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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 2016

{COM(2017) 535 final}

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I. INTRODUCTION

This Staff Working Document (SWD) accompanies 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 2016.

The SWD provides, for each of the 35 financial instruments currently under direct or indirect management by the Commission, the detailed information required in points a) – l) of Article 140(8) of the Financial Regulation. This includes descriptive and quantitative information on performance of financial instruments such as leverage, volume of financing supported and investments injected into the real economy, but also the Commssion's assessment of the contribution to the achivement of the objectives of the programme concerned.

Moreover, in Annex A, it contains analyses of the macro-financial context of potential final recipients and financial intermediaries, outlining general market developments in the supported policy areas and their implications for the financial ecosystem, as well as information on market gaps and failures. In addition, Annex B maps out the three general strategic targets and the corresponding financial instruments.

The detailed information on each individual financial instrument is divided into four chapters according to the different types of instruments: equity instruments, guarantee instruments, risk-sharing instruments and dedicated investment vehicles, complemented with two chapters dealing with instruments in the enlargement and neighbourhood countries and in countries covered by the Development Cooperation Instrument.

Finally, the SWD contains references and an acronym list.

[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).

II. OVERVIEW TABLE

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	Type	Basic Act	DG in charge	IB[2]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2016 (EUR mln)	Aggr. Pay-ments 2007-16 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [3]
GIF (CIP)[4]	E[5] Old[6]	Dec N° 1639/2006/EC	GROW ECFIN	EIF	Increase the supply of equity for innovative SMEs	SMEs	SMEs with no specific sector / innovative	580,68	600,16[7]	464,45[8]	3 087 ** 1 430***	516** 484***	53,2	25,9
CEF Equity	E New	Reg N° 1316/2013	CNECT	Direct Manage ment	Enhance the roll-out of broadband networks	Telecom Operators	Broadband Investment	100	100	0	1000-1700*	n/a	n/a	n/a
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	490,00	172,90	56,1	2 600 to 3 900* 470,6** 64***	360 to 540* 64** 12***	0,01	7,44
InnovFin Equity	E New	Reg. N° 1291/2013; 1290/2013; 1296/2013	RTD	EIF	Improve access to risk finance by early-stage R&I-driven SMEs and small midcaps including social	Innovative SMEs & Small Midcaps	R&I	495,00	256,05	234,05	2 900 * 565** 15***	300** 8***	0,4	9,6

[2] Implementing Body in charge
[3] Note: Including management fees
[4] 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.
[5] Equity
[6] 2007-2013 financial instruments
[7] This amount includes the EUR 19 474 357 re-committed to the same instrument (see Chapter IV of present document for details).
[8] This amount includes the EUR 19 474 357 re-committed to the same instrument (see Chapter IV of present document for details).
[9] 2014-2020 financial instruments

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	Type	Basic Act	DG in charge	IB[2]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2016 (EUR mln)	Aggr. Pay-ments 2007-16 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [3]
					enterprises									
EaSI CBI	E New	Reg. (EU) N° 1296/2013	EMPL	EIF	Build up the institutional capacity of financial intermediaries to expand further their operations in the microfinance and in the social entrepreneurship space	Financial Intermediaries	Micro-finance/Social Entrepreneurship	16,00[10]	12,72	10,78	32* 0***	8-10* 0***	0	0
SMEG07 (CIP)	G[11]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	424,70	23 116** 21 101***	385 772 ***	21,8	19,39
EPMF-G	G Old	Dec N° 283/2010/EU	EMPL ECFIN	EIF	Enhances access to microfinance by reducing microfinance providers' risk	Micro-enterprises/ Households	Micro-finance/no specific focus	23,60	23,60	22,55	286,48** 235,63***	25 508 ** 19 713***	1	1,85

[10] Commitment for the EaSI-Capacity Building. Besides EaSI-G and EaSI-CBI, an additional envelope of EUR 84m has been appropriated under EaSI (out of which EUR 81m already reflected into the Delegation Agreement), to be used in part for funded instruments.
[11] Guarantee

Organisation					Policy Targets			Implementation				Financials		
Financial Instruments	Type	Basic Act	DG in charge	IB[2]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2016 (EUR mln)	Aggr. Pay-ments 2007-16 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [3]
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	96,00[12]	68,79	42,22	528* 753,57 ** 157,96***	1 308** Soc. Entr. and 54 507** Microfin. / 63 Soc. Entr *** and 12 741*** Microfin	0,02	6,28
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	970,00	375,52	182,96	14 300* to 21 500* 18 904,7** 5 547,2***	220 000 to 330 000* 291 000** 143 344***	0,29	34,70
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** 2 331***	3000** 4 146***	65,9	14,84
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	534,47	478,21	9 500* 8648** 1944***	3 000* 24 400** 5682***	2,17	50,34

[12] Commitment for the EaSI-Guarantees. Besides EaSI-G and EaSI-CBI, an additional envelope of EUR 84m has been appropriated under EaSI (out of which EUR 81m already reflected into the Delegation Agreement), to be used in part for funded instruments.

