the target region:**. the predominant reliance of entrepreneurs on traditional banking products is an inherent characteristic of 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. Indeed, since the launch of the Fund, the EBRD has done the due diligence on a large number of companies, however the mortality rate has been high an only 2 investments were made in the course of 2015. This is the result of lack of knowledge but also due to the often non conform reporting and accounting methods SMEs are using. Under EDIF, the technical assistance service includes actions that aim at harmonising accounting and reporting standards (REPARIS programme by the World Bank) and developing the venture capital environment (Small Business Support programme by the EBRD and Venture Capital Environment programme by the World Bank).
  - **Lack of exit routes:** Due to the characteristics explained above and the remote interest of equity funds in the WB region, it will be substantially more difficult to realise exits than in other economies. Thus it is considered more appropriate to

use quasi-equity instruments which naturally pre-empt an exit route in their structure. Another consideration with a view of future instruments, is that they could act as a catalyst and attract the attention of regional and pan-European equity players to the WB region by co-investing with them on a deal-by-deal basis while providing certain incentives for the participating investors. The latter could be used to efficiently address both, the shortage of private capital and the difficulties of realising exits due to lack of critical mass of follow-on equity investors.

- **Main risks identified:**
  - **Fund Management expertise:** The local expertise in structuring and managing equity funds is largely underdeveloped in the WB Region leading to a very compressed group of individuals that can adequately make and subsequently manage venture capital investments. In order to address such a shortfall, involvement of specialised investors (International Finance Institutions) is sought to ensure a responsible lay-out and implementation of best industry practices in fund management and selection of the right combination of experts and skill sets for management of such instruments. In the case of ENEF, EBRD has been selected as Investment Adviser responsible for sourcing and structuring deals which are approved by an independent Investment Committee. The overall control and ultimate responsibility of ENEF rests within its Board of Directors comprising the representatives of EIF, DEG and EBRD.
- **General outlook:**

  Fund performance: the service provider, led by the COO of ENEF has been actively working together with the Board of Directors with regards to improving the investment pace of the fund which has been sluggish in its start due to adverse market conditions. It is expected that with certain measures of flexibility the investment pace during 2016 shall improve and EIF is following the situation closely both with regards to its own investment as well as that of the EC.

  As at end 2015, over 360 companies in the entire WB region were visited by the Service Provider to discuss financing, the mortality rate remains high however at due diligence stage.

5.4. Enterprise Innovation Fund (ENIF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 21,2 million
Current Overall Budget:	EUR 21,2 million

A - Summary

ENIF focuses on investing in the WB technology companies with high growth potential.

- Stage focus: ENIF invests 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 aims to invest about 30% of the Fund in SMEs with tickets ranging EUR 500k- EUR 1m, however without limiting the possibility for follow-on investments as well as the overall profit-oriented character of ENIF.

- Sector focus: ENIF targets innovative SMEs in all technology sectors with potential for high growth. In addition, the Fund pays 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 focuses on the Western Balkans countries, i.e.: Albania, Bosnia & Herzegovina, 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 (EU SME definition).

- 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 – 1.5m (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 1.5m 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 main development in 2015 has been the final incorporation of the Fund in the Netherlands as per the legal structure approved by the EDIF governing body, the Project Advisory Group (PAG) in July 2015 and, subsequently, its first closing (September 2015). The total fund size was at the end of 2015 EUR 25 million.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

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

Implementation Arrangements

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation, while entrusting the implementation tasks to the European Investment Fund (EIF).

The instrument started in 2015. Following an investment period of maximum 5 years, its portfolio will be wound up in a subsequent period of maximum 5 years (up to 2025). The

geographical coverage is the Western Balkans in line with the Common Implementing Regulation.

EU added value

At the level of the finance-pooling, ENIF attracts private sector investors to what is perceived as a risky and complex SME market (the Western Balkans) with small, fragmented economies. Furthermore, ENIF diversifies sources of financing for the innovative companies, enabling growth and employment creating investments. ENIF is particularly innovative in that it is to finance the riskiest segments of the SME population, innovative SMEs and start-ups/early stage development, typically of interest to venture capital investors, who have so far avoided the region. Hence, ENIF also serves as a market test for the venture capital investment potential in the region.

(c)The financial institutions involved in implementation;

- EU Commission- EUR 12,5 million (plus EUR 6,2 million direct contribution to the Fund Managers expenses only during the investment period)
- EIF – acting as a trustee on behalf of DG NEAR's contribution as well as investor in ENIF- EUR 5 million
- EBRD – Investor in ENIF- EUR 5 million
- KfW – Investor in ENIF EUR 8 million
- Beneficiary countries- Investros in ENIF- EUR 5 million

It should be noted that the EU contribution has not been fully commitment yet because the EIF/ EU contribution could not exceed 50 % of the fund's size. Therefore the remaining EU contribution (EUR 1,6 million) will be incorporated into the fund once its size reaches EUR 40 million.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 21 200 000
Aggregate budgetary payments as at 31/12/2015 EUR 21 200 000

Additional Information:
Out of the EUR 21,2 million financial envelope envisaged for the instrument, EUR 0,9 million is a provision for fees to the EIF as the Trustee for the Commission, EUR 6,2 million is a provision for technical assistance (Fund manager) and EUR 14.1 million is earmarked for the equity investments. Out of the EUR 14,1 million, EUR 12,5 million were committed in the first closing, while the rest will be committed in the second closing.

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

ENIF was incorporated in 2015.

Amount of EU Contribution committed to financial intermediaries,	21 200 000 EUR
and the corresponding number of financial intermediaries;	1 FIs

for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	NA
Amount of financing expected to be provided by financial intermediaries to eligible final recipients* , And expected number of eligible final recipients; **after first closing. This amount is calculated on the 1:1 basis ENEF- EBRD*	50 000 000 EUR NA
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	0 million EUR 0 FIs
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	NA

.

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

N/A.

(g)The balance of the fiduciary account;

Balance on the fiduciary account (current account)	8 662 115
Term deposits/Bonds (if applicable)	12 100 000
Term deposits < 3 months	
Term deposits > 3 months < 1 year	12 100 000
Term deposits > 1 year	
Bonds current	
Bonds non-current	

Equity investment (see also point i)[255]	
Other assets **(if applicable)**	1 156
= Total assets	20 763 271

Impact of negative interests on ENIF: no impact as at 31/12/2015.

(h)Revenues and repayments;

N/A.

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

N/A; as at 31/12/2015 the EU contribution has not been used for the acquisition of equity.

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

N/A.

(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 to 50 million (equalling a total fund size), implying the expected leverage factor of around 2.

D - Strategic importance/relevance

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

As at the end of 2015, ENIF completed its first closing at EUR 25 million. The second closing of the Fund is envisaged for H1 2016. New investors are expected to come on board, namely KfW (+ EUR 8 million) and certain additional beneficiaries (+ EUR 1,9 million) from the region. These commitments will authomatically increase the commitment from the EIF/EC (+ EUR 1,6 million), which is currently capped at 50% so that the aggregate fund size is expected to increase up to EUR 40 million.

Duroing the reporting period, proposals were screened and on 10 December the Investment Committee approved the first investment in a Serbian tech startup entitled "Drytools" for an amount of EUR 300k. Drytools is a "Backend as a Service" (BaaS) software startup which focuses on developing tools for software development companies which reduces development time and increase efficiency. The BaaS industry is projected to grow rapidly and reach USD 7,7 billion by 2017 from an estimated $216m in 2012. The demand for applications and software is rising and developers and software designers are one of the fastest growing job sectors. Several studies point to double digit growth in the next several years, making ENIF's investment in Drytools especially promising

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

Overall, the fund manager has screened more than 135 deals, and has brought another five investment opportunities at term sheet level, with a good geographical distribution and diversification, while continuing to focus on seed and early stage companies in tech-driven companies active in various sectors. Most of the mature investment opportunities have come from Croatia. A significant number of opportunities are coming from Serbia, though they have tended to be in earlier stages, with zero to EUR 750 000 in annual revenues and the funding sought of up to half a million EUR per investment. Very few potential investments were identified with more mature organizations that would satisfy SCV's main criteria about the teams, growth and exit potential. Moving forward, more focus will be placed on finding more mature companies with more than EUR 1M in revenue and a developed organization already in place. The situation in the Former Yugoslav Republic of Macedonia has been similar to that of Serbia; where the numbers of potential investment opportunities are significant, but most of them were not developed enough to be considered for investment.

E - Other key points and issues

- **The three main critical issues for the implementation:**
  - **Insufficient Deal flow:** the sufficient deal flow of potential investees is necessary to allow ENIF to invest in innovative and viable companies with high growth prospects within the defined Investment Period. Traditionally, the economies in the Western Balkans region are characterised by companies that are less innovative with low value add products which naturally makes it more difficult to identify viable investee companies which is even more applicable to companies in seed / start-up phase. To partially address such a problem and ensure building sufficient and quality deal flow to the Fund, it has been envisaged to allocate exclusively EUR 1,5 million under ENIF to be invested in up to 30 pre-seed/seed companies. The latter should be used to test the pre-seed / seed market in the Western Balkans Region with a view of designing and implementing a dedicated facility in the future;
  - **Anchor investor participation**: Fundraising for venture capital has been extremely difficult in Europe following the crisis with 2010 and 2011 seeing the bottom of investor participation in such asset class. The situation in the Western Balkans Region is even more difficult stemming from the underdeveloped market, insufficient deal flow and lack of fund management expertise and track record on the market. Against that background, participation of an anchor investor (such as International Finance Institution) is a catalyst of other private capital by ensuring expertise and implementation of best industry practice. This is the approach taken by ENIF to attract private capital and achieve leverage;
  - **Lack of other venture capital investors** to make follow-on / co-investments: Generally, venture capital investors seek the participation of other such investors (syndication) in follow-on rounds as a company develops more and requires further capital injections and expertise. Due to the characteristics explained above and the remote interest of equity funds to the Western Balkans region, it will be substantially more difficult to attract follow-on investors that are normal for venture capital funds, than in more developed markets. To address that problem future instruments could be contemplated to act a catalyst and attract the attention of regional and pan-European equity players to the Western Balkans region by co-investing with them on a deal-by-deal basis while providing certain incentives for the participating investors. The latter could be used to efficiently address both the shortage of private capital and the difficulties of co-investing stemming lack of sufficient and sizeable follow-on venture capital investors in the region.

- **Main risks identified:**
    - **Fund Management expertise:** as outlined above the expertise in the venture capital industry is largely underdeveloped in the Western Balkans region leading to a very compressed group of individuals that can adequately make and subsequently manage venture capital investments; In order to address such a shortfall, involvement of specialised investors (International Finance Institutions) is sought to ensure the lay-out and implementation of best industry practices in fund management and selection of the right combination of experts and skill sets for management of such instruments. In the case of ENIF, EIF has been appointed to select appropriate fund manager and provide support in setting up the fund;
    - **Investors in the fund:** ENIF was initially structured so that each of the IPA beneficiary governments will make financial contribution in ENIF corresponding to its GDP. Given the pioneer nature of such investments by the beneficiary governments, it remains to be seen how they will be able to mobilise funds and participation modalities in ENIF. EIF works closely with all of them with a view to mitigating these risks. In addition, KfW identified investment constraints related to the ODA eligibility requirements linked to their participation.
- **General outlook:**

  Progress so far confirms forecasts at the launching of the equity funds under EDIF, namely that in the Western Balkans, venture capital market is in an embryonic stage in terms of experience and best market practices. 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.

  ENIF has had a slow start, but is expected to generate a satisfactory number of investments within 2016.

5.5. European Fund for Southeast Europe (EFSE)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 26 234 995
Current Overall Budget:[256]	EUR 87 684 935

[256] For the South-East Europe (includes Albania, Bosnia and Herzegovina, Croatia, fYROM, Kosovo, Montenegro, Romania, Serbia)

A - Summary

EFSE is a public-private-partnership, attracting private capital and thereby leveraging public donor funds. EFSE extends loans to local commercial banks and micro-finance institutions in the Western Balkans, Turkey and Eastern Neighbourhood for on-lending to micro and small enterprises and households.

The fund has performed well despite the economic crisis and the overall financial sector situation. ROM and monitoring "on situ" confirms that the fund has a very high penetration down to the end borrowers. NPLs are limited and frequently monitored.

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”.

EFSE is at the "cruising speed" and while Commission should not withdraw or transfer its shares, on which the financial construct lies, it remains to be assessed whether the EU participation in EFSE would need to be increased.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) (OJ L 210, 31.7.2006, p. 82).
European Fund for Southeast Europe (EFSE), Community Assistance for Reconstruction, Development and Stabilisation (CARDS) 2006/018-264, IPA 2007/019-344, IPA 2008/020-300 and IPA 2009/021-373.

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

Policy objectives and scope
The EFSE is a form of public-private-partnership. The Fund aims at fostering economic development and prosperity primarily in the Southeast Europe region but also in the European Eastern Neighbourhood region through the sustainable provision of additional development finance. Its objective is to attract capital from the private sector thereby leveraging public donor funds that will assist the development of the private sector in the region. EFSE extends loans to local commercial banks and micro-finance institutions in the Western Balkans for on lending to micro and small enterprises and households.

Implementation Arrangements
European Investment Fund (EIF) manages the EFSE.
Furthermore, the EFSE operates through financial intermediaries in the region of Southeast Europe, including the European Eastern Neighbourhood Region. These include commercial banks, microfinance banks, microcredit organisations and non-bank financial institutions such as leasing companies. They on-lend funds received from EFSE to the Fund’s ultimate target group: micro and small enterprises and low-income private households. All of EFSE’s partner lending institutions are carefully selected: In addition to being financially stable, the institutions must treat their clients fairly and in a transparent manner.
The EFSE also has a Development Facility endowed with grants and replenished with reflows to enable technical assistance, consulting and training measures to strengthen

financial institutions in the region. It aims to enhance the long-term development impact of the Fund's investments. The EU contribution does not cover the Development Facility funding.

Added value
The EFSE generates impacts at three different levels:

- supporting micro and small enterprises as the backbone of the local economies, thereby contributing to generating income and creating employment,
- satisfying the basic need of adequate shelter,
- strengthening local financial markets.

(c) The financial institutions involved in implementation:

- European Investment Fund as Trustee for the European Commission
- International Financial Corporation (IFC)
- European Bank for Reconstruction and Development (EBRD)
- KfW Development Bank (KfW)
- Netherlands Development Finance Company (FMO)
- Oesterreichische Entwicklungsbank (OeEB)
- European Investment Bank (EIB)
- Sal. Oppenheim
- BN&P Good Growth Fund
- Credit Coopératif
- ESPA VINIS Microfinance
- Steyler Bank
- Versorgungsfonds des Landes Brandenburg
- Finance in Motion
- Deutsche Bank

C - <u>Implementation of the financial instrument</u>

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

Aggregate budgetary commitments as at 31/12/2015	EUR 26 234 995
Aggregate budgetary payments as at 31/12/2015	EUR 26 029 558

Additional information: The total amount of the EU contributions to the instrument, i.e. EUR 87 684 935, includes share and cash transfers from pre-existing EU-financed instruments during the period 2006 – 2011.

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

EFSE was subject for Result Oriented Monitoring (ROM) in 2012. Their performance was considered very good in all aspects. EFSE has been an international role model for

microfinance funding[257]. The performance so far has been very good with key figures steadily growing and the number of NPLs insignificant.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	113 524 561 EUR (NAV of the EU contribution for Southeast Europe) 1 FI
for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	NA
Amount of financing expected to be provided by financial intermediaries to eligible final recipients * , And expected number of eligible final recipients; ** only for Southeast Europe*	NA (this is an evergreen fund with unlimited horizon and would therefore be inaccurate to define any total financing amount expected to the provided) NA
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients* **active end borrowers (Southeast Europe only)*	EUR 3,8 billion 598 735 loans
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	NA

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

N/A.

(g) The balance of the fiduciary account;

N/A.

(h) Revenues and repayments;

N/A.

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

EUR113 524 561 (at the level of the EFSE)

[257] At the 2010 G20 summit in Seoul, EFSE was presented with the G20 SME Finance Challenge Award. A determining success factor of the Fund‘s award-winning concept was its public-private partnership structure as one of the most effective models worldwide to catalyse private capital for micro, small and medium enterprises.

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

N/A.

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

For the Southeast Europe, the financial envelope of EUR 87,6 million has so far leveraged a total amount of financing available to the final recipients of EUR 3,8 billion implying the leverage factor of 43.

D - Strategic importance/relevance

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

Overall, in the Southeast region, EFSE performance has been the following:

Outstanding Amount Invested in Partner Lending Institutions	EUR 632.1[258] million
Outstanding Loan Amount Disbursed to End-Borrowers	EUR 629.5 million
Number of Active End-Borrowers	122 767
Average Size of Loans Outstanding to End-Borrowers	EUR 5 128
Micro and Small Enterprise Loans Disbursed to End-Borrowers below EUR 20,000	94%
Cumulated Amount of Approved Investments in Partner Institutions since inception in December 2005	EUR 1.9 billion
Cumulated Amount of Loans Disbursed to End- Borrowers/ final recipients since inception in December 2005	EUR 3.8 billion
Cumulated Number of Loans Disbursed to End-Borrowers since inception in December 2005	598,735

E - Other key points and issues

- ***Three main issues for the implementation:***
  - At present EFSE is up and running under stable conditions. To make the fund more robust (following relevant regulations, in particular IPA) the trend has been to move from National allocations to further Regional allocations.
  - At present, the C share allocation of the Commission seems sufficient compared to the Fund's exposure.
  - The Fund Manager has indicated however, that additional EU participation may need to be considered in the future, including specific allocations for Turkey, the country being a market in its own right.
- ***Main risks:*** According to the last reports, EFSE is being implemented successfully and there is need to grow its operations. In order for EFSE to expand its operations more C shares cushion is needed, which is habitually provided by the EU funds. Turkey is the

[258] For the SEE region only

region where additional subordinate shares are needed. The fund manager informed the Commission that operations can be kept up at current level for another year or two and after that replenishment would be necessary for smooth implementation. However, at the moment and with competing budgetary priorities, a replenishment of EFSE is definitely not foreseen in 2017, while it is totally unknown for the following years. The EU contribution and further commitment is vital for the future implementation of the Fund.

- ***General outlook:***
  - The Fund has a revolving nature and has an undetermined duration.
  - Any addiditonal C-share investment beyond 2018 will need to be based on a market assessment and weighed against the potential implications of the new Financial Regulation, which introduces new rules applicable to the financial instruments.
  - In addition, before any further commitments in capital, the European Commission and the EIF will have to agree on the provisions of a new delegation agreement (trusteeship agreement) that is compliant to the financial regulation (the current trusteeship is based on the old financial regulation). Negotiations on the new agreement have been ongoing in 2015 and are expected to be finalised in 2016.

5.6. Green for Growth Fund (GGF)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund (as Trustee of the European Commission)
Initial Overall Budget Envelope:	EUR 19,6 million (*)
Current Overall Budget:	EUR 38,6 million (**)

(*) appropriations approved by the Budgetary Authority in the Basic Act.

(**) *including changes in the course of the programme, as included in the multi-annual financial programming 2014-2020.*

A - Summary

The Green for Growth Fund has continued to foster economic development and prosperity in South East Europe and Turkey by providing additional development finance for Energy Efficiency (EE) and Renewable Energy (RE) projects to broaden the financial base for these kinds of investments. Critical milestone of private investor funding was achieved in 2015, and additional private investment is in the pipeline. Private sector investment in GGF is expected to leverage Commission's investments into the region for the development of the EE and RE projects, and is expected to constitute around 25% of the total size of the Fund. The Fund continued achieving much more than the required 20% energy savings and/or 20% CO_2 savings across the energy efficiency and renewable energy portfolio.

The current portfolio of projects is EUR 289 m, invested in 32 Partner Institutions ("PI") in 11 Target Partners, with 18 203 final recipients.

From the perspective of the participating country Partner Institutions (PI), adequate financing for the particular purpose of EE and RE is important in terms of a growing demand at the level of households and Small and Medium-size Enterprises (SME) and a shortage of funds available to lend to these groups in the countries.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) (OJ L 210, 31.7.2006, p. 82).
Crisis Response Package, IPA 2009/021-373.

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

General presentation

The Green for Growth Fund (GGF) is an innovative fund initiated in 2009 by the European Investment Bank (EIB) and the KfW Entwicklungsbank (KfW) with the support of the European Commission. The Fund provides dedicated financing for energy efficiency and renewable energy projects to help the target countries reduce 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 beneficiaries, to support the stabilisation of financial markets and economies. These investments are made in the Fund's first-loss tranche ensuring that finance remains available to the public and private energy sector and countries keep high their potential to achieve the Energy Community's energy efficiency and renewable energy targets. The activities of GGF are complemented by a Technical Assistance Facility.

Programming 2014–2020:

- 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-country Indicative Strategy Paper (MCISP) 2014-2020, i.e. support for investments in energy efficiency as a potential key driver of recovery from the economic crisis and sustained economic growth.
- Its major objectives are to contribute in the form of a public-private partnership with a layered risk/return structure, to enhancing energy efficiency (EE) and renewable energies (RE) in South-East Europe, Turkey, and Neighbourhood East regions predominantly through the provision of dedicated financing to businesses and households via partnering with financial institutions and direct finance.
- The instrument finances Financial Institutions (commercial banks and non-bank financial institutions, such as leasing companies) to finance mainly EE and RE investments in private households and small and medium-sized enterprises; direct financing of Energy Service Companies (ESCOs), small renewable energy projects as well as companies and municipal entities.
- Under the Instrument, medium to long-term senior loans, subordinated loans, syndicated loans, letters of credit, guarantees, mezzanine debt instruments, local debt securities and equity can be used.

Implementation arrangements

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation. Under indirect management, the Commission may entrust implementation tasks to the following multilateral Development Financial Institution: European Investment Fund (EIF). In 2015, critical milestone of private investor funding was achieved with the Gemeinschaftsbank für Leihen und Schenken (GLS) Bank note issuance of EUR 22 million, representing a significant step towards achieving a true PPP structure; additional EUR 32 million are in the pipeline.

Added value of the European Union contribution

C-shares bought by the European Union and the German Government are of highest risk and lowest gains, in order to incentivize the IFIs to by B and A shares, and private sector to buy Private Notes which are, vice versa, of lower risk and higher gains. In this way, the European Union leverages additional IFI and private sector investments.

(c) The financial institutions involved in implementation;

The main investors in the Fund, besides the Commission (with the European Investment Fund - EIF as Trustee), are the European Investment Bank (EIB), KfW, European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), German Federal Ministry for Economic Cooperation and Development (BMZ) (with KfW as Trustee), and the Netherlands Development Finance Company (FMO).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 EUR 38 633 232
Aggregate budgetary payments as at 31/12/2015 EUR 38 633 232

Additional information: the financial envelope of the instrument amounts to EUR 38,6 million that was committed and paid out (of which EUR 19 581 014 were contracted as an initial buying of C-shares (with EIF as Trustee) by DG NEAR under centralised indirect management contract, while EUR 19 052 218 were subscribed with a second contract via the Transfer and Delegation Agreement between KfW, EIF, and the European Commission).

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

Fund Portfolio

The European Commission committed 38,6 million for South East Europe and Turkey, leveraging the total size of the Fund of 367,7 million as of end December 2015. This amount corresponds to the amount of loans expected to be provided to the end beneficiaries.
The current portfolio of projects is EUR 289 million, invested in 32 Partner Institutions ("PI") in 11 Target Partners, with 18 203 final recipients.

84% of the Fund's committed capital has already been disbursed, committed or approved for investments in PIs. Taking into account schedules repayments and pending new investments in the Fund itself, GGF has sufficient capital to meet these obligations.

The number of Partner Institutions has increased from 26 to 32.

New Investments & Pipeline

By end December 2015, six investment proposals for the amount of around EUR 60 million were approved:

- Halkbank RS (Serbia),
- Ohridska banka (former Yugoslav Republic of Macedonia),
- Procredit bank (Serbia),
- M2 (Georgia)
- TBC Bank GE (Georgia), and
- Burgan Leasing (Turkey).

(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;

N/A.

(h) Revenues and repayments;

N/A.

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

EUR 39 324 943 (at the level of GGF)

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

N/A.

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

The target leverage effect of the Fund at present is in the order of 9,5 (total size of the Fund 367,7 million, divided by EU Contribution). It is estimated that the leverage will generate in excess of EUR 367,7 million of loans to eligible final recipients.

The achieved leverage is in the order of 7,5 (disbursements/loans to end beneficiaries of 289 million divided by EU contribution).

The expected leverage for signed operations is in the order of 8 (disbursements/loans to PIs of 307,1 divided by EU contribution).

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

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

2.5. SUB-LOAN PORTFOLIO MONITORING[3]

DISBURSEMENT ANALYSIS AS OF 31 DECEMBER 2015

Amounts in Euro

Subloan portfolio		Subloans disbursed since inception*		GGF disbursements to PI*	Disbursement percentage	Remaining ramp-up period (months)
Country	**Partner Institution**	**Number**	**Amount**	**Amount**	**%**	
FIs in ramp-up period		**371**	**50,240,930**	**148,555,174**	**34%**	
Albania	BKT	60	15,660,515	25,000,000	63%	24
Armenia	ACBA Leasing	52	3,076,980	3,483,581	88%	2
Azerbaijan	Muganbank	-	-	4,130,525	0%	4
Croatia	Zagrebacka Banka	3	6,700,750	20,000,000	34%	0
FYR Macedonia	Ohridska Banka	-	-	2,000,000	0%	9
Georgia	Bank of Georgia	146	7,511,730	15,000,000	50%	8
Georgia	TBC Bank GE	-	-	13,812,155	0%	18
Serbia	ProCredit Bank RS	97	3,585,302	20,000,000	18%	18
Turkey	Finans Leasing	3	1,901,834	15,000,000	13%	9
Turkey	Burgan Leasing	-	-	5,000,000	0%	12
Turkey	Odea Bank	-	-	10,128,913	0%	11
Turkey	Fibabanka	10	11,803,819	15,000,000	79%	2
FIs out of ramp-up period		**17,825**	**221,350,492**	**215,262,024**	**103%**	
Armenia	Araratbank	54	1,171,415	3,819,036	31%	-
Armenia	ACBA	-	-	3,629,501	0%	-
Armenia	Inecobank	3,767	5,393,094	7,678,292	70%	-
Azerbaijan	AccessBank	45	5,550,681	10,956,903	51%	-
Bosnia and Herzegovina	NLB Razvojna Banka	441	3,717,484	5,000,000	74%	-
Bosnia and Herzegovina	Partner	2,198	5,613,924	5,500,000	102%	-
Bosnia and Herzegovina	UniCredit Bank Banja Luka	45	4,364,073	10,000,000	44%	-
Croatia	Privredna Banka Zagreb	22	4,212,631	25,000,000	17%	-
FYR Macedonia	Halkbank MK	1,993	10,301,015	15,000,000	69%	-
Moldova	Microinvest	295	176,601	1,000,000	18%	-
Serbia	Komercijalna Banka	893	19,559,424	23,000,000	85%	-
Serbia	Banca Intesa RS	2,253	7,115,285	7,000,000	102%	-
Serbia	Halkbank RS	978	6,283,408	5,000,000	126%	-
Serbia	Intesa Leasing Beograd	2	7,628,000	5,000,000	153%	-
Turkey	AK Lease	9	10,782,473	20,000,000	54%	-
Turkey	Sekerbank	4,435	49,211,191	25,000,000	197%	-
Turkey	Yapi Kredi Leasing	325	71,490,906	35,000,000	204%	-
Ukraine	Megabank	70	8,778,887	7,678,292	114%	-
NFIs		**7**	**18,116,878**	**18,114,907**	**100%**	
Albania	Lengarica	3	9,133,685	9,133,685	100%	n.a.
Georgia	Dariali Energy	4	8,983,193	8,981,222	100%	n.a.
Georgia	M2	-	-	-	0%	n.a.
Total		**18,203**	**289,708,300**	**381,932,104**	**76%**	

Source: FIM Management Information System (MIS)
* Cumulative since inception until to date

[3] The subloan monitoring based on data received by the PIs includes primarily information on subloans disbursed and outstanding, subloans by economic sector, region and currency, and environmental impact data such as energy savings measures.

The current portfolio of projects is EUR 289 m, invested in 32 Partner Institutions (“PI”) in 11 Target Partners, with 18 203 final recipients.

Measures financed through GGF funding have produced annualized energy savings of 1 275 780 MWh/year and annualized CO_2 reduction of 330 741 tons/year. On average, these measures are 49% and 52% more efficient in terms of emissions and energy consumption respectively. That figure is well in excess of the Fund's minimum of 20% for each category.

CO2 REDUCTION AND ENERGY SAVINGS AS OF 31 DECEMBER 2015

Measure	Cumulative disbursement amount (EUR)	share of disbursements	CO2 reduction (tCO2/year)	CO2 reduction (%)	Energy Savings (MWh/year)	Energy Savings (%)
Agri-equipment	10,642,794	4%	24,054	24%	103,076	26%
Buildings	89,618,072	31%	164,460	61%	669,562	55%
Complex heat supply and distribution systems	3,591,433	1%	7,789	52%	30,325	45%
Energy service and supply business	20,219,257	7%	-	0%	-	0%
Household devices	100,570	0%	290	34%	804	33%
Improvements in processes, process related equipment	95,096,389	33%	54,866	33%	206,594	35%
Lighting	425,345	0%	77	40%	213	40%
Vehicles	4,886,062	2%	2,558	20%	7,305	12%
Sub-total EE	**224,579,922**	**78%**	**254,095**		**1,017,879**	
Use of RE by households and businesses	9,713,817	3%	12,838	93%	49,466	95%
Use of RE for commercial energy generation	55,414,561	19%	63,808	100%	208,435	99%
Sub-total RE	**65,128,378**	**22%**	**76,646**		**257,901**	
Total	**289,708,300**	**100%**	**330,741**	**52%**	**1,275,780**	**49%**

Source: FIM Management Information System (MIS)

E - Other key points and issues

- **Main issues for the implementation**:

1) Additional buying of C-shares – ongoing discussions on how to contract the additional Commission's purchase of C-shares regarding the stipulations of the new Financial Regulation present a concern. Without the resolution of the "trusteeship issue", the Commission cannot subscribe additional C-shares. It is a cross-cutting issue, and expected to be resolved as such. In addition, with focus on WBIF co-financing of big infrastructure projects within the Connectivity Agenda, the challenge is to secure appropriate continuation of funding of the GGF and, overall, energy efficiency and renewables.

2) Coordination of GGF with other Commission mechanisms – GGF has since late 2014 participated at the regular meetings of the Energy Community's EE Coordination Group (EECG). In that way, the instrument is being coordinated with the other main Commission facility, the Regional EE Programme (REEP), and with other non-Commission EE stakeholders in the region, as well as with the Energy Community. The GGF started reporting on its contribution to the EE and RE targets of the Energy Community. The challenge remains to properly address the EE and RE needs via our two main mechanisms.

3) Additional funding for Turkey – it is the position of the Regional Programmes unit that any additional purchase of C-shares for the GGF's Turkish operations needs to be

financed from the national IPA exclusively. The discussion is ongoing, and it remains a challenge if, how, and when this will be possible.

- **Main risks identified**:
  None detected on part of the Trustee and the Fund. However, new Financial Regulation has reporting requirements that are beyond either the date or the scope as agreed in the contracts between the Commission and the IFIs. This discrepancy would need to be addressed appropriately.
- **General outlook:**

The perspective of the sustainable development of GGF is positive, but its full adoption depends on the pace of development and the quality of EE/RE policy and the regulatory frameworks. Equally important is the establishment of the institutional framework which will ensure implementation of these policies and the legislative provisions (independent regulators and enforcement agencies that can guarantee implementation of these common rules).