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[2]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln) [3]**
The CCS[13] 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	14,8	5,98	689*	n/a	0	0.3
Student Loan Guarantee Facility (Erasmus +)	G New	Reg. (EU) N° 1288/ 2013	EAC	EIF	Support mobility, equity and study excellence	Students	Education	517,00	115,67	21,24	2 947* 160** 3***	200 000* 11 500 ** 247***	0,1	6,61
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	70	19,12	540*	n/a	0	0,50
RSFF (2007-2013)	RS[14] Old	Dec. N° 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***	114** 112***	476	81
InnovFin Large Projects InnovFin MidCap Growth Finance InnovFin MidCap Guarantee (H2020) (InnovFin Debt)	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[15]	796	786	13 250* 5918,2** 3544,5***	97** 72***	31,5	30,89

[13] Cultural and Creative Sectors
[14] Risk Sharing
[15] Initial indicative contribution which does not take into account revenues and repayments from RSFF (2007-2013)

Organisation				Policy Targets			Implementation				Financials		
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [3]
Risk Sharing debt instruments (CEF DI)	RS New	Reg. (EU) N° 1316/ 2013	MOVE ENER CONNECT	EIB	Stimulate capital market financing for infrastructure projects in transport, energy, broadband networks	Infrastructure Projects	Transport, Energy, Broadband	2 557[16]	688,7	479,4	14 400* to 36 000* 15 583** 13 865***	11***	13,4	1,98
NCFF	RS New	Reg. (EU) N° 1293/ 2013	ENV CLIMA	EIB	Promote the preservation of natural capital	Infrastructure Projects	Environment	60,00	50	11,75	120-240*	n/a	n/a	0,60
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)[17]	23,28 (H2020, RTD& COSME LGF, GROW) + *800,04*[18] *(ERDF, REGIO)*	19.28 (H2020, RTD& COSME LGF, GROW) + *800,04*[19] *(ERDF, REGIO)*	Spain: 5 723* 5 763** 2 616***	Spain: 33 285***	n/a	For RTD included in InnovFin SMEG / 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	80,00	402,3 ** 236,06***	60 062** 32,428***	EUR 0[20]	6,75

[16] This amount corresponds to the financial programming as initially established in 2014. Since then, the programming has been significantly revised downwards over the period 2014-2020, in particular to finance other priority initiatives through redeployments (e.g. EUR 500 million for establishing EFSI and a futher EUR 500 million are proposed for its extension) or to increase the envelope available for CEF grants (e.g. EUR 1 billion for the so-called blending call under CEF Transport).

[17] Amount allocated to the SME Initiative in Operational Programmes

[18] Allocation to SMEI OP in Spain.

[19] Allocation to SMEI OP in Spain.

[20] Nota : EUR 0 revenues for the Budget; revenues and repayments generated within the fund = EUR16,8 m and EUR 24,8 m respectively.

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [3]
Marguerite	DIV Old	Reg. (EC) N° 680/2007 Dec. C(2010)941	MOVE	M.A[21]	Support infrastructure investment: transport, energy, renewables sectors	Infrastr. Projects	Transport, Energy, Environment	80,00	80,00	43,7	10 000* 5 400***	12***	n/a	1,35
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	116,2	237** 121***	Not available** 11***	Revenues for 2015: 4,5[22] Repaym: n/a	9,79[23]
Guarantee Facility (EDIF GF 1) under the WBEDIF[24]	EnC[25] 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***	1 430***	0,02	0,01
Guarantee Facility 2 (EDIF GF 2) under the WBEDIF[26]	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	94,5* 107**[27]	n/a	0	0,63

[21] Marguerite Adviser
[22] Nota: unaudited figures.
[23] Nota: unaudited figures.
[24] Western Balkans Enterprise Development and Innovation Facility
[25] Enlargement countries
[26] Western Balkans Enterprise Development and Innovation Facility
[27] The budgetary commitment for the EDIF GF 2 was done in the final days of 2015 and the implementation only started mid 2016, hence no achieved figures are yet available.