The policy framework varies across countries. In Bosnia-Herzegovina 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, BIH 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, and towards the Energy Community targets. The main purpose of the EC contribution to the Fund, (to support the beneficiary countries in the stabilisation of financial markets and economies in the 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. Critical milestone of private investor funding was achieved in 2015, with the Gemeinschaftsbank für Leihen und Schenken (GLS) Bank note issuance of EUR 22 million, representing a significant step towards achieving a true PPP structure; an additional EUR 32 million is in the pipeline. As the first 4-6 years of implementation are seen as an early stage of the GGF existence, it is expected that the interest of private investors will progressively grow as the results from the increase in disbursements in the last years are made public.

The description of the action provided for an interaction with municipalities, but this is not yet taking place. The municipalities in the region have limited technical capacity and chronically limited budgets, but it is expected that they should in the future be more proactive in taking advantage of funds such as the GGF to achieve common goals, like a better integration of the EE/RE solutions within their local development strategies. For the time being, they are State/donor dependent and fragmented. The small, rural municipalities should pursue EE and RE objectives in partnership with neighbouring larger, better off ones. The awareness of the municipalities should be progressively built up and in the long-term they should become the main promoter of the EE benefits to their citizens, following the example of the more advanced EU countries.

5.7. SME Recovery Support Loan for Turkey (RSL)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	EIB (EUR 120 million)
Initial Overall Budget Envelope:	EUR 30 million
Current Overall Budget:	EUR 30 million

A - Summary

The SME Recovery Support Loan Facility for Turkey (RSL) is a joint European Union (EU) /European Investment Bank (EIB) action consisting of blending €120 million EIB loan funds allocated with 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 Turkish intermediary banks match the amount of finance made available to the final beneficiaries 1:1, hence doubling the final total amount of loans. Up to date the amount of financing provided by the instrument to eligible final recipients is EUR 299,64 million. The project has a "recovery" nature, as part of IPA 2009 Crisis Response Package but is also in line with EU policies for SME sector development and supports Turkey's efforts for preparation in view of EU accession.
From a strategic perspective, the RSL is consistent with the objectives of the Multi-Annual Indicative Planning Document (MIPD) 2008-2010 for Turkey, the Turkish SME Strategy and Action Plan 2007-2009 and the general objective to develop synergies between IPA initiatives and EIB lending activities. The SME Action Plan identified access to finance as one of the main problem for SMEs, which prevents their further growth and harms their competitiveness.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) (OJ L 210, 31.7.2006, p. 82).
Crisis Response Package, IPA 2009/021-373.

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

The overall objective of the SME Recovery Support Loan for Turkey is to mitigate the crisis impact for SMEs and contribute to the development of the Turkish economy and employment sector. The main objective is to support SMEs with concrete productive investments by providing access to attractive and longer-dated debt financing. The co-financing of loans is to be provided to local commercial banks operating in Turkey (the 'Financial Intermediaries') for the benefit of eligible investments carried out by SMEs. In the context of the Action, the European Investment Bank (EIB) shall extend loans from its own resources together with the Union Contribution loans. The SME Recovery Support Loan amounts to EUR 150 million, including EUR 120 million of EIB funds and EUR 30

million of the EU Contributions financed from the IPA funds. EIB contributes with EUR 120 million in lending to the two intermediary banks, Halkbank and Akbank.

Individual SMEs are eligible for financing from a Financial Intermediary using funding available through the Action (each a ‘Sub-Loan’) up to a maximum amount of EUR 5 million and a minimum amount of EUR 200 000 and with a minimum maturity of 4 years.

The Union contribution does not benefit from any guarantee or other security, nor does it bear a higher risk to guarantee/secure the EIB lending. The Union resources are however provided on an interest-free basis to the Financial Intermediaries. The EIB resources and the Union resources will be clearly dissociated from each other but will be disbursed in parallel in order to maintain the ratio of 4/1 between EIB resources and Union resources, hence ultimately reducing the cost of borrowing for all end beneficiaries.

(c) The financial institutions involved in implementation;

EIB is the Commission's risk-sharing partner.
The two intermediary banks are Halkbank and Akbank.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015: EUR 30 000 000
Aggregate budgetary payments as at 31/12/2015: EUR 30 000 000

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

The intermediary banks in Turkey for this financial instrument are two:

- Halkbank: Its share of the Facility (EUR 74,82 million) is fully allocated since the end of 2011. The average size of allocation is EUR 0,51 million. The number of jobs created through the financed investments is 2 340;
- Akbank: Its share of the Facility (EUR 74,82 million) is fully allocated since the end of June 2012. The average size of allocation is EUR 0,8 million. The total number of jobs created through the financed investments is 1 780.

The Turkish intermediary banks contribute according to a 1:1 proportion to the loan to the final beneficiaries.

Although there were no set indicators to measure the Recovery Support Loan (RSL) expected outcomes (job creation/maintenance and growth for the beneficiary SMEs) there was an EIB requirement that the SMEs report, at application stage, contained the expected number of jobs to be created following the implementation of the RSL supported projects.

Accordingly, the 265 loans allocated to date are expected to help create more than 4 000 new jobs, which represent a 42% increase of the number of employees of the beneficiary SMEs, compared to the situation before receiving the loans. The average sub-project value is 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. Average maturity of loans is 4,4 years, slightly higher than the minimum tenure of 4 years imposed.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 299,64 million 265 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 299,64 million 265 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	N/A

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

N/A.

(g) The balance of the fiduciary account;

EUR 19 381 308

	In EUR
Balance on the fiduciary account (current account)	9 408 837
Term deposits/Bonds (if applicable)	N/A
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Loans	9 972 471
= Total assets	**19 381 308**

Impact of negative interest rates on SME for Turkey Facility : no impact as at 31/12/2015.[259]

[259] For the Turkish Loan the account is in Turkish lira and is paying positive interest of between 9% and 10%. The euro account balance is around EUR 50 000 and interest is hardly an issue. The reflows in this case were (almost) all in Turkish lira and were received in the third quarter of 2015 and nothing had been done with them (apart from the accrued interest) by the year-end

(h) Revenues and repayments;

Revenues & repayments as at 31/12/2015 EUR 9 408 837

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

N/A.

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

There are no impairments. The balance sheet value of the instrument at 31/12/2015 is the result of exchange losses and actuarial adjustments as follows:

In EUR	**Cumulative**	**2015**
Initial Capital	**29 640 000**	
Exchange Gain/(Loss) (Turkish lira/euro)	(10 187 886)	(2 373 247)
Interest received	9 386 773	2 722 550
Actuarial Adjustment increase/(decrease)	(9 457 579)	(12 247 449)
Current Value	**19 381 308**	

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

The target and achieved leverage effect is 1:10 over the lifetime of the financial instrument.

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

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

As at the end of 2015, the Recovery Support Loan contributed to provide nearly 300 million EUR of financing to 265 eligible Final Recipients (SMEs), helping create more than 4 000 new jobs, a 42% increase of the number of employees of the beneficiary SMEs.

The RSL was highly relevant at the time it was proposed but the immediate need had passed by the time it became operational. Attractive, very efficiently implemented and benefiting of reliable credit recipients, the facility has resulted in successful projects, able to produce positive impact at micro level, but unlikely to produce any relevant impact at sector level. The main benefits stem from lessons learned and the opportunity to better shape similar future interventions.

The amount available under the facility is very small compared to the size of the Turkish SME market and to the size of the EIB lending in Turkey. There were no logframe or indicators of achievement set for the facility. The only measurable targets set were the number of financial intermediaries to be employed (2-3), the minimum number of SME loans to be achieved (100) and the minimum additional volume of SME loans to be achieved by the

financial intermediaries during the initial RSL allocation period (at least twice than the RSL loans). All these could be considered implicit given the features of the facility and the business profile of the Turkish banks envisaged as financial intermediaries.

The geographical scope of the Facility is Turkey only.

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

- **Main issues for the implementation:**
    - as already foreseen in the Contribution Agreement signed with the EIB in 2009, the possibility to continue the action for a second round of projects is being explored, after the approval of the Steering Committee. The second round of the action would use the Union contribution which has been repaid to EIB by financial intermediaries together with new resources of EIB. A second round is likely to entail an extension of the termination date of at least 3 years. This second round would target the least developed regions in the South-Eastern Turkey. The EIB is currently exploring the potential new intermediary banks operational in this part of the country.

- **Main risks identified:**
    - well managed project. Risks are only subject to market conditions.
- **General outlook:**
    - no further engagement planned under IPA II.

6. Financial Instruments in Neighbourhood and Countries covered by the DCI

6.1. Neighbourhood Investment Facility (NIF)	
Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	Eligible Finance Institutions
Initial Overall Budget Envelope:	EUR 50 million
Current Overall Budget:	EUR 1 454,14 million

A - 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 2008-2015, the Union contribution of approximately EUR 1,45 billion has leveraged EUR 13,8 billion in loans from European Financial Institutions (EFIs), with total project costs estimated at EUR 28,8 billion.

The **NIF strategic objectives** are: (1) to improve energy and transport infrastructure and interconnectivity, energy efficiency, energy security and use of renewable energies in the region; (2) to address climate change as well as threats to the environment ; and (3) to promote socio-economic growth and development through support to SMEs, the social sector and to municipal infrastructure.

The independent **Mid-Term Evaluation report of the NIF** (see under C[e]) confirms the relevance of NIF funded projects in relation to the NIF strategic objectives. The report 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.

The Review of the European Neighbourhood Policy of 2015[260] announces that the EU, in order to further maximise the impact of its support, will seek to leverage considerable additional funding by further enhancing its cooperation with major International Financial Institutions and through the Neighbourhood Investment Facility (NIF).

[260] http://eeas.europa.eu/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf.

B - Description

The breakdown of the Current Overall Budget (in EUR million) is as follows:

Commission Decision No	Initial Decision	East	South	Top up East	Top up South	Total
C(2007) 6280	50,00	25,00	25,00			50,00
C(2008) 2698	50,00	25,00	25,00			50,00
C(2009) 3951	70,00	25,00	45,00			70,00
C(2009) 8985	15,00		15,00			15,00
C(2010) 4400	85,00	40,00	45,00			85,00
C(2010) 7989	25,00	22,00	3,00			25,00
C(2011) 5547	100,00	33,30	66,70			100,00
C(2012) 4533	150,00	50.00	100	12,70	9,20	171,90
C (2013) 1276	200,00	66,70	133.30	10,50		210,50
C(2013) 5300	12,30	12,30				12,30
C(2014) 5750	361,70	96,40	265,30	7,70		369,40
C(2015) 2748	295,04	105,54	189,50			295,04
TOTAL	1 414,04	501,24	912.80	30,90	9,20	**1 454,14**

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

- Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.[261]
- Regulation (EU) N° 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument.[262]
- Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action, (OJ L 77, 15.04.2014, p. 95).

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

Policy objectives and scope

The Financial Instrument of the European Union for the Neighbourhood Region contributes to achieving the objectives of the European Neighbourhood Policy (ENP) or related EU thematic policy priorities by leveraging additional financing for the region.

The NIF overarching objective is to mobilise additional investments to support the establishment of an area of prosperity and good neighbourliness involving the EU and neighbouring countries. In complementarity with other EU-funded programmes, the NIF can foster a sustainable, inclusive growth and a favourable investment climate in our partner countries.

[261] (OJ L 310/1, 9.11.2006)
[262] (OJ L 77, 14.03.2014)

Within this framework, the NIF pursues three strategic objectives, notably:

- establishing better and more sustainable energy and transport interconnections between the EU and neighbouring countries and between the neighbouring countries themselves, improving energy efficiency and demand management, promoting the use of renewable energy sources and strengthening energy security;
- addressing climate change mitigation and adaptation, as well as threats to the environment more broadly; and
- promoting smart, sustainable and inclusive growth through support to small and medium size enterprises, to the social sector, including human capital development, and to municipal infrastructure development.

NIF operations focus on five main sectors: Energy, Environment/Climate, Transport, Social sector and Small and Medium Enterprise development. They support investments related to the implementation of EU agreements, including Deep and Comprehensive Free Trade Area Agreements (DCFTAs), as set out notably in the European Neighbourhood Policy (ENP) Association Agendas / Action Plans.

Geographical coverage and final recipients

European Neighbourhood Policy partner countries directly eligible to the NIF are neighbourhood countries having signed an action plan, except for those that do not qualify because of their level of development. Currently, this encompasses Armenia, Azerbaijan, Georgia, Moldova and Ukraine in the Neighbourhood East region, and Egypt, Jordan, Lebanon, Morocco and Tunisia in the Neighbourhood South region. On a case-by-case basis, other countries, which are not directly eligible, may benefit from NIF interventions taking into account regional or specific circumstances. Their eligibility will have to be decided unanimously by Member States and the Commission.

Other final recipients will be the private sector in the partner countries and, in particular the SMEs.

Both multilateral and national European Development financial institutions may be direct partners and important stakeholders of the facility. They will be eligible as lead partners to propose lending operations that could benefit from a NIF support.

Implementation arrangements

The NIF finances different types of operations such as risk capital (equity and quasi-equity investments), risk-sharing instruments, guarantees, loans, investment grants, interest rate subsidies and technical assistance.

Until 2014, implementation of the NIF was possible through the following management modes: centralised management (direct and indirect), joint management, and partially decentralised management. From 2014 onwards, implementation is made according to the modalities foreseen in the new Financial Regulation, mainly through Delegation Agreements with European Financial Institutions (EFIs).

The NIF has, since the beginning of 2011, included a Climate Change Window (CCW) under the Programme on the Environment and the Sustainable Management of Natural Resources including Energy Thematic Programme (ENRTP) of the Development Cooperation Instrument to support the implementation of projects, helping partner countries tackle climate change through mitigation and/or adaptation measures. The NIF CCW is managed in a streamlined way and has in general the same rules and the same financing and implementation modalities as the NIF.

Duration and impact on the budget

The decisions relating to this instrument are valid for the two Multiannual Financial Frameworks of 2007-2013 and 2014-2020 and may be extended further following decisions on the next Multiannual Financial Framework.

The final date for contracting is 31 December 2016 relating to decisions from 2015. This is not the date of duration of the facility but the final date for contracting of the individual decisions financing the facility. The duration of individual projects is established on a case-by-case basis, depending on the type of instrument, with an indicative maximum of 180 months from the date of entry into force of the financing agreement or, when none is concluded, from the adoption of the Annual Action Document financing the NIF.

The budgetary breakdown of EUR 1 454,14 million between the two Neighbourhood sub-regions is as follows:

CRIS reference	Cumulated amount of global commitment in EUR	Budget line
Neighbourhood South		
ENPI/2007/019548	158 000 000,00	19 08 01 01
ENPI/2011/023086[263]	309 220 334,34	19 08 01 01
ENI/2014/037510	265 300 000,00	21 03 01 02/03
ENI/2015/038303	189 500 000,00	21 03 01 02
Total South	**922 020 334,34**	
Neighbourhood East		
ENPI/2007/019549	137 000 000,00	19 08 01 03
ENPI/2011/023087	173 200 000,00	19 08 01 03
ENI/2014/037515	104 085 901,58	21 03 02 02
ENI/2015/038314	105 540 000.00	21 03 02 02
Total East	**519 825 901,58**	
Sub-total	**1 441 846 235,92**	
ENPI/2013/024746 (SUDeP, cf. note under "Current Overall Budget")	*12 300 000,00*	19 08 01 03
Total	**1 454 146 235,92**	

Added value

The NIF provides a simple, clear, structured mechanism to examine and approve blending projects to the benefit of Neighbourhood countries. Through the use of the NIF for the examination of all blending projects in the Neighbourhood, the Commission ensures that:

- equal treatment is given to all projects and all partner financial institutions,
- competition is promoted between projects in terms of their value for money,
- all projects are examined according to an agreed set of fundamental parameters, notably regarding their leverage, additionality and compliance with EU principles and EU policy objectives.

[263] An endowment with EUR 17,3 million was adopted by the Commission in 2011 [C (2011)9538], to be shared between the NIF and the Latin America Investment Facility (LAIF). Finally, this endowment was integrally used for two projects under the Latin America Investment Facility (LAIF).

The expected results of the NIF are increased investment in the following sectors contributing to:

1) Better transport infrastructure,
2) Better energy infrastructure, , better energy efficiency and demand management, better energy security and increased use of renewable energy
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.

(c) The financial institutions involved in implementation;

- ***Multilateral European Finance Institutions:*** 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 the 2002 Financial Regulation (Regulation 1605/2002, partially decentralised management)[264].

C - Implementation

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

Aggregate Budgetary Commitments as at 31/12/2015	EUR 1 454 146 235,92[265]
Aggregate Budgetary Payments as at 31/12/2015	EUR 545 675 801,00[266]

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

The NIF has demonstrated to be a successful operation throughout the eight years of its existence so far. It has fully delivered on its objectives, detailed in section B), by creating a favourable environment for investments to be made on its priority sectors and countries to a scale never achieved in previous years and which would be difficult to achieve without the Facility.

Between 2008 and 2015, a grand total of 112 projects have received final approval for NIF financing. About EUR 1,5 billion (from EU budget and NIF Trust Fund) have been blended with about EUR 12,3 billion of funding by European Financial Institutions to projects approved during this period. This amounts to a financial leverage of around 11,41. The total investment cost of these projects is estimated at about EUR 28,81 billion.

[264] 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.

[265] of which: Aggregate budgetary commitments invested in financial instruments (legal commitments) = EUR 62 800 000 (EUR 47 500 000 for the South and 15 300 000.00 for the East).

[266] of which: Aggregate budgetary payments for financial instruments = EUR 0.

In 2015, the Board of the NIF gave positive opinions on contributions to 16 new projects and 4 ongoing projects. About EUR 367,10 million (from EU budget and NIF Trust Fund) have mobilised mobilising EUR 2,17 billion from eligible EFIs, with a leverage rate of around 5,91. The total investment cost of those projects is estimated to exceed EUR 5,38 billion.

In addition to the financial leverage, the NIF has also given projects considerable qualitative leverage. Although these are not financially measurable, the benefits are both socio-economic and environmental in nature.

Because of that mobilisation capacity, the Commission is increasingly channelling ENI funds through the NIF, as portrayed in the steady increase of the annual NIF funding.

The Mid-Term Evaluation (MTE) of the NIF under the European Neighbourhood and Partnership Instrument 2007-2013[267] was finalised in May 2013. It focussed on the analysis of the mechanism and its procedures since its inception until the end of 2011. The evaluation was carried out based on the following OECD/DAC evaluation criteria: relevance, effectiveness, efficiency, impact, and sustainability.

The MTE report stated that the NIF has proven to be an effective instrument within the European Neighbourhood Policy and highlights that the NIF achieved its goal of leveraging significant financial resources through grants. The executive summary notes "a steady increase in number of projects and volumes of allocations" and "effective coordination amongst Financial Institutions."

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

Not yet applicable

(g) The balance of the fiduciary account;

GGF:	EUR 2 148 124
SANAD:	EUR 1 034 832

Impact of negative interest rates on GGF : no impact as at 31/12/2015.

(h) Revenues and repayments;

Reflows in 2014: EUR 0

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

SANAD fund for MSME-Debt Sub Fund in USD

Market Value as of 31/12/2013:	9 311 447 USD
Market Value as of 31/12/2014:	7 826 972 USD
Market Value as of 31/12/2015:	6 928 299 USD

SANAD fund for Equity Sub Fund in USD

Market Value as of 31/12/2013:	722 234 USD
Market Value as of 31/12/2014:	1 973 318 USD

[267] 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).

Market Value as of 31/12/2015: 2 666 474 USD

EFSE-SICAV SIF Fund in EUR

Market Value as of 31/12/2013: 5 061 483 EUR
Market Value as of 31/12/2014: 4 981 305 EUR
Market Value as of 31/12/2015: 4 904 127 EUR

Green for Growth Fund, SICAV-SIF in EUR

Market Value as of 31/12/2014: 10 198 244 EUR
Market Value as of 31/12/2015: 10 427 646 EUR

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

N/A.

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

Commission Implementing Decision C(2015)2748 has been adopted on 23 April 2015 for a contribution of EUR 295,04 million. The target leverage effect indicated in that Decision for NIF contributions is 4 to 5 over the lifetime of the NIF. This target leverage effect has been kept (or exceeded, notably for SME support projects) throughout the different NIF Commission Decisions since 2008.

The NIF expected leverage for the period 2008-2014 is estimated at around 11,41 (see details under C[e] above).

The NIF expected leverage for 2015 is estimated at around 5,91 (see details under C[e] above).

The NIF cannot report yet on achieved leverage, since the number and size of projects concluded so far are not enough to provide a sizeable sample to the achieved leverage of the instrument. However, we expect the achieved leverage not to be too far from the expected leverage mentioned above for the first years of the instrument.

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

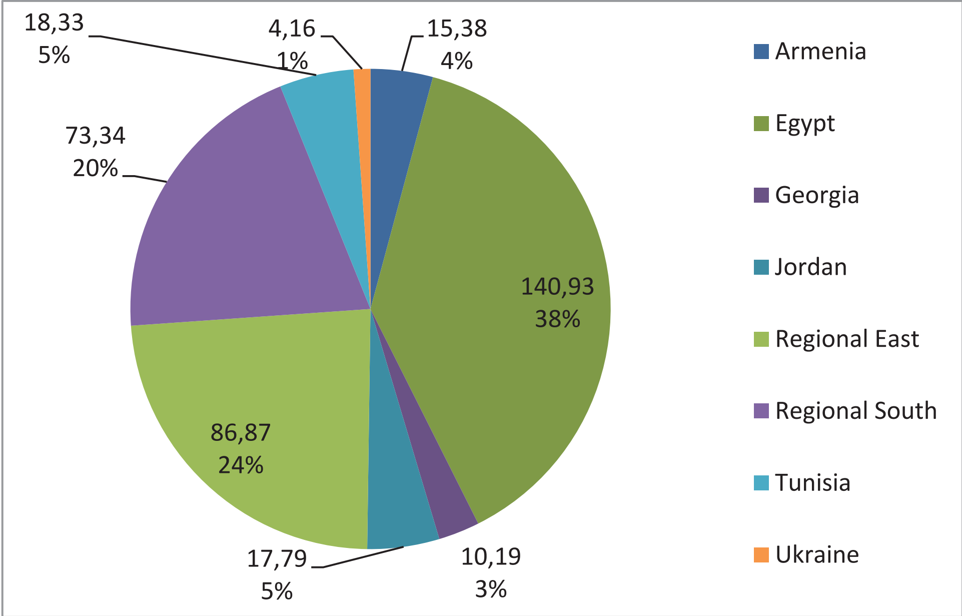
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The NIF has proven to be an effective instrument within the European Neighbourhood Policy and achieved its goal of leveraging significant financial resources through financial instruments: as at the end of 2015, the NIF has provided nearly EUR 1,5 billion (from EU budget and NIF Trust Fund) of financing for a grand total of 112 projects and has had thus an important impact on the real economy of the EU's partner countries (see details on figures under C[e] and on beneficiaries under B[b] above).

NIF projects are overall relevant to NIF strategic objectives. Following recommendations of the Mid-Term Evaluation report, establishing better and more sustainable energy and transport interconnections has become a special focus area for the use of NIF funds. The related policy dialogue within a more strategic approach to EU support in the respective sector needs further strengthening.

The NIF in 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.

NIF investments in 2015 by country/region - in EUR millions



There is a relatively balanced geographical and sectorial distribution of projects. A two-thirds/one-third principle is applied with a view to repartition of funds between Neighbourhood South and Neighbourhood East. Also following an MTE recommendation, work is ongoing to establish a system which could allow for prioritisation of projects according to their relevance and expected impact, thus making the project pipeline process more strategic and predictable.

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

Main issues:

- Co-ordination with the EU Delegations, although steadily improving over the last 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. Delegations and Headquarters need to undertake further efforts to send concurring messages to IFIs, both on strategic priorities and specific projects.
- There is also still room for improvement for the monitoring and evaluation functions. The MTE recommended introducing a results-based monitoring system to be applied to all NIF projects. Currently, blending projects undergo general ROM monitoring. However, a method taking into account blending project specificities is currently being developed by DG DEVCO. An evaluation on blending is currently being carried out where project results will be examined. The draft final report of this evaluation is expected by mid-2016.
- 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.

- **Main risks:**
  - Framework Agreement and contracting templates have been negotiated in a cumbersome process with the European Financial Institutions throughout 2015 and before. A further revision will take place in 2016, and it is essential that the contracting of approved projects be not held up by this process, as it was the case in 2015.
- **General outlook:**
  - It is expected that **financial allocations to the regional investment facilities will substantially increase** over the next years.
  - NIF funds might also be increased by channelling funds from the National or Regional Indicative Programs through the blending mechanisms. The expected raise in funds is not only due to the fact that, in times of ever tighter budget, blending operations can substantially enhance the impact of EU support.
  - Also, in the context of the ongoing refugees crisis blending operations may usefully contribute to stabilisation responses in crisis or post-crisis situations, especially when it comes to economic recovery or concerning local infrastructure investments and reconstruction needs.

6.2. Investment Facility for Central Asia (IFCA) & Asian Investment Facility (AIF)

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	Eligible Financial Institutions
Initial Overall Budget Envelope:	EUR 50 000 000
Current Overall Budget:	EUR 287 567 000
Envisaged overall budget for IFCA and AIF concerning the period 2014-2020:	EUR 480 000 000 (out of which EUR 140 000 000 for IFCA and EUR 340 000 000 for AIF)

A - Summary

In general terms IFCA and AIF have proven to be effective instruments, in particular by leveraging significant financial resources through the Union contributions under both Facilities.

Key investments are essential to implement reform strategies in line with the EU-Central Asia policy framework. Blending loans supported by the European Financial Institutions and by the Commission will be an important tool in the post 2015 financial perspective to address the

investment needs in energy efficiency, environment, water, climate change mitigation, and SME development.

For IFCA the Commission contributions of EUR 119 million supported a total investment volume of EUR 828 million, including also other public and private investments.

For AIF the Commission contributions of EUR 89 million supported a total investment volume of EUR projects amounting to EUR 2 631 million, including also other public and private investments.

B - Description

The breakdown of the current overall budget is as follows:

Decision Reference	Cumulated amount of global commitment (maximum envelope)	Budget line
Investment Facility for Central Asia (IFCA)		
DCI-ASIE/2010/021-627	20 000 000	19 10 02
DCI-ASIE/2011/023-117	45 000 000	19 10 02
DCI-ASIE/2013/024-950	20 567 000	19 10 02
DCI-ASIE/2014/037-538	20 000 000	21 02 03
DCI-ASIE/2015/038-116	40 000 000	21 02 03
TOTAL	145 567 000	
Asia Investment Facility (AIF)		
DCI-ASIE/2011/022-036	30 000 000	19 10 01 01
DCI-ASIE/2013/024-917	30 000 000	19 10 01 01
DCI-ASIE/2014//037-548	26 000 000	19 10 01 01
DCI-ASIE/2014/037-548	31 000 000	21 02 02
DCI-ASIE/2014/038-088	25 000 000	21 02 02
TOTAL	142 000 000	

In comparison to the 2014 for IFCA the budget has increased with EUR 60 000 000 during 2015 whereas the budget for AIF has increased with EUR 56 000 000 during 2015. AIF has been recreated in 2014 for the Multi-annual Financial Framework (MFF) 2014-2020, with an initial financing decision of EUR 26 million, whereas IFCA was recreated by the end of 2014 through a new financing decision of 20 000 000 under the budget 2015. A total amount of EUR 140 million for IFCA and of EUR 340 million for AIF are foreseen for the current MFF.

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

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation, (OJ L 378, 27.12.2006, p. 41).

Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020, (OJ L 77, 15.04.2014, p. 44), Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action, (OJ L 77, 15.04.2014, p. 95).

Based on the first results from the Neighbourhood Investment Facility (NIF), the Commission proposed to set up investment facilities targeting countries under the Development Cooperation Instrument (DCI) Regulation, initially in Central Asia, Asia, and Latin America. Two facilities were set up for Asia: the Investment Facility for Central Asia (IFCA) in 2010 and the Asian Investment Facility (AIF) in 2011. Those two facilities have been modelled based on the NIF and have the same types of objectives and scope as those defined in the NIF General Framework agreed in March 2008 (cf. section of this report on NIF)

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

Policy objectives and scope

The IFCA's main objective is to promote sustainable regional development and economic growth by providing funding for key infrastructures with a priority focus on energy, environment, SME development and social infrastructure. The AIF's main objective is the promotion of a green economy through the leverage of 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. In addition, capital may be provided in particular to small and medium sized enterprises (SMEs) and to social sector investments.

Geographical coverage and final recipients

The final recipients of these two facilities are the countries of those two regions. Other final recipients will be the private sector and, in particular SMEs.

Main technical characteristics

The types of operations to be financed can be the following:

- investment co-financing in public infrastructure projects,
- loan guarantee cost financing,
- interest rate subsidy,
- technical assistance,
- risk capital operations,
- any other risk-sharing instruments.

As regards risk capital operations, guarantees or any other risk sharing mechanisms, the risk-sharing involves the utilisation of financial resources by the Commission (from the EU

contribution) and the entrusted entity and the sharing of losses and gains primarily from underlying debt assets, while in some cases from equity assets as well, in the implementation

Implementation arrangements at Blending framework level

In order to improve the effectiveness of blending operations (including the ones for IFCA and AIF) in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of their management including a reduction of transaction costs, it was agreed in the context of the EU Platform for Blending in External Cooperation (EUBEC) to organise four blending "frameworks" according to the financing instruments (EDF – ENI – DCI – IPA)[268]. At the same time, in order to be able to address the different regional strategic priorities, to increase policy leverage and effectively use blending operations for policy dialogue, and for reporting purposes, it was agreed to designate under each framework geographically defined "facilities ". The financing comes essentially from the regional programmes defined under the different instruments, in accordance with the priorities and objectives defined in the programming documents, in dialogue with partner countries and relevant regional organisations. Where relevant and appropriate, financing could also come from specific national/regional programmes, in support of priorities and objectives in these countries/regions as defined in the relevant programming documents. Should there be an interest from Members States or other donors to contribute to blending operations, this will be done through dedicated fund(s). There is one single governance structure for each blending framework, governing Commission funds as well as EU Members States or other donor's contributions through dedicated funds. Decision making is organised in a two-level structure. Opinions on projects proposals are formulated at the Board level. Such opinions are prepared by a technical level assessment. Boards, chaired by the Commission, include the EEAS, the EU MS as voting members, and Financial Institutions as observers. They are responsible for formulating opinions on individual blending operations, providing guidance to participating institutions, monitoring and reviewing the project pipeline, examining project related results and monitoring the portfolio of approved projects, as well as drawing on the specific expertise of the Financial Institutions as appropriate, ensuring division of labour. The technical assessment of project proposals includes regular technical meetings chaired by the Commission (involving relevant DGs as appropriate) with the participation of EEAS and Financial Institutions that discuss the pipeline and assess the projects to be submitted to the Boards.

Implementation arrangements

Individual projects financed under IFCA and AIF are implemented through indirect management mode. This means that the Commission delegates budget implementation tasks to eligible Financial Institutions which have successfully undergone an ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012.

Budget implementation tasks consist of the launch of public procurement and grant award procedures and of concluding and managing the resulting contracts as well as execution of payments. The entrusted Member State agency or international organisation shall also monitor and evaluate the project and report on it.

In addition, budget-implementation tasks may be sub-delegated by the entrusted entity to the partner country in accordance with Article 4(7) of Regulation (EU) No 236/2014. The

[268] EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

entrusted budget-implementation tasks shall be carried out according to the rules assessed and approved by the Lead Financial Institution.