Organisation				Policy Targets			Implementation			Financials			
Financial Instruments	Type	Basic Act	DG in charge	IB[2]	Objective	Final Recipients	Sector	Indicative Aggr. Budget Envelope (EUR mln)	Aggr. Commit-ments 2007-2016 (EUR mln)	Aggr. Pay-ments 2007-16 (EUR mln)	Financing supported (EUR mln)	N° of final recipients benefited	Revenues and Repaym. (EUR mln)	Admin Expenditure (EUR mln) [3]
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	48,5[28]** 4,75***	15** 3***	n/a	0,08
ENIF under EDIF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIB, EIF, EBRD KfW	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	21,20	21,20	21,20	50** 1,18***	n/a** 5***	n/a	1,41
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	4 300***	702 790***	n/a	0,73
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	38,63	38,63	411,7[29]* 489,6** 429,9***	16 701***	n/a	0,49
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** 265***	18,06	0,36

[28] fund size after second closing to be leveraged 1:1 with EBRD co-investment, ending up with circa EUR 100 million expected financing in total.
[29] Size of the fund, see details in SWD part 2 chapter IV.

Organisation				Policy Targets				Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[2]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln) [3]**
NIF	NDC[30] Old	Reg. (EC) N° 1638/ 2006 +232/2014 + 236/2014	NEAR	EFI[31]	Mobilise investments to support prosperity and good neighbour.	Infrastructure Projects, SMEs	SMEs, Environment., Energy, Water/Sanit., Social Sector, Transport	1 678,64	1 678,64	757,17	16 950***	n/a[32]	0	30,86
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	348,58	348,58	132,12	970*** IFCA[33] 3 152*** AIF	22*** IFCA[34] 24***AIF	n/a	8,57
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	322,70	322,70	166,97	7 538***[35]	33***[36]	n/a	6,63
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	13,7	7,47

[30] Neighbourhood and other partner countries.
[31] Eligible Finance Institutions.
[32] Nota : 123 projects have been financed so far, see relevant chapter of the report.
[33] IFCA/AIF : Total investment cost of projects having received a positive opinion from the Board and Commission decision.
[34] IFCA/AIF : number of projects having received a positive opinion from the Board and Commission decision.
[35] LAIF: Total investment cost of projects having received a positive opinion from the Board and Commission decision.
[36] LAIF: 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[2]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln) [3]**
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	148***	n/a	n/a	0,59
Thematic blending (ElectriFI, AgriFI, Climate Change)	NDC New	Reg.(EC) N° 1905/2006 + 233/2014 + 236/2014	DEVCO	EFI	ElectriFI: access to clean, reliable and affordable electricity and energy. AgriFI: inclusive and sustainable agriculture. Climate Change: developing local climate strategies.	SMEs	Energy, Agriculture, SMEs, Environment	270,31	270,31	34,89	1 900* ElectriFI: 0** AgriFI: 0** Climate Change**: n/a 0***	n/a	n/a	1,35

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. 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 580,7 million
Executed Budget since beginning until 31/12/2016*:**	Commitments: EUR 600,2 million *** Payments: EUR 464,5 million***

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

***Including changes 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. This amount takes also into account the EUR 25 million decommiments done in 2016 (hence the decrease in the figure as compared to 2015).*

****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. The legal base allowed the possibility of using such additional resources for the purpose of the same instrument only if they were received prior to 31/12/2013. The commitments amount takes also into account the EUR 25 million decommitments done in 2016 (hence the decrease in the figure as compared to 2015).*

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 96,4% of its allocated budget of EUR 600,2 million, with a

leverage ratio of 5,7 to 1. It invested in 43 venture capital funds, therefore supporting 570 final recipients[37] and creating more than 3 000 jobs as of December 2016.

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).[38]

(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[39], 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

[37] This is the total number of Final Recipients supported through the programme. Out of those, 484 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.

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

[39] 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.[40]

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[41];

Aggregate budgetary commitments as at 31/12/2016	EUR 580 682 329
Aggregate budgetary payments as at 31/12/2016	EUR 444 976 538

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

[41] Those amounts do not include the EUR 19 474 357 re-committed to the same instrument (see section "h" below).

(e) The performance of the financial instrument as of 31/12/2016, including investments realised;

Amount of EU Contribution committed to financial intermediaries and the corresponding number of financial intermediaries;	EUR 544 million[42] 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 3 087 million[43] 516 Eligible FR[44]
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 1 430 million[45] 484 Eligible[46] FR
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 3 575 million[47]

GIF Impact on employment

In addition, for the entire period as of 31 December 2016, GIF programme achievements[48] were as follows:

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

[42] Signed amounts between EIF and financial intermediaries.
[43] Target intermediary size; source: EIF-European Investment Fund (2016a), GIF-High Growth and Innovative SME Facility, Q4 Quarterly Report 31 December 2016.
[44] Financial intermediaries whose investment period has ended have invested in 12 eligible SMEs, on average. Therefore, the 43 financial intermediaries in the GIF portfolio are expected to eventually invest in 516 eligible SMEs.
Sources: EIF-European Investment Fund (2016a), GIF-High Growth and Innovative SME Facility, Quarterly Report 31 December 2016, and EIF-European Investment Fund (2016b), GIF-High Growth and Innovative SME Facility Annual Report, (Table 7) 30 September 2016.
[45] EIF-European Investment Fund (2016b), GIF-High Growth and Innovative SME Facility Annual Report, (Table 8) 30 September 2016.
[46] See explanation sub section "A-Summary" above.
[47] Real figure not available; estimate based on EIF leverage methodology for equity (multiplier for equity: 1 EUR equity financing for 2,5 EUR investment).
[48] Employment Report as at 31/12/2012 (latest available)

- 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

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 92,2% of commitments available for deals.

Out of the afore-mentioned 43 funds, 18 funds have a multi-country focus and the remaining 25 funds target investments in specific countries. 13 venture capital funds are investing in eco-innovation, supported by signed EU investments for a total amount of EUR 220,4 million.[49]

(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 31/12/2016 EUR 423 174 130

	In EUR
Balance on the fiduciary account (current account)	2 902 261
Term deposits/Bonds (if applicable)	86 814 264
Term deposits < 3 months	*86 814 264*
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)[50]	333 457 605
***Other assets* (if applicable)**	*N/A*
= Total assets	423 174 130

Impact of negative interest rates on GIF:

The instrument generated an Interest Income of EUR 117 894 and Interest Charges of EUR 205 974 in 2016. These therefore resulted in a negative interest of EUR 88 080. A net negative interest was generated for cash and equivalents held in EUR, SEK and DKK, while GBP and NOK generated net positive interests.

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

[50] 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;

Revenues of the year 2016	EUR 887 265
Repayments of the year 2016	EUR 31 410 180

Aggregate additional resources regularised for the instrument as at 31/12/2016
EUR 53 223 444[51]

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

As at 31 December 2016 a total of EUR 307,8 million[52] of the GIF had been invested in final recipients, and that investment has a valuation of EUR 333,5 million. The difference between the two figures reflects Realized Investment Gains/Losses on Exits, Realized Investment Losses through Write-Offs, and Unrealized Investment Gains/Losses.

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

Impairment losses on shares and other variable-income securities as at 31/12/2016	EUR 19 928 747

(k) The target leverage[53] effect, and the achieved leverage[54] effect;

The aggregate budgetary commitments for 2007-2013 amounted to EUR 600,2 million. The expected leverage[55] effect on GIF is around 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 5,7.[56]

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[57];

As at 30/09/2016, the GIF already contributed to provide more than 1,4 billion EUR of financing to 484 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

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[51] Of which EUR 19 474 357 re-committed to the same instrument.

[52] Audited Financial statements as at 31/12/2016.

[53] 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.

[54] 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.

[55] 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.

[56] Calculated as "Actual intermediary size= actual size of the VC funds / GIF net approved capital"; source: EIF-European Investment Fund (2016a), GIF-High Growth and Innovative SME Facility, Quarterly Report 31 December 2016.

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

In 2016 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[58], summarised hereafter, concerning relevance, effectiveness, efficiency, utility, sustainability and European added value[59].

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

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

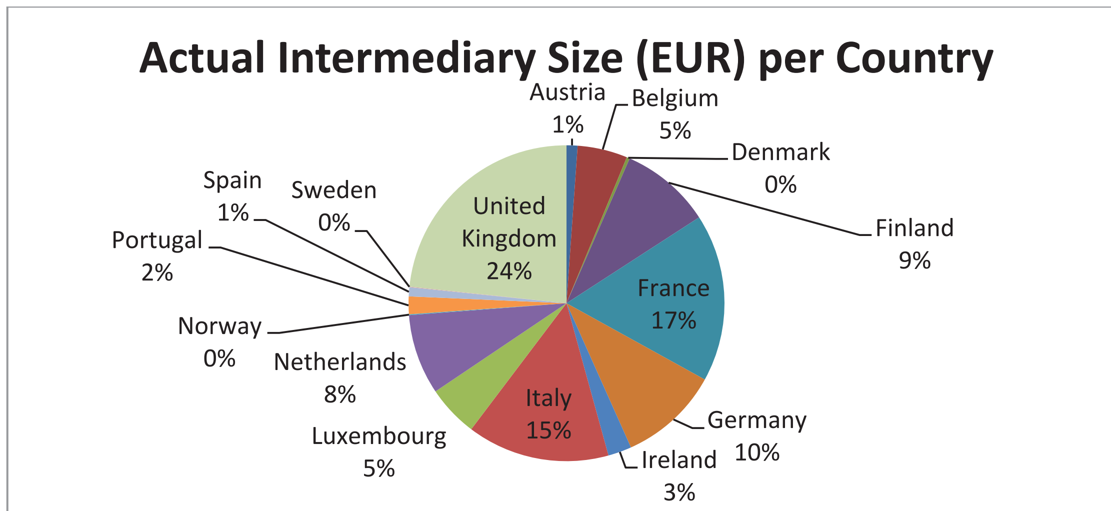
Apart from the financial means, GIF recipients also received other support (appointment of a non-executive director, advice on general business planning, access to a network, financial advice, special business advice or mentoring).