Climate Change Window

Addressing climate change issues, both mitigation and adaptation, will require a huge amount of funds. According to the Commission Communication of September 2009[269] "Stepping-up international climate finance," the financial needs for developing countries could reach about USD 100 billion per year by 2020. Hence, that Window is applicable to all the EU Blending Facilities.

Added value

EU added value of IFCA and AIF can occur at different levels e.g:

i. at the strategy and policy level, IFCA and AIF provide policy leverage, enhance the supply of public goods, increase EU visibility, assist in managing debt sustainability thresholds and contribute to aid effectiveness;

ii. at the financial level, IFCA and AIF provide financial leverage, help mitigate risks and lower borrowing costs and provide flexibility to tailor assistance to financing needs;

iii. at the operational level, IFCA and AIF stimulate financial discipline, efficient administration and monitoring, enable the acceleration of projects, improve project quality and increase donor coordination.

In addition, the expected results for both facilities are increased investments in the following sectors contributing inter alia to:

1) better energy infrastructure, notably:
   - improved transit connections between Asian countries, thus increasing security of energy supply for Asian countries;
   - improved safety and security of energy infrastructure;
   - improved energy efficiency and energy savings;
   - increased production and use of renewable energy (wind, solar energy).

2) Increased protection of the environment and better focus and control of climate changes impacts, notably:
   - introduction of integrated water management, including necessary related infrastructure;
   - reduction of air, soil and water pollution including monitoring infrastructure when needed;
   - increased forest protection including by strengthening forest governance;
   - promotion of climate change related investments, i.e. renewable energy, energy saving and cleaner production and other environment friendly techniques;
   - promotion of integrated waste management (household, municipal and industrial) including necessary related infrastructures.

3) Creation and growth of SMEs and improvement of the employment situations:
   - better access to financing for SMEs (availability of a larger range of financial products than currently available) at the different stages of enterprise creation, restructuring, modernisation, etc.;
   - creation of technological poles, enterprise incubators, etc.

[269] SEC(2009) 1172

4) Improved social services and infrastructures:
   - better access to health care and improved health services installations in urban and rural areas;
   - better education facilities, increased access to education in urban and rural areas;
   - improve vocational training facilities.

And in addition for the AIF:

5) better transport infrastructure, notably in the area of climate change relevant and "green" investments:
   - better (faster, cheaper and safer, environmental friendly) transport infrastructure within beneficiary countries and between them;
   - better interconnection between Asian countries;
   - faster and cheaper movement of people and goods within Asia.

Expected results and impacts are further specified at individual project level for each proposal submitted for examination under the facility.

(c) The financial institutions involved in implementation

The main entrusted entities to which the Commission delegates the implementation of the projects financed under IFCA and AIF are multilateral and national European financial institutions. They are eligible to ensure the role as a Lead financial institution to propose lending operations that could benefit from AIF and IFCA support.

Multilateral finance institutions such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) are eligible for both Facilities. Regional financial institutions active in Asia, like Asian Development Bank, may be associated in projects supported by AIF. For IFCA, the Nordic Investment Bank (NIB) is also eligible. Eligibility of other multilateral finance institutions will be examined on a case-by-case basis.

National European development finance institutions such as the Agence Française de Développement (AFD), the Kreditanstalt für Wiederaufbau (KfW), SIMEST (Società Italiana per le Imprese all'Estero) and the Spanish Agency for International Development Cooperation (AECID) are already eligible under the AIF and IFCA.

C - <u>Implementation</u>

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

Aggregate Budgetary Commitments as 31/12/2015:
IFCA: EUR 145 567 000
AIF: EUR 142 000 000
TOTAL: EUR 287 567 000
Aggregate Budgetary Payments as 31/12/2015 EUR
IFCA: EUR 52 739 232

AIF:	EUR 28 808 425
TOTAL:	EUR 81 547 657

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

Through IFCA the Commission has until the end of 2015 approved funding for 20 new projects (corresponding to 22 proposals) amounting to EUR 119 million of EU contribution. These have mobilised another EUR 553 million from European financial institutions and reached a total investment volume of EUR 828 million, including also other public and private investments. Four of the projects are implemented in Kazakhstan, seven the Kyrgyz Republic, two in Tajikistan, two in Turkmenistan, one in Uzbekistan and four have a regional implementing dimension.

In 2015, five new projects (corresponding to six proposals) were approved trough a Commission Decision following positive opinion of the DCI Blending Framework for IFCA and totalling to EUR 37 million. The overall investment cost of these projects reached EUR 364 million, mobilising another EUR 211 million from eligible European Finance Institutions.

AIF

AIF has until the end of 2015 committed a total of 89 million for 18 projects thereby mobilising EUR 1 436 million from European financial institutions. The total investment costs of these projects amount to EUR 2 631 million. The countries where those projects are implemented are Bangladesh (three), Pakistan (two), Indonesia (two), Nepal (one), Cambodia (one), Vietnam (one), Philippines (one), Sri Lanka (one), Myanmar (one), Laos (one) and Mongolia (one). In addition to these, three projects are of regional character.

In 2015, five new projects were approved trough a Commission Decision following positive opinion of the DCI Blending Framework for IFCA totalling EUR 27 million. The total investment cost of these projects reached more than EUR 585 million, mobilising EUR 394 million from eligible European Finance Institutions.

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

N/A for IFCA and AIF.

(g) The balance of the fiduciary account

N/A for IFCA and AIF.
MIFA Debt Fund ("Microfinance Initiative for Asia" funded under both IFCA and AIF).

MIFA ***(in EUR)***	
Balance on the fiduciary account (current account)	0
Term deposits/Bonds (if applicable)	N/A
Term deposits < 3 months	
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	

Equity investment (see also point i)[270]	8 865 838
***Other assets* (if applicable)**	
= Total assets	8 865 838

Impact of negative interest rates on IFCA AIF : no impact as at 31/12/2015.

(h) Revenues and repayments

N/A for IFCA and AIF.

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

MIFA Debt Fund ("Microfinance Initiative for Asia" funded under both IFCA and AIF)

Equity investments in USD*	31.12.2015	31.12.2014
C2 shares	6 833 522	6 616 717
C3 shares	2 818 715	2 786 904

* The value in USD is the equivalent of the EUR 8 865 838 equity investment in point g (see above).

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

N/A for IFCA and AIF.

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

For 2007-2015:

IFCA
The achieved leverage effect based on historical leverage experience during the period 2010-2015 (since the Facility was only created in 2010) for the IFCA was 6,96 (total project cost = EUR 828 million/IFCA contributions = EUR 119 million).

AIF
The achieved leverage effect based on historical leverage experience during the period 2011-2015 (since the Facility was created only in 2011) for the AIF was 29,4 (total project cost = EUR 2 631 million/AIF contributions = EUR 89 million).

For 2015-2020:

IFCA
The target leverage effect as indicated in the ex-ante evaluation of IFCA is 4 to 5 over the lifetime of the IFCA (2014-2020), based on the leverage attained since its creation.

On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 140 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 560 million to 700 million for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost)

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

divided by the total amount of the EU blending facility contribution relating to the investment leverage.

AIF

The target leverage effect as indicated in the ex-ante evaluation is 4 to 5 over the lifetime of the AIF (2014-2020), based on the leverage attained since its creation.

On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 340 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 1,4 billion to 1,7 billion for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost) divided by the total amount of the EU blending facility contribution relating to the investment leverage.

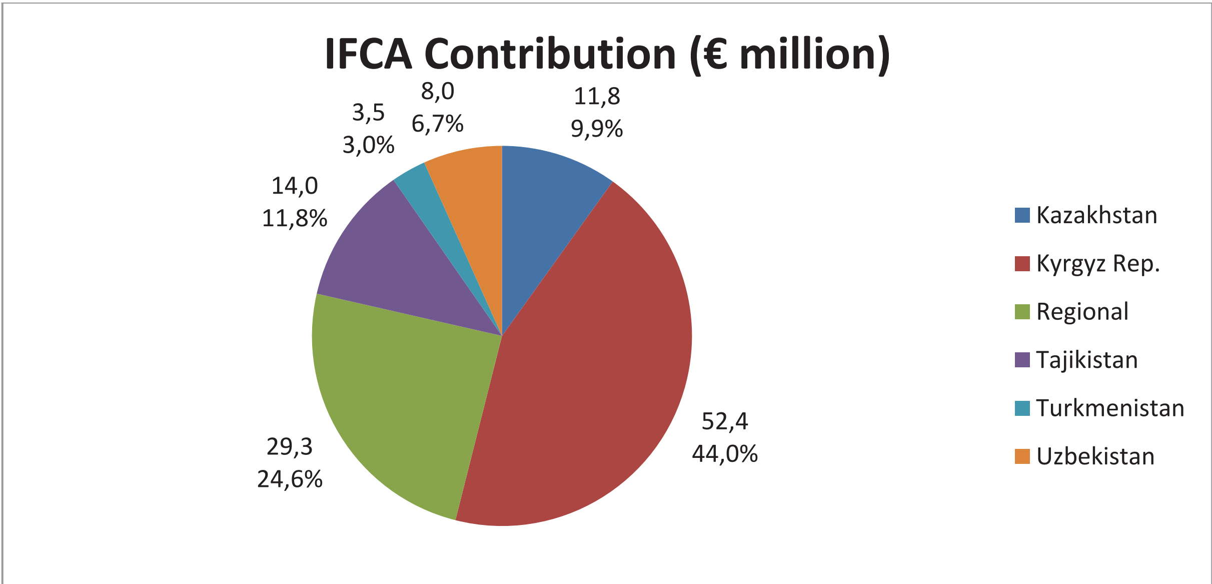
The facility cannot accurately report yet on achieved leverage, since the number and size of projects concluded so far are not enough to provide a sizeable sample to the achieved leverage of the instrument. However, we expect the final achieved leverage not to be too far from the expected leverage mentioned above for the first years of the instrument.

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

(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;

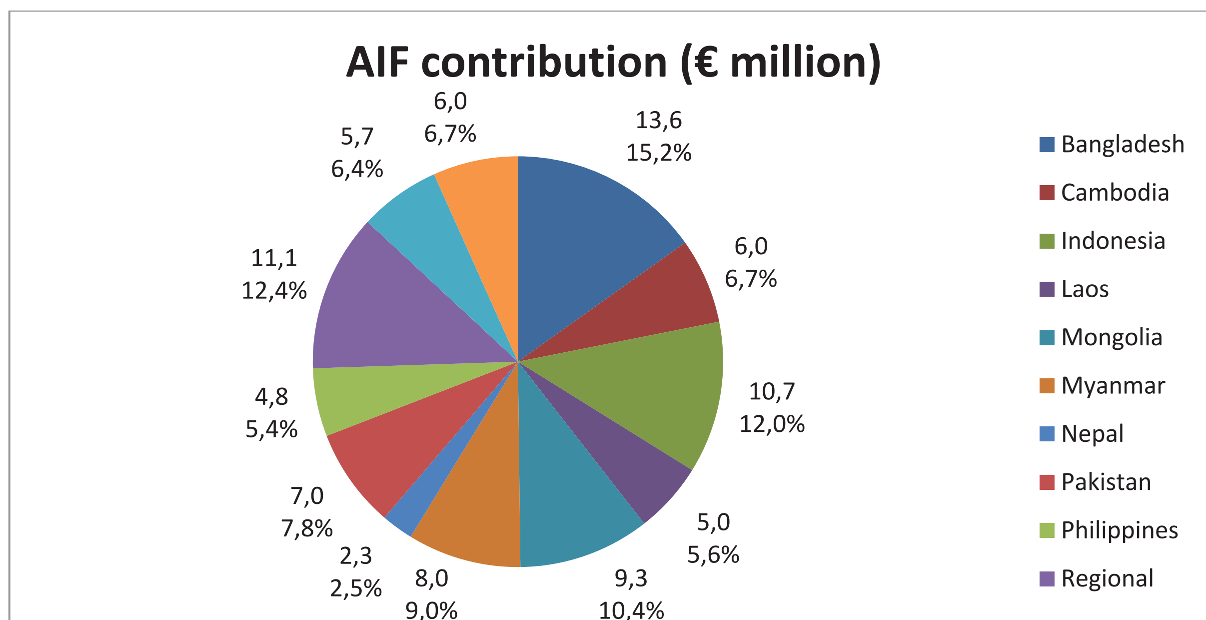
IFCA

As at the end of 2015, IFCA already contributed to provide nearly 828 million EUR of financing to 20 eligible Final Recipients and had thus an important impact on the real economy of our partners as described below. IFCA contributions during the same period amounted to EUR 119 Million.



AIF

As at the end of 2015, AIF already contributed to provide nearly EUR 2 631 million of financing to 18 eligible Final Recipients and had thus an important impact on the real economy of our partners as described below. AIF contributions during the same period amounted to EUR 89 million.



Operations financed by financial institutions pooling their loan resources in consortia with AIF support has allowed an increase in risk and credit ceilings to the benefit of Asian countries and promote the financing of categories of investments which at present cannot be financed either by the market or by the development finance Institutions separately. AIF has until the end of 2014 supported the total investment costs of projects amounting to EUR 2 631 million.

Climate Change Window:

Addressing climate change issues, both mitigation and adaptation, will require a huge amount of funds. According to the Commission Communication of September 2009[271] "Stepping-up international climate finance," the financial needs for developing countries could reach about USD 100 billion per year by 2020.

E - Other key points and issues

- **Main issues for implementation:** for both Facilities
  - A stable political and security climate at the regional level in general and at the country level in particular is needed to promote and secure investments. Partner countries must be ready to increase the level of investments through their own resources as well as through loans. The pipeline of operations must be of sufficient quality and volume and supply sufficient EU additionality.Strong commitment is

[271] SEC(2009) 1172

needed from recipients (for IFCA). Finance Institutions' capability to provide sufficient loan amounts also depends on the availability/accessibility of financial guarantees/grant resources in countries with a concessionality requirement (for AIF).

- The financial allocation to the regional investment facilities will substantially increase during the ongoing programming period. For IFCA, an amount of EUR 140 million is foreseen whereas the expected allocation for AIF amounts to EUR 340 million. To these amounts, funds from the National Indicative Programmes may be added. The management of such an increase represents a significant challenge for the Commission.
- One of the priorities for the current programming period, in line with the Agenda for Change, is a higher share of EU aid to be channelled through facilities for blending grants and loans. A greater use of financial instruments such as guarantees, equity and other risk-sharing instruments is one way to use the catalytic effect of blending in crowding in more private financing.
- The Facilities will continue to operate by providing support for loans to partner countries from EIB, and from other multilateral and national development financial institutions. By financing technical assistance and providing complementary grants, the Facility will encourage the recipient governments and institutions to make essential investments, which would otherwise be postponed due to lack of resources.
- AIF will also provide better access to finance for Small and Medium Enterprises, and include investments in the transport sector, as well as contributing to the ASEAN Connectivity Master Plan
- **EUBEC Platform:** in 2012, the EUBEC Platform was launched to further increase the effectiveness of blending. The Platform is led by a Policy Group which makes recommendations based on work carried out in technical groups. It is chaired by the Commission and involves representatives from Member States, the European Parliament (EP) and the EEAS. In the technical groups the Commission works together with experts from EFIs and Member States. In 2015, the technical groups of the Platform continued their work on reviewing the existing blending mechanisms with focus on the following aspects:

  - Improving and updating the Grant Application Form to be used by the various EU blending facilities together with detailed Guidelines as well as new results measurement framework;
  - providing guidance for the harmonisation of contractual arrangements between the Commission and the FIs as well as formulate best practices for the monitoring and reporting of blending operations;
  - how blending can increase the mobilisation of private sector resources (including a joint AU-EU Side event on Private Sector and Blending held in July 2015 during the Financing for Development International Conference in Addis Ababa); and
  - reviewing best practices and opportunities in terms of mainstreaming Climate Change financing.

- **Main risks:**

  - The European Court of Auditors published a special report[272] on the EU blending facilities in October 2014. The Court of Auditors concluded that blending had been generally effective. The investments facilities are well set up but the potential benefits of blending were not fully realized due to Commission management shortcomings. All the projects examined by the Court of Auditors were judged to be relevant. However, the auditors considered that the approval process was not sufficiently thorough and the justification for awarding grants for blending during the appraisal process was not always evident. The recommendations covered the following aspects: need to improve the documentation on additionality of the grant and its level, produce guidelines, ensure more pro-active role of EU Delegations, simplify the decision making process, improve Commission's monitoring of the projects and ensure appropriate visibility for EU funding.
  - Most of the recommendations made by the CoA in the special report of blending published in October 2014 have already been dealt with by the Commission in the context of the EUBEC Platform with the development of a harmonised and improved project application form and its guidelines, the development of a results measurement framework including standard indicators, the adoption of a Guidelines document on blending operations, a more proactive and closer role of the EU Delegations in identifying and selecting the blending projects, a revised new Governance of the EU blending facilities, a streamlined and shorten approval process and the publication of a short description of each blended project in the blending website for visibility purposes. The Commission is discussing the necessary points to adapt the ROM methodology to the specific characteristics of blending.

- **General outlook**:

  - For AIF, the 2015 indicative pipeline of operations includes 12 projects for a total amount of approximatively EUR 856 million with an indicative potential for AIF budget contribution of EUR 41,3 million. Increased involvement of the Asian Development Bank and other partners in the region could expand this pipeline further.
  - Concerning IFCA, the 2015 indicative pipeline of operations includes 12 projects for a total amount of EUR 669 million with an indicative potential for IFCA budget contribution of almost EUR 66,5 million.

6.3. Latin America Investment Facility (LAIF)	
Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	Eligible Financial Institutions

[272] European Court of Auditors' Special Report no. 16/2014 on "The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies".

Initial Overall Budget Envelope:	EUR 10 850 000
Current Overall Budget:	EUR 270 042 737[273]
Envisaged overall budget for the period 2014-2020:	EUR 320 000 000

A - Summary

In general terms, the LAIF has proven to be an effective instrument within the European External Policy in particular by leveraging significant financial resources through grants. For the period 2009-2015, LAIF grant contributions of EUR 232 million supported a total investment volume of circa EUR 6 877 million.

Building on the success of the several regional facilities so far, blending, including LAIF will be an increasingly important tool for the EU in the current Multiannual Financial Framework (2014-2020).

B - Description

The breakdown of the current overall budget is as follows:

CRIS Decision reference	Cumulated amount of global commitment	Budget line
DCI-ALA/2009/021-734	180 400 000	19 09 01
DCI-ALA/2014/037-570	72 342 737	21 02 12 / 21 02 01
DCI ENV/023-403	17 300 000	21 04 01

In comparison to the 2014 overall budget, there has been an increase of EUR 42 342 737 during 2015.

LAIF was recreated in 2014 for the Multiannual Financial Framework (MFF) 2014-2020, through an initial financing decision of EUR 30 million. A total indicative grant amount of EUR 320 million is foreseen for the current MFF 2014-2020.

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

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation, (OJ L 378, 27.12.2006, p. 41).
Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020 (OJ L 77, 15.04.2014, p. 44), Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action (OJ L 77, 15.04.2014, p. 95).

[273] Including EUR 17 300 000 from the Climate Change Window

Based on the first results from the Neighbourhood Investment Facility (NIF), the Commission proposed to set up investment facilities targeting countries under the Development Cooperation Instrument (DCI) Regulation, initially in Central Asia, Asia, and Latin America. The LAIF was set up in 2009. The Facility has been modelled based on the NIF and has the same types of objectives and scope as those defined in the NIF General Framework agreed in March 2008.

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

Policy objectives and scope

The LAIF was officially launched by the Commission and the Spanish Presidency of the European Union during the VI EU-Latin America and the Caribbean (EU-LAC) Summit in 2010.

The LAIF's main purpose is to promote additional investments and infrastructures in the transport, energy, and environment (including water and sanitation as well as agriculture and rural development) sectors and to support social sector such as health and education, and private sector development in the Latin American countries. The Facility will support the growth of SMEs, by making available a range of financial instruments in Latin America. LAIF interventions should focus indicatively on the following sectors:

- Improving interconnectivity between and within Latin American countries, in particular establishing better energy and transport infrastructure, including energy efficiency, renewable energy systems and the sustainability of transport and communication.
- Increasing the protection of the environment and supporting climate change adaptation and mitigation actions.
- Promoting equitable and sustainable socio-economic development through the improvement of social services infrastructure and support for small and medium-sized enterprises (SME).

Financing and implementing large infrastructure projects requires considerable amounts of finance. The aim of LAIF is to create a partnership, pooling together grant resources from the Commission and using them to leverage loans from European and Latin American Finance Institutions as well as own contributions from partners countries in Latin America.

The LAIF has also included, since the beginning of 2011, a Climate Change Window to support the implementation of projects helping partner countries tackle climate change through mitigation and/or adaptation measures. An endowment of EUR 17,3 million was approved by a Commission Implementing Decision in 2011 (C (2011) 9538) under DCI-ENV shared with the NIF, although it was finally entirely used under the LAIF.

The final recipients will be the Latin American countries foreseen in the DCI Regulation (EC) No 1905/2006 and the DCI Regulation (EU) No 233/2014. Other final recipients will be the private sector and in particular SMEs for categories of operations dedicated to private sector development. Eligible finance institutions will be the entrusted entities and important stakeholders of the financial instrument’s operations.

Main technical characteristics

The types of operations to be financed under the LAIF can be the following:

- investment co-financing in public infrastructure projects,
- loan guarantee cost financing,
- interest rate subsidy,

- technical assistance,
- risk capital operations,
- any other risk-sharing mechanisms.

Implementation arrangements at Blending framework level
In order to improve the effectiveness of blending operations (including the one for LAIF) in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of their management including a reduction of transaction costs, it was agreed in the context of the The Platform for Blending in External Cooperation (EUBEC) to organise four blending "frameworks" according to the financing instruments (EDF – ENI – DCI – IPA[274]).

Implementation arrangements at individual project level
Individual projects financed under LAIF are implemented through indirect management mode. This means that the Commission delegates budget implementation tasks to eligible Financial Institutions which have successfully undergone an ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012.

Added value
The added value of LAIF can occur at different levels e.g.:

i. at the strategy and policy level, LAIF provides policy leverage, enhances the supply of public goods, increases EU visibility, assists in managing debt sustainability thresholds, and contributes to aid effectiveness;
ii. at the financial level LAIF, provides financial leverage, helps mitigate risks and lower borrowing costs and provides flexibility to tailor assistance to financing needs;
iii. at the operational level, LAIF stimulates financial discipline, efficient administration and monitoring, enables the acceleration of projects, improves project quality and increases donor coordination.

The expected results of the LAIF would be increased investment in key sectors of the economy contributing inter alia 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.

Moreover, in order to ensure the EU added value, the following criteria will be considered for giving preference to an operation which support the EU strategy in the region:

- investments addressing environmental threats or climate change mitigation and adaptation, with cross border effects (land, river and sea);
- investments focusing on renewable energy, energy efficiency and on promoting the use of clean energy technologies;
- investments in sustainable social infrastructure with a particular focus on social inclusiveness and on less developed areas, helping to reduce disparities in access to social infrastructure within and between the countries;
- operations supporting the access to finance, including for higher risk activities, in particular for the micro, small and medium enterprises;

[274] EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

- 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.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

European Bank for Reconstruction and Development (EBRD)

Agence Française de Développement (AFD)

Kreditanstalt für Wiederaufbau (KfW)

Società Italiana per le Imprese all'Estero (SIMEST)

Agencia Española de Cooperación Internacional para el Desarrollo (AECID) .

Latin American Development Banks: the Central American Bank for Economic Integration (CABEI); (CAF) Development Bank of Latin America, and the Inter-American Development Bank (IDB).

C - <u>Implementation</u>

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

Aggregate Budgetary Commitments[275] as 31/12/2015:	
LAIF:	EUR 252 742 737
Aggregate Budgetary Payments[276] as 31/12/2015 EUR	
LAIF:	EUR 114 368 000

In addition:
Climate Change Window:
Aggregate Budgetary Commitments as at 31/12/2015 EUR 17 300 000
Aggregate Budgetary Payments as at 31/12/2015 EUR 15 800 000

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

The LAIF has served its purpose well during its first five years of operation. By adding a grant element to loan funding from leading European development finance institutions and Latin American development banks, LAIF has helped to secure and mobilise funds for major infrastructure projects at national and regional level in Latin America. It has helped consolidate the position of the European Union and its member states as leading supporters of economic growth and social progress in the region. A key factor in the success of the LAIF has been the participation of the regional Latin American

[275] From LAIF line only (excluding the climate change window additonnal transfers)
[276] Idem above

development finance institutions which has boosted partnership and cooperation between them and European finance institutions.

LAIF contributes to achieving the objectives of the EU's Development Cooperation Instrument and its Regional Strategy for Latin America.

The total Union budget of the LAIF by the end of 2015 is EUR 252 742 737 and it includes EUR 202 342 737 from the Union budget Regional Latin America and EUR 50 000 000 earmarked for Nicaragua. The allocation of EUR 17 300 000 for the Climate Change Window, initially planned to be shared with the NIF, was finally entirely used for LAIF projects.
Until the end of 2015, 28 projects have been approved, which represent a total LAIF contribution of EUR 232 million. The total amount of investments supported was approximatively EUR 6 877 million, out of which the eligible European Finance Institutions mobilised circa EUR 3 270 million. In 2015, four new LAIF projects were approved trough a Commission Decision following positive opinion of the Board of the DCI Blending Framework. The total LAIF contribution to those four projects amounts to EUR 45,2 million.

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

N/A.

(g) The balance of the fiduciary account;

N/A.

Impact of negative interest rates on LAIF : no impact as at 31/12/2015.

(h) Revenues and repayments;

N/.A

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

N/A.

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

N/A.

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

For 2007-2015 instruments:
The achieved leverage effect based on historical leverage experience during the period 2010-2015 for the LAIF was 29,6 (total project cost = EUR 6 877 million/LAIF contributions = EUR 232 million).

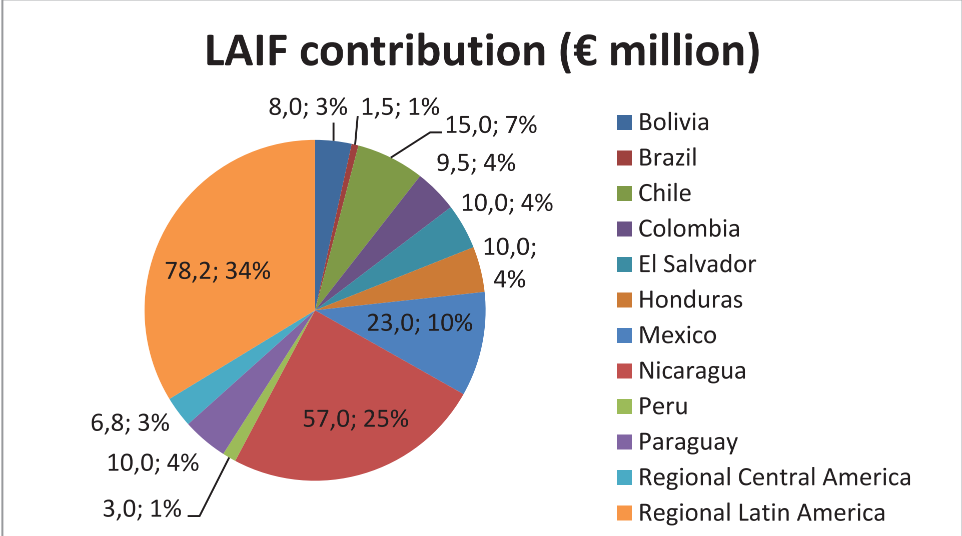
For 2015-2020 instruments:
The target leverage effect as indicated in the ex-ante evaluation is at least for 4 to 5 over the lifetime of the LAIF (2014-2020) as included also in the financing decision of the LAIF.
On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 320 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 1,3 billion to 1,6 billion for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost)

divided by the total amount of the EU blending facility contribution relating to the investment leverage.

D - Strategic importance/relevance

(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;

As at the end of 2015, LAIF already contributed to provide approximatively EUR 6 877 million EUR of financing to 28 eligible Final Recipients and had thus an important impact on the real economy of our partners as described below. LAIF contributions during the same period amounted to EUR 232 million.



The LAIF has proven to be an effective instrument within European External Policy and achieved its goal of leveraging significant financial resources through grants.

LAIF projects are overall relevant to LAIF strategic objectives, which are: to promote additional investments and infrastructures in the transport, energy, and environment sectors and to support social sector such as health and education, and private sector development in the Latin American countries. It also supports the growth of SMEs, by making available a range of financial instruments in the region. There is a relatively balanced geographical and sectorial distribution of projects.

The LAIF has significantly contributed to the development of partnerships and increased co-ordination between the financial institutions and the Commission, as well as amongst the financial institutions themselves. So far, it mobilized the total estimated amount of investments of EUR 6 877 million.

Building on the success of the several regional facilities so far, blending will be an increasingly important tool for the EU in the current Multiannual Financial Framework (2014-2020).

E - Other key points and issues

- **Main issues for the implementation:**
  - attention must be paid to the aspects of the regional interconnectivity, as well as to the crosscutting objectives including the policy dialogue.
  - As stated in the context of the current Multiannual Indicative Programme and priorities for 2014-2020, and based on the experience on the LAIF, blending will be a major mechanism of implementation, in particular to support investments complementing the objectives of each priority area, and clearly linked to the overall EU objectives and policy priorities in the region.
  - The financial allocation to the regional investment facilities will substantially increase during the ongoing programming period. For LAIF an amount of EUR 320 million is foreseen to which funds from the National Indicative Programmes may be added. The management of such an increase represents a significant challenge for the Commission.
  - **EUBEC Platform**: in 2015, the TGs of the Platform continued their work on reviewing the existing blending mechanisms with focus on the following aspects:
    - Improving and updating the Grant Application Form to be used by the various EU blending facilities together with detailed Guidelines as well as new results measurement framework;
    - providing guidance for the harmonisation of contractual arrangements between the Commission and the FIs as well as formulate best practices for the monitoring and reporting of blending operations;
    - how blending can increase the mobilisation of private sector resources (including a joint AU-EU Side event on Private Sector and Blending held in July 2015 during the Financing for Development International Conference in Addis Ababa); and
    - reviewing best practices and opportunities in terms of mainstreaming Climate Change financing.
- **Main risks**:
  - The European Court of Auditors published a special report on the EU blending facilities in October 2014. The Court of Auditors concluded that blending had been generally effective. The investments facilities are well set up but the potential benefits of blending were not fully realized due to Commission management shortcomings. All the projects examined by the Court of Auditors were judged to be relevant. However, the auditors considered that the approval process was not sufficiently thorough and the justification for awarding grants for blending during the appraisal process was not always evident. The recommendations covered the following aspects: need to improve the documentation on additionality of the grant and its level, produce guidelines, ensure more pro-active role of EU Delegations, simplify the decision making process, improve Commission's monitoring of the projects and ensure appropriate visibility for EU funding.
  - Most of the recommendations made by the Court of Auditors in that special report have already been dealt with by the Commission in the context of the EUBEC Platform with the development of a harmonised and improved project application form and its guidelines, the development of a results measurement framework including standard indicators, the adoption of a Guidelines document on blending operations, a more proactive and closer role of the EU Delegations in identifying and selecting the blending projects, a revised new Governance of the EU blending facilities, a streamlined and shorten approval process and the publication of a short description of each blended project in the blending website for visibility purposes. The Commission is discussing

the necessary points to adapt the ROM methodology to the specific characteristics of blending.

- **General outlook:**
  - o The indicative pipeline of potential projects for 2015-2016 includes 19 projects for a total investment cost of EUR 3 873 million with an indicative potential LAIF contribution of EUR 168,5 million.
  - o Projects to be funded under the 2014-2020 programming are subject to the availability of funds and subsequent commitment in 2014-2015.