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

As regards *Sustainability,* the evaluators noted that possible improvements raised by EIPC[60] 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 2016.

[58] CSES (2011), The EIP Final Evaluation, the last evaluation available at the programme level (EIP).
[59] Based on an extensive telephone survey sample, prepared in the context of the evaluation.
[60] Entrepreunership and Innovation Programme Committee.

Graph: ***Geographical distribution of actual intermediary size as at 31/12/2016***



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 2016 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 2016, 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 2016.
    - During 2016, 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 2016.
    - A positive Statement of Assurance has been received from the EIF as at 19/4/2017.
  - *Efficiency:*
    - number of findings/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 (2016): NONE.
- Number of erroneous operations (2016): NONE.
- Return to Trust Account (2016) linked to errors: NONE.
- Results on the checks on the balance of the TA (2016): 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 100 million
Current Overall Budget:	EUR 100 million

A - <u>Summary</u>

The CEF Equity instrument is foreseen to establish the Connecting Europe Broadband Fund. The Fund will provide equity and quasi-equity to smaller-scale, higher-risk broadband projects, which do not have sufficient access to financing, in (under-served) suburban and rural areas. Five public institutions are expected to invest in it, namely the Commission, the EIB and three National Promotional Banks and Institutions (NPBIs): CDC, CDP and KfW, alongside private investors. Its target size is EUR 500 m – 600 m. We estimate that the fund will unlock investments up to 1,7 bn EUR and demonstrate the advantages of investing in high capacity broadband networks. The Fund will be one of the two EFSI investment platforms with a full EU-28 coverage. Investments will be made in a minimum of 10 Member States and will target 20 Member States and aim at investing in at least five projects per year by 2021.

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). Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments (OJ L 169, 1.7.2015, p. 1).

(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 2016 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 he Connecting Europe Broadband Fund. The Fund will provide equity and quasi-equity to smaller-scale, higher-risk broadband projects, which do not have sufficient access to financing, in (under-served) suburban and rural areas. Five public institutions are expected to invest in it, namely the Commission, the EIB and three National Promotional Banks and Institutions (NPBIs): CDC, CDP and KfW, alongside private investors.

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;

The Connecting Europe Broaband Fund will be implemented under direct management in cooperation with the EIB and national promotional banks. A fund manager has been selected by the EIB in a public procurement and will be formally appointed subject to the outcome of the ongoing negotiations.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2016 EUR 100 000 000
Aggregate budgetary payments as at 31/12/2016 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 100 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 31/12/2016.[61]

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

(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 17, which – given the current budget envelope of 100m – will support a financing amount of 500 million to 1700 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;

N/A (the Instrument is too new to have produced any achievements as at 31/12/2016)

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[62]
Current Overall Budget:	EUR 490 million[63]

[62] 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.

[63] This amount is composed of the amounts committed towards the EFG for the years 2014-2016, of the amounts allocated towards the EFG in 2017-2018 as currently foreseen in the COSME work programmes and of the indicative amounts allocated to the EFG for 2019-2020. The 2017-2020 amounts are indicative and may be 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.

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.

Nine fund agreements were signed by the end of 2016 under which investments into 12 SMEs already took place.

B - Description

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

Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 – 2020) 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 the 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 or indirect investments via funds-of-funds as part of the Pan-European VC funds-of-funds project.

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

An additional implementation mechanism under the EFG in the form of a contribution to the Pan-European VC funds-of-funds project has been put in place in February 2017 with the signature of the fourth amendment to the Delegation Agreement.

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, in transfering best practices and the standardisation of documentation across participating countries, 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 31/12/2016	EUR 172 901 364
Aggregate budgetary payments as at 31/12/2016	EUR 56 102 505

(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 101,3 million[64] 9
Amount of financing expected to be provided by financial intermediaries to eligible final recipients And expected number of eligible final recipients;	EUR 470,6 million 64
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 64 million 12

[64] Operations signed include both unconditional and conditional commitments as of 31 December 2016.

Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 160 million[65]

Additional EFG operational information
Out of the nine operations signed at the end of 2016, six 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.
Eight of these operations have been unconditionally closed and the respective fund agreement with all investors have been signed. One signature has occurred on a conditional basis, meaning that the EIF committed to invest in these funds provided that the 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;

Internal assigned revenues of EUR 10,9 million of repayments generated by the second window of the High Growth and Innovative SME Facility established under the predecessor Competitiveness and Innovation Programme (GIF2 repayments) have been committed towards the EFG in 2016, thereby generating an additional net amount of EUR 10,1 million available for the signature of fund agreements.

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 51 250 418

	In EUR
Balance on the fiduciary account (current account)	7 876 856
Term deposits/Bonds (if applicable)	**31 209 297**
Term deposits < 3 months	*31 209 297*
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[66]	**12 162 196**
***Other assets* (if applicable)**	2 069
= Total assets	51 250 418

Impact of negative interest rates on COSME-Equity:

[65] Estimation based on EIF – EFSI multiplier calculation methodology for equity, with 2,5 EUR of mobilised investments for 1 EUR of mobilised financing
[66] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.

At the end of 2016, the net interest charge on short term deposits amounted to EUR 66 195. This was due to the deteriorating remuneration conditions for both EUR and SEK deposits held under the EFG. As at year end 2016, the average interest rate for the deposits in EUR was -0,119% (2015: 0,0003%) and in SEK -0,8%. Measures taken in 2016 to minimize the impact of negative interests included

- *the temporary reduction of the EFG Minimum Reserve, to be reviewed from time to time in the context of the payment estimate/disbursement forecast exercise between the EIF and the Commission;*
- *the opening of a new financial instrument account with more favorable conditions.*

(h) Revenues and repayments;

Aggregate revenues as at 31/12/2016	EUR 6 202
Aggregate repayments as at 31/12/2016	EUR 8 375

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

EUR 12 162 196

(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 and the number of firms ranging from 360 to 540.[67]

The achieved leverage effect

Based on the cumulative budgetary commitments for the EFG (i.e. EUR 172,9 million) and the total amount of investments already made into eligible final recipients, the achieved leverage effect computed at the end of 2016 amounts to 0,4.

The "Expected Leverage for Signed Operations"

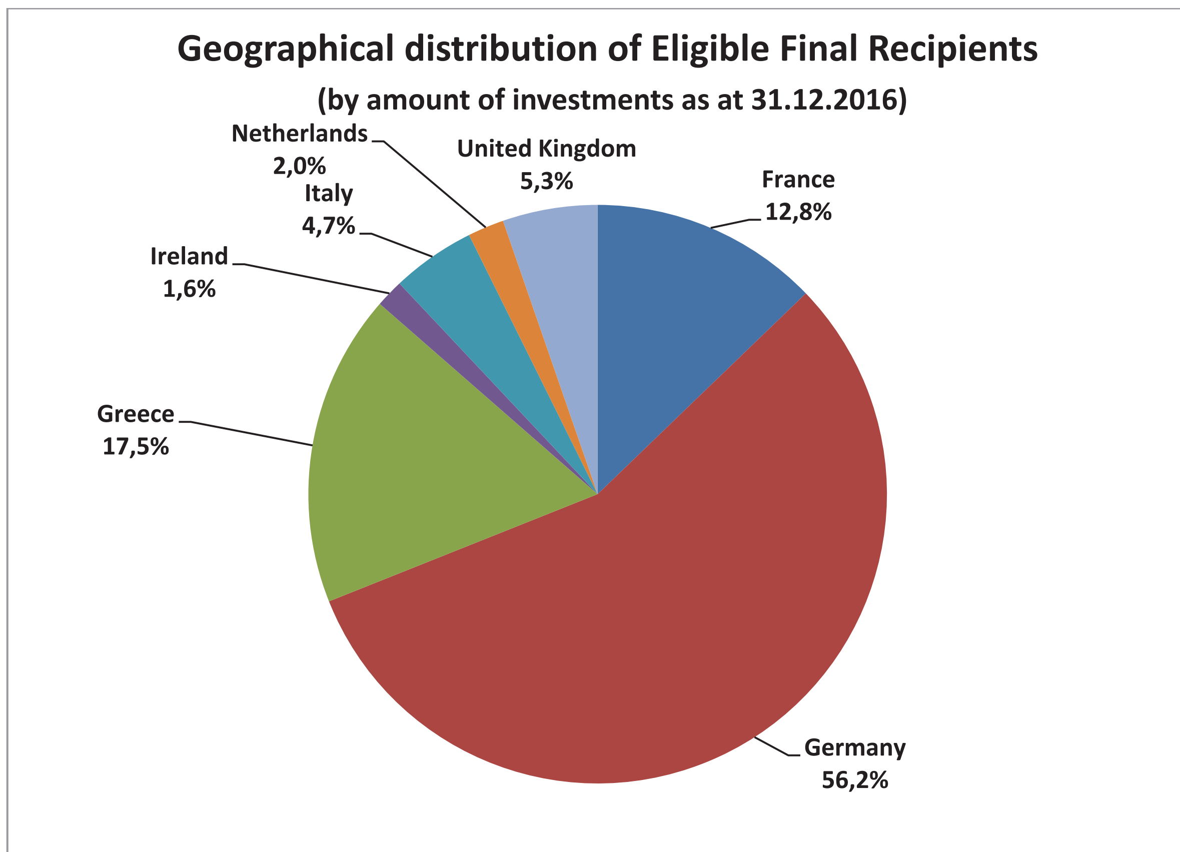
Based on the cumulative budgetary commitments for the EFG (i.e. EUR 172,9 million) and taking into account the total amount expected to be invested into eligible final recipients under the fund agreements already signed, the expected leverage at the end of 2016 is 2,7.