6.4. Support to the Facility for Euro-Mediterranean Investment Partnership (FEMIP)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 32 million*
Current Overall Budget:	EUR 224 million**

**Appropriations per the Basic Act*
***Under the ENPI Regulation*

A - 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 33 million allocated to technical assistance, the Support to FEMIP backed investment activities in several southern Mediterranean countries, assisting promoters during different stages of the project cycle and encouraging the modernisation and opening-up of the partner countries' economies. Technical assistance funds were used inter alia to prepare environmental investments in the region under the Mediterranean Hot Spot Investment Programme (MeHSIP), to prepare various transport projects in Tunisia, to assist the Palestinian water authorities in the preparation of a seawater desalination project, to support the transformation process of the Arab Centre for Agricultural Development (microfinance), to participate in the rehabilitation programme of 17 Moroccan hospitals and to promote the use of space technology applications under the Space for Med Acceleration Program. Several sectors have benefited so far from the Technical assistance with significant contribution to the transport and water distribution sector.

As far as risk capital operations are concerned, the Support to FEMIP has played a strong catalytic role for other borrowers and investors. The Support to FEMIP helped to foster private sector activity in various sectors and assisted SMEs operating in any of the eligible sectors: agribusiness sector, financial sector, ICT sector and in particular the industry and the

healthcare sectors, these latter currently being the most highly represented sectors. The overall investment amount supported by 2015 amounted to EUR 6 714 million.

The Support to FEMIP has also generated employment opportunities. It is estimated that thanks to the risk capital investments in equity funds, aggregate direct jobs of historical companies supported have increased by more than 1,2 times over the EIB holding period. This is equivalent to an average growth annual rate of circa 5% over the EIB holding period. It is further estimated that a notable share of the portfolio companies (more than 68%) have witnessed an increase of their employment figures over the EIB holding period.

As regard the overall performance, the European Court of Auditors carried out a Follow-up audit of the recommendations made in its Special Report No 1/2009 "Banking measures in the Mediterranean context of the MEDA programme and the previous protocols" in 2013 and further to that follow-up audit, the Court of Auditors informed the Commission that all recommendations have been assessed as fully implemented. In particular, the Commission is currently working on the last recommendation, i.e. the final evaluation of the Facility.

B - Description

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

The current act for the FEMIP is the European Neighbourhood and Partnership Instrument[277] (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.[278]

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

Policy objectives and scope

The objective of the support to FEMIP is to provide capital to the private sector of Mediterranean partner countries pari passu with other commercial investors in the region,in the form of risk capital, technical assistance and microfinance.

a) Risk capital is invested directly or indirectly in order to (i) support the private sector, i.e. enable the creation, restructuring or growth of enterprises (ii) strengthen the role of the local financial sector by supporting the creation of new institutions or the establishment of new activities for the benefit of the private sector. The Risk Capital operations consist of private equity and microfinance operations.

The EIB obtained the Commission's prior agreement for each Operation that it intended to carry out.

Geographical coverage and final recipients

Support to FEMIP covers the nine Southern Mediterranean States.[279] The recipients of the Risk Capital Facility are the private sector in general and SMEs as well as financial intermediaries.

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[277] 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).

[278] (OJ L 31/1, 9.11.2006).

[279] Note: At this stage, the support to Syria is suspended.

Implementation arrangements
This action with the objective of financing Risk Capital and micro-finance. Operations will be implemented in indirect centralised management with the European Investment Bank. The EIB is entrusted to carry out the implementation of these Operations.

Duration and impact on the budget
There has been an annual budgetary commitment of EUR 32 million against budget line 19 08 01 01. The final date for signature under the 2013 envelope was 31 December 2014.

Added value
Support to FEMIP provided a much-needed capital supply in a region where risk capital operations are the exception. Access to finance in the region is very limited and is one of the most serious hindrances to development facing especially small and medium-sized enterprises in the region. EIB's capacity to supply capital targeted at reducing this problem is therefore a direct response to this development cooperation challenge.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

C - Implementation

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

Aggregate Budgetary Commitments as at 31/12/2015	EUR 224 000 000
Aggregated Budgetary Payments as at 31/12/2015	EUR 224 000 000

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

- EUR 180,3 million was allocated to 28 risk capital operations of which EUR 55,0 million has been cancelled and returned to the Commission.
- EUR 10,62 million have not been used to finance projects, mostly as a consequence of the instable situation in the region following the events of the "Arab Spring" and the difficulty to arrive to the project signature stage during that period.
- The balance (EUR 33,08 mio) was allocated to technical assistance operations.
- All FEMIP investments had been completed by 31 December 2014.

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

N/A, see explanation below.

(g) The balance of the fiduciary account;

The amount of EUR 9,8 million referred to below has been and will be partly reused to pay for management fees of the instrument. Of that total, EUR 6,7 million have been used already and EUR 2,5 million of the remaining EUR 3,1 million is still under reserve for this purpose.[280] The balance of EUR 0,6 million will be recovered by the Commission and returned to the general budget, except for capital reflows from operations signed in 2014 which will be returned as assigned revenue ;

Cash balances

ENPI RCO account in EUR as of 31/12/2015	EUR 25 112 491
ENPI RCO account in USD as of 31/12/2015	EUR 22 251 228
ENPI RCO capital reflow in EUR as of 31/12/2015	EUR 2 473 914
ENPI RCO revenue reflow in EUR as of 31/12/2015	EUR 25 242
Support to FEMIP TA account in EUR as of 31/12/2015	EUR 12 511 057
TOTAL as of 31/12/2015	EUR 62 416 060

Loans and receivables:

Nominal loans and receivables as at 31/12/2015	EUR	12 855 670
Accrued Interest at 31/12/2015	EUR	202 341
TOTAL as of 31/12/2015	EUR	13 058 011

Impact of negative interest rates on FEMIP: no impact as at 31/12/2015.

(h) Revenues and repayments;

To date, EUR 9,8 million has been earmarked as revenues and repayments 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 31/12/2014	EUR 8 237 280
Value of Equity Investment as of 31/12/2014	EUR 7 222 866
Cost of Direct Equity Investment as of 31/12/2015	EUR 8 237 280
Value of Equity Investment as of 31/12/2015	EUR 8 030 464

Venture Capital Fund

Cost as of 31/12/2014	EUR 41 141 807
Cost as of 31/12/2015	EUR 57 466 137
Value of Venture Capital Funds as of 31/12/2014	EUR 46 167 594[281]
Value of Venture Capital Funds as of 31/12/2015	EUR 69 221 696

[280] The remaining amount will be returned to the general budget as soon as the management fee will be entirely paid.

[281] Direct equity operations include only direct investments while VC funds refer to participations in funds

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

For equity instruments:[282]

Impairment as at 31/12/2014	EUR 7 730 717
Impairement as at 31/12/2015	EUR 7 918 838

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

The leverage effect for the risk capital operations as estimated by the EIB is 6,0 for the period 2007-2014 and 26,8 for 2014.[283] EIB has calculated this estimated leverage on the basis of total amounts committed to equity funds, divided by amounts committed by EIB to those funds.

D - Strategic importance/relevance

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

With EUR 36 million of TA funding, the European Investment Bank (EIB) has supported investments amounting to EUR 4 376 million. The EIB co-financing of these investment projects amounted to EUR 2 338 million.

The EIB has committed EUR 143 million under the European Neighbourhood and Partnership Instrument (ENPI) (2007-2013) for risk capital operations. As far as private equity funds are concerned, the EIB had budgetary resources at work in over 150 companies across the Mediterranean Partner Countries, which employed about 78 000 persons, of whom 24% are women. The portfolio also includes 13 investments in 11 Microfinance Institutions (totalling around 1 000 000 active micro-borrowers).

The Support to FEMIP has generated employment opportunities: it is estimated that thanks to the risk capital investments in equity funds, aggregate direct jobs of historical companies supported have increased by more than 1,2 times over the EIB holding period.

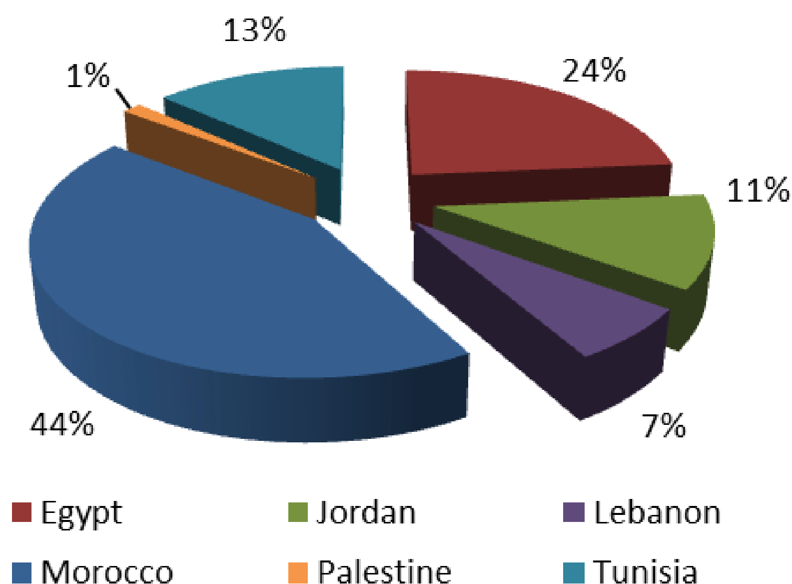
The Union budget allocated a funding of EUR 32 million to the EIB each year from 2007 to 2013 (i.e. EUR 224 million in total). The annual budget has been consistently used, other than in 2011/12, when the political situation in the region led to approximately EUR 10,62 million not being used.

The geographical distribution of the investments made by the FEMIP under ENPI is the following:

FEMIP Investments by country – ENPI

[282] With reference to financial instruments classified as 'available for sale'. Such financial assets consist of venture capital fund + direct equity investment.

[283] There was only one investment in fund signed in 2014, EIB participated with EUR 5 million in the fund size of EUR 134,4 million; thus it results in 26,9 leverage.



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

- ***Main issues for the implementation:***
  - risk capital operations depend on mobilising third party resources, particularly when investing in funds. The political instability in the region has frequently made this difficult, particularly in Egypt, Tunisia, Lebanon, and Jordan, as commercial investors have been reluctant to commit.
  - It is crucial to link TA operations with concrete investments to be financed as a result of the TA work.
  - The activities targeting Risk Capital Operations in the region implemented by the EIB need to be closely coordinated with the activities carried out by other donors in the region.
- ***Main risks:***
  - the transposition of the requirements relies on the Bank, which shall apply them irrespective of the size of the investment. Possible applicability of Commission requirements to small investments may appear more challenging. In the Financial Regulation, the selection of the FIs has been regulated and the capacity of the bank to select the FI has been assessed as required.
  - As regard the overall performance, the European Court of Auditors carried out a Follow-up audit of the recommendations made in its Special Report No 1/2009 “Banking measures in the Mediterranean context of the MEDA programme and the previous protocols” in 2013 and further to that follow-up audit, the Court of Auditors informed the Commission that all recommendations have been assessed as fully implemented. In particular, the Commission is currently working on the last reccomendation, i.e. the final evaluation of the Facility.
- ***General outlook:***
  - the requirement for risk capital in the region remains evident, as demonstrated by the low levels of SME access to finance and private equity in the region. Mediterranean Partner Countries (MPC) need more economic growth to improve living standards and

create jobs as well as to stabilise the transition towards democracy started with the Arab Spring.

- According to the demographics, however, a large number of young people will enter the labour market in the coming years, which is likely to create a great pressure on the market and on the political environment.

  It is generally assumed that governments in MPCs need to implement structural reforms to increase labour productivity. This includes public investment to improve the quality of infrastructure, better-quality education, labour market reforms (in particular increasing female labour force participation), and a better business environment, which should encourage exports and investment. A dynamic private sector could provide more and better jobs for the MPCs, which suffer from a persistent high unemployment.

6.5. Global Energy Efficiency and Renewable Energy Fund (GEEREF)

Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	EIB and EIF
Initial Overall Budget Envelope:	EUR 25 million
Current Overall Budget:	EUR 81,1 million*

** The EUR 81,1 million also include an amount for Technical Assistance of 5 million. In addition, EUR 20 million are financed under EDF.*

A - Summary

GEEREF is an innovative financing vehicle aiming at promoting energy efficiency and renewable energy in developing countries and economies in transition. Structured as a Fund-of-Funds, GEEREF's strategy is to invest in – and thus help develop – regional private equity funds whose investments will target small and medium sized energy efficiency and renewable energy projects.GEEREF aims to improve the economic and social circumstances of underserved or disadvantaged populations, encourage sustainable development, and promote environmental protection by increasing access to low carbon, secure and affordable energy. Its objective is to contribute to the expansion of renewable energy, energy efficiency and other related clean energy technologies in developing countries and economies in transition. As of end 2015, the total investment supported with Union contribution in GEEREF was EUR 892 million.

B - Description

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

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation[284];

[284] (OJL 378/41, 27.12.2006)

Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020;

Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action[285];

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)[286];

Legal basis for the Regional Fund Support Facility (RFSF): preparatory action within the meaning of Article 49(6) of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

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

Policy objectives and scope
The GEEREF is an innovative financing vehicle aiming at promoting energy efficiency and renewable energy in developing countries and economies in transition. Structured as a Fund-of-Funds, GEEREF's strategy is to invest in – and thus help develop – regional private equity funds whose investments will target small and medium-sized energy efficiency and renewable energy projects.

GEEREF aims to improve the economic and social circumstances of underserved or disadvantaged populations, encourage sustainable development, and promote environmental protection by increasing access to low carbon, secure and affordable energy. Its objective is to contribute to the expansion of renewable energy, energy efficiency and other related clean energy technologies in developing countries and economies in transition.

Geographical coverage and final recipients
The scope of GEEREF is to support regional sub-funds for Sub-Saharan Africa, Caribbean, and Pacific Island States, the countries of the European Neighbourhood Policy and Russia, Latin America, and Asia (including Central Asia and the Middle East). There is a special emphasis on serving the needs of the African Caribbean and Pacific (ACP) countries.

Implementation arrangements
The GEEREF is managed by a Board of Directors comprising delegates appointed by its shareholders and advised by the EIF and the EIB. DEVCO has appointed one Board member. Additionally, GEEREF investment decisions are taken by an Investment Committee, also comprising delegates appointed by its shareholders. The Commission is represented in the Investment Committee by DG DEVCO.

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

[285] (OJ L 77, 15.3.2014, p. 44)
[286] (OJ L 77, 15.3.2014, p. 95)

Investment Committee), monitor the progress of the GEEREF and report to the Commission. Those tasks have been detailed in an agreement concluded between the Commission and the EIF, which was subject to the provisions and the conditions provided for in the Financial Regulation for indirect centralised management based on existing cases.

Added value/Expected results

The Fund contributes to the expansion of renewable energy, energy efficiency and other related clean energy technologies to markets and services by increasing access to financing.

It is also expected that the GEEREF will lead to an increased engagement of the private sector in the energy efficiency and renewable energy business in the areas of investments. The provision of "patient capital" provided on a long term and subordinated return basis will buy down the cost of capital for renewable energy and energy efficiency projects/SMEs. This will improve the investment conditions for private equity co-investors or senior lenders, thereby making the project/SMEs eligible for funding from these sources. The latter will thus have access to resources previously outside their reach.

(c) The financial institutions involved in implementation;

GEEREF was established via a SICAV registered in Luxembourg, with a life of 15 years from the initial closing date, 6 November 2008.

In addition to the Commission, Norway and Germany have invested approximately EUR 13 and 23 million respectively in GEEREF and were actively involved in its creation. The Commission, Norway and Germany have all subscribed to fist loss "junior shares", and are called A-shareholders. These public investors have purchased first-loss shares in the fund.

In addition, 24 private investors (from Europe, North America and Australia) have now committed EUR 110 million to the fund, while the EIB has also invested EUR 10 million. The EIB and the private investors (called "B Shareholders) have second-loss shares in the fund. The fundraising campaign is in its closing process.