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;

At the end of 2016, the EFG contributed to provide more than EUR 64 million of financing to 12 eligible SMEs in 7 countries (see graph below).

[67] Cf. Annex to Regulation (EU) No 1287/2013 on indicators for general and specific objectives and targets.



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

- ***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) which results in a slower implementation of the EFG.
  - The implementation of the EFG may slow down even further due to the setting up of a new Expansion and Growth Window under the EFSI Equity instrument which has largely the same investment focus as the EFG. As a result, an order of priority has been established whereby the EIF shall endeavour to first absorb investment capacity available under the EFSI Expansion and Growth Window before making use of EFG resources for investments taking place in Member States. The EFG is however broader in scope as it targets also investments in third countries participating to the COSME programme and these investments will continue to be made under the EFG only.
- ***Main risks:***
  - Due to the setting up of the Expansion and Growth Window under EFSI for equity investments for SMEs and small mid-caps and the established order of priority (see explanation above), not all EFG resources may be absorbed (due to lack of sufficient market demand). Should this be the case, resources will be shifted from the EFG to the LFG.
- ***General outlook:***
  - Based on the pipeline report received early 2017, it is expected that the 2014-2016 aggregate budgetary commitments (net of fees) will be fully used for the signature of EFG operations (direct investments).

1.4. Equity Facility (early-stage capital) for Research and Innovation of Horizon 2020 (InnovFin Equity)

Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Implementing Body in charge:	EIF
Expected Overall (2014-2020) Programme Budget:	EUR 495 million*

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

A - Summary

The InnovFin Equity facility succeeds and refines the GIF-1 scheme under CIP, 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 495 million.

B - Description[68]

(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.[69]

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.[70]

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[68] 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.

[69] (OJ L 347/104, 20.12.2013).

[70] (OJ L 347/81, 20.12.2013).

Council Decision of 3 December 2013 establishing the specific programme implementing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decisions 2006/971/EC, 2006/972/EC, 2006/973/EC, 2006/974/EC and 2006/975/EC.[71]

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 [72]

(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,[73] 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 Equity facility 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 Equity facility 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

[71] (OJ L 347/965, 20.12.2013).
[72] (OJ L L 347/238, 20.12.2013).
[73] European Commission (2013c).

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)

C - <u>Implementation</u>

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

Aggregate budgetary commitments as at 31/12/2016 EUR 256 050 000
Aggregate budgetary payments as at 31/12/2016 EUR 234 050 000

(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 164 500 000 10
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 565 152 132 300 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	NA
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 15 004 321 8 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 15 004 321

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

EUR 0,4 million

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 229 020 413

	In EUR
Balance on the fiduciary account (current account)	**116 205 285**
Term deposits/Bonds (if applicable)	**<u>104 388 040</u>**
Term deposits < 3 months	*0*
Term deposits > 3 months < 1 year	
Term deposits > 1 year	

Bonds current	44 135 099
Bonds non-current	60 252 941
Equity investment (see also point i)[74]	**8 427 088**
***Other assets* (if applicable)**	**0**
= Total assets	**229 020 413**

Impact of negative interest rates on InnovFin Venture Capital (Horizon 2020): no impact as at 31/12/2016.[75]

(h) Revenues and repayments;

EUR 406 355

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

Equity investments as at 31/12/2016 EUR 8 427 088

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

nihil

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

The target 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 around 6, depending on market specificities.