C - Implementation

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

Aggregate Budgetary Commitments	as at 31/12/2015:	EUR	81 100 000
Aggregate Budgetary Payments	as at 31/12/2015:	EUR	79 500 000

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

Ten investments have been approved by the GEEREF Investment Committee, focussing on projects in Sub-Saharan Africa, Asia, Latin America and the Caribbean. The following have already commenced activities on the ground:

- an investment of EUR 12,5 million in Berkeley Energy's Renewable Energy Asia Fund (REAF) for India, Philippines, Bangladesh and Nepal.
- An investment of approximately EUR 8 million in the Evolution One Fund, dedicated to clean energy investment in Southern Africa.
- An investment of approximately EUR 13 million in Emerging Energy Latin America Fund II (EELAF II), a private equity fund investing primarily in renewable energy infrastructure and, to a lesser extent, in growth stage clean-tech companies in Latin America and the Caribbean.
- An investment of EUR 10 million in DI Frontier Market Energy & Carbon Fund, which focuses on clean energy investment in Sub Saharan Africa.

- An investment of approximately EUR 9 million in "Armstrong S.E. Asia Clean Energy LP", a new fund focussing on renewable energy and resource efficiency investments in Southeast Asia.
- An investment of approximately EUR 10 million in the MGM Sustainable Energy Fund - a fund focusing primarily on energy efficiency projects in Central America and the Caribbean.
- Visum Small Hydropower Energy Fund (EUR 9 million), a fund dedicated to small hydropower projects focused on Ukraine.
- New 2014: Solar Arise (EUR 10 million), an India-focused corporate vehicle targeting solar photovoltaic (PV) investments. This is GEEREF's first invesntment in a corporate vehicle.
- Mid 2015, GEEREF signed a USD 13 million conditional commitment agreement to the Caucasus Clean Energy Fund (CCEF), a specialist fund focused on small and medium sized hydro power plants (HPPs) in the Republic of Georgia. The fund will invest primarily in small and medium scale green-field run-of-river HPPs, with a capacity of approximately 10-20 MW. The fund will seek to make 8-12 investments, with envisaged all-in project costs of USD 15-30 million, for a total portfolio of around 150 MW.
- On September 2015, GEEREF signed a USD 19,6 million commitment into the Africa Renewable Energy Fund (AREF), a fund focusing on renewable energy infrastructure investments across Sub-Saharan Africa. GEEREF's commitment helped the fund reaching a size of USD 200,1million on its final closing date.

In total, GEEREF has committed to investments of EUR 143 million in regional private equity funds.. These funds have subsequently invested in 33 recipient projects including solar, wind, waste/biogas and hydro power generation as well as energy efficiency.

In parallel with GEEREF, a Technical Support Facility (the GEEREF Regional Fund Support Facility - RFSF) has been established to support the creation, the operations and pipeline development of Regional Funds and/or stimulate the renewable energy and energy efficiency market in general. RFSF has supported the development of eight regional private equity funds, three of which have received GEEREF investments already.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 74,27 million 1
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , and expected number of eligible final recipients;	EUR 222 million N/A
Total investment expected to be provided	Approx. EUR 8 billion
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	Approx. EUR 143 million invested in 9 regional private equity funds and one corporate vehicle.
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	approximately one billion EUR Invested in 33 recipient projects

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

N/A.

(g) The balance of the fiduciary account;

	In EUR
Balance on the fiduciary account (current account)	1 607 629*
Term deposits/Bonds (if applicable)	
Term deposits < 3 months	
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[287]	73 893 005*
Other assets **(if applicable)**	
= Total assets	75 500 634*

**Balance sheet concerning GEEREF, held by DG DEVCO*

Impact of negative interest rates on GEEREF: no impact as at 31/12/2015.

(h) Revenues and repayments (Art.140.6);

N/A.

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

EUR 73 893 005

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

No impairment for GEEREF

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

The target leverage effect

The target leverage effect of European Union budgetary contribution of EUR 81,1 million at the GEEREF Fund of Funds level is approximately 2,74 for the final GEEREF fund size of around EUR 222 million. Fundraising activities closed on 29 May 2015.

The achieved leverage effect

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

1.Out of the total budgetary EU contribution of EUR 81,1 million, EUR 74,27 million are used by the GEEREF Fund of Funds for further investments. As of end 2015, the 'A-Shareholders' contributions (EU contribution together with contributions from Norway and Germany of about EUR 36 million) have mobilised approximately EUR 110,4 million from other investors (so-called GEEREF B-Shareholders) leading to a total GEEREF fund size of EUR 222 million, reaching a leverage of 2,74.

2.Out of the current total GEEREF fund size of EUR 222 million, EUR 66 million have been invested in nine equity fund investments and one corporate vehicle investment. This amount invested is mobilising additional equity capital for renewable energy and energy efficiency projects in Africa, Asia, the Neighbourhood and Latin America in line with the targeted leverage of 6. Most of the GEEREF-funded regional equity fund investments are still at the beginning of their investment period, but have already attracted additional equity and debt from other investors to the 33 renewable energy and energy efficiency projects. Regarding these 33 projects the invested equity contributions achieved a leverage of approximately 7 at investee/project level. Hence, the achieved leverage based on the partially invested GEEREF funds reach the targeted leverage of 42 (6x7).

D - Strategic importance/relevance

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

As of end 2015, the total investment supported with Union contribution in GEEREF was EUR 892 million. At the Fund of Funds level, GEEREF targets a leverage rate is 2,74 as it reached EUR 222 million based on an original European Union budgetary contribution of EUR 81,1 million.

The pie chart with geographic breakdown based on amount provided by the fund is not applicable since GEEREF is not a geographical facility such as AIF/IFCA and LAIF.

By 2015, GEEREF's impact was the following :

- Financial
  - EUR 222 Million commitment from private investors, EC, Germany and Norway
  - EUR 892 Million invested in projects
  - Leverage >50x on public capital
- Energy
  - By end of 2014 projects with capacity of 472MW installed
  - Over lifetime of existing funds 1.5 GW installed
  - By 2014 1,0 MWh generated
  - Over lifetime generation of 137m MWh generation
- Environmental
  - Saving million of tons of CO^2 for GEEREF over lifetime of projects ~95mt CO^2eq for existing portfolio over lifetime
  - As of end 2014: 1,1m tCO_2eq saved
- Social
  - Improving access for people: 510 000 households by end of 2014

E - Other key points and issues

- ***Main issues for the implementation:***
  - At its closing on 29 May 2015, GEEREF has successfully attracted private investors for EUR 110 million.
  - GEEREF's current portfolio contains 9 fund investments *and one corporate vehicle investment*. It will be essential to find further feasible and attractive private equity investments to commit the rest of its capital within its designated investment period, which is due to end in May 2019 (the investment period may terminate earlier if 85% of GEEREF total commitments have been committed to investments).
- ***Main risks:***
  - no specific risk identified.
- ***General outlook:***
  - the need for investment to catalyse renewable energy and energy efficiency projects in developing countries remains large and well documented.
  - However, the ability to attract private investment into these sectors is entirely dependent on the investment climate and its stability in each developing country.
  - It remains challenging to find suitable commercial opportunities in these sectors with risk/return profiles appropriate, attractive to the private sector and in line with EU Tax Policy.

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VI. LIST OF ACRONYMS

- **AAPs** Annual Action Plans
- **ACP** African Caribbean and Pacific Countries
- **AECID** Agencia Española de Cooperación Internacional para el Desarrollo
- **AFD** Agence Française de Développement
- **AIF** Asian Investment Facility
- **AIFMD** Alternative Investment Fund Managers Directive
- **ALM** Anti Money Laundering
- **AML/KYC** Anti Money Laundering/ Know Your Customer
- **AQR** Asset Quality Review
- **ASEAN** Association of South-East Asian Nations
- **BA** Business Angels
- **BMZ** German Federal Ministry for Economic Cooperation and Development
- **CABEI** Central American Bank for Economic Integration
- **CARDS** Community Assistance for Reconstruction, Development and Stabilisation
- **CBS** Capacity Building Scheme under CIP
- **CCS** Cultural and Creative Sectors
- **CCW** Climate Change Window
- **CDC** Caisse des Dépôts et Consignations
- **CDP** Cassa Depositi e Prestiti
- **CEF** Connecting Europe Facility
- **CIP** Competitiveness and Innovation Programme (2007-2013)
- **COESIF** Coordination Committee for European Structural and Investments Funds
- **COSME** Competitiveness of Enterprises and Small and Medium-sized Enterprises (2014-2020)
- **CPR** Common Provision Regulation
- **CRIS** Common Relex Information System
- **DACH** German speaking countries (Germany, Austria, Switzerland)
- **DCI** Development Cooperation Instrument
- **DG CLIMA** Directorate General for Climate Action
- **DG DEVCO** Directorate General for Development and Cooperation
- **DG EAC** Directorate General for Education and Culture

- **DG ECFIN** Directorate General for Economics and Financial Affairs
- **DG EMPL** Directorate General for Employment, Social Affairs and Inclusion
- **DG ENER** Directorate General for Energy
- **DG ENTR** Directorate General for Enterprise and Industry
- **DG ENV** Directorate General for the Environment
- **DG MOVE** Directorate General for Mobility and Transport
- **DG NEAR** Directorate General for Neighbourhood and Enlargement Negotiations
- **DG REGIO** Directorate General for Regional Policy
- **DG RTD** Directorate General for Research and Innovation
- **DIV** Dedicated Investment Vehicle
- **EA** Euro Area
- **EAFRD** European Agricultural Fund for Rural Development
- **EaSI** Employment and Social Innovation Programme
- **EBRD** European Bank for Reconstruction and Development
- **ECA** European Court of Auditors
- **ECB** European Central Bank
- **EDF** European Development Fund
- **EE** Energy Efficiency
- **EEE F** European Energy Efficiency Fund
- **EELAF II** Emerging Energy Latin America Fund II
- **EEPR** European Energy Programme for Recovery
- **EFC** Economic Financial Committee
- **EFG** Equity Facility for Growth
- **EFIs** European Financial Institutions
- **EFSE** European Fund for Southeast Europe
- **EFSI** European Fund for Strategic Investments
- **EFTA** European Free Trade Association
- **EIB/BEI** European Investment Bank
- **EIF** European Investment Fund
- **EIP** Entrepreneurship and Innovation Programme
- **EIPC** European Independent Purchasing Companies
- **EMN** European Microfinance Network
- **EMN** European Microfinance Network
- **ENEF** Enterprise Expansion Fund
- **ENIF** Enterprise Innovation Fund

- **ENP** European Neighbourhood Policy
- **ENPI** European Neighbourhood and Partnership Instrument
- **ENRTP** Environment and the Sustainable Management of Natural Resources
- **EP** European Parliament
- **EPEC** European PPP Expertise Centre
- **EPMF-G** European Microfinance Guarantee Facility
- **EPPA** European Promotional Product Association
- **ERDF** European Regional Development Fund
- **ERP-EIF** European Recovery Programme-European Investment Fund
- **ESCOs** Energy Service Companies
- **ESF** European Social Fund
- **ESI** Economic Sentiment indicator
- **ESIF** EU Structural and Investment Funds
- **EUBEC** European Platform for Blending in External Cooperation
- **EURATOM** European Atomic Energy Community
- **EVCA** European Private Equity and Venture Capital Association
- **EVCF** European Venture Capital Fund
- **EVCFR** European Venture Capital Funds Regulation
- **FAFA** Financial and Administrative Framework Agreement
- **FCP-FIS** Fonds Commun de Placement-Fonds d'Investissement Spécialisé
- **FEMIP** Facility for Euro-Mediterranean Investment and Partnership
- **FIs** Financial Intermediaries
- **FMA** Fiduciary Management Agreement
- **FMO** Netherlands Development Finance Company
- **FP7** Framework Programme for Research and Technological Development
- **G-20** The Group of Twenty Finance Ministers and Central Bank Governors from 20 major economies
- **GDP** Gross Domestic Product
- **GEEREF** Global Energy Efficiency and Renewable Energy Fund
- **GF** Guarantee Facility
- **GGF** Green for Growth Fund
- **GHG** Green House gasses
- **GIF** Growth and Innovative Facility
- **GP** General Partners
- **HLG** High Level Expert group

- **IC** Investment Committee
- **ICT** Internet and Communication Technology
- **IDB** Inter-American Development Bank
- **IFC** International Finance Corporation
- **IFCA** Investment Facility for Central Asia
- **IFI** International Financial Intermediaries
- **IPA** Instrument for Pre-Accession Assistance
- **ITRE** EP Committee on Industry, Research and Energy
- **KfW** Kreditanstalt für Wiederaufbau Banking Group
- **KYC** Know Your Customer
- **LAIF** Latin America Investment Facility
- **LEF** Local Enterprise Facility
- **LGF** Loan Guarantee Facility
- **LGTT** Loan Guarantee Instrument for Trans-European Transport Network Projects
- **LIFE** Programme for the Environment and the Climate Action
- **LNG** Liquefied Natural Gas
- **LP** Limited Partners
- **MAWP** Multiannual Work-Programme
- **MB** Management Board
- **MBO** Management Buy Out
- **MEDA** Euro - Mediterranean Partnership
- **MFF** Multiannual Financial Framework
- **MFIs** Micro Finance Institutions
- **MIFA** Microfinance Initiative for Asia
- **MIPD** Multi-annual Indicative Planning Document
- **MPC** Mediterranean Partner Countries
- **MPGF** MEDIA Production Guarantee Fund
- **MS** Member State
- **MSME** Micro Small and Medium Enterprises
- **MTE** Mid-Term Evaluation
- **NCFF** Natural Capital Financing Facility
- **NEEAP** National Energy Efficiency Action Plans
- **NGO** Non-Governmental Organization
- **NIB** Nordic Investment Bank

- **NIF** Neighbourhood Investment Facility
- **NPL** Non-Performing Loans
- **ODA** Official Development Aid
- **OECD** Organization for Economic Cooperation and Development
- **OECD/DAC** OECD's Development Assistance Committee
- **OFTO** Offshore Transmission Owners
- **PBCE** Project Bond Credit Enhancement
- **PBI** Project Bond Initiative
- **PCT** Patent Cooperation Treaty
- **PF4EE** Private Finance for Energy Efficiency Instruments
- **PFLP** Portfolio First Loss Piece
- **PIs** Partner Institutions
- **PISA** Programme for International Student Assessment
- **PMF** Programme Microfinance Mandate
- **PPP** Public Private Partnership
- **R&I** Research and Innovation
- **RAB** Regulatory Asset Base
- **RCO** Risk Capital Operations
- **RDI** Research Development and Innovation
- **RE** Renewable Energies
- **RFSF** Regional Fund Support Facility
- **ROM** Result Oriented Monitoring
- **RRT** Residual Risk Tranche
- **RSFF** Risk Sharing and Finance Facility
- **RSI** Risk Sharing Instrument
- **RSL** Recovery Support Loan Facility for Turkey
- **SAFE** Survey on Access to Finance of Small and Medium Enterprises in Europe
- **SB** Supervisory Board
- **Se4all** Sustainable Energy for All
- **SICAV-FIS** Société d'Investissement à Capital Variable- Fonds d'Investissement Spécialisé
- **SIMEST** Società Italiana per le Imprese all'Estero
- **SME** Small and Medium Enterprise
- **SMEG** Small and Medium Enterprises Guarantee Facility

- **SPV** Special Purpose Vehicle
- **SUDeP** Sustainable Urban Demonstration Projects
- **TA** Technical Assistance
- **TEN-E** Trans- European Network for Energy
- **TEN-T** Trans-European Network for Transport
- **TMT** Technology, Media and Telecommunications
- **TSOs** Transmission System Operators
- **TT** Technology Transfer
- **UEAPME** European Association of Craft, Small and Medium-Sized Enterprises
- **VC** Venture Capital
- **WB EDIF** Western Balkans Enterprise Development & Innovation Facility
- **WB** Western Balkans