***The achieved leverage effect** :0,06*

The total amount invested in eligible final recipients as at 31/12/2016 amounts to EUR 15 004 321 for an EU contribution of EUR 256 050 000

***The "Expected Leverage for Signed Operations"**:2,21*

For the 10 operations signed with financial intermediaries as of 31/12/2016, the maximum investment volume available to SMEs amounts to EUR 565,15 million. Based on the cumulative 2014-2016 budgetary commitments for InnovFin SME VC in (i.e. EUR 256,05 million), the expected leverage for the operations signed in 2016 is 2,21.

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 InnovFin Equity facility , 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 495 million is targeted to mobilize EUR 2,9 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:[76]

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

[75] 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.

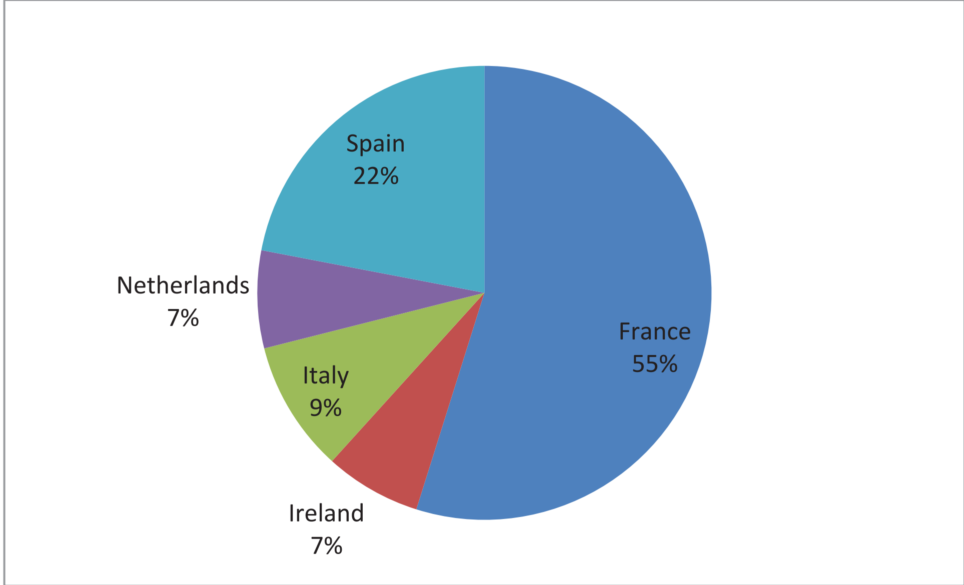
On the basis of Commission proposals, the EU should put in place financial instruments to attract a major increase in private finance and close the market gaps in investing in research and innovation. Union contribution should create a major leverage effect and expand on the success of FP7 and CIP.

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

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

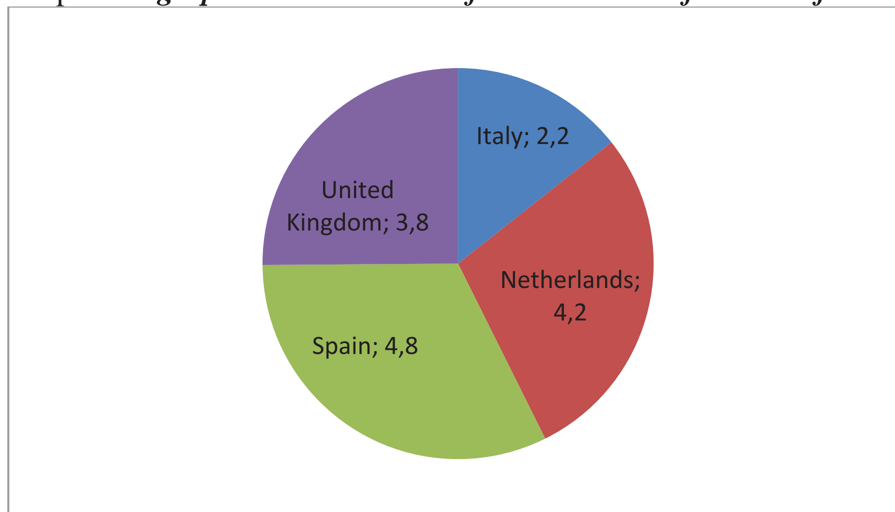
Graph**: *Geographical distribution of target intermediary size in participating countries***



[76] European Commission (2010b).

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

Graph: ***Geographical distribution of investments in final beneficiaries (in EUR million)***



E - Other key points and issues

- **Main issues:**
  - The Union-level InnovFin Equity facility 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.[78]
  - The implementation of the Horizon 2020 InnovFin Equity facility 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.

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

1.5. EaSI Capacity Building Investments (EaSI CBI) – 2014 to 2020

Policy DG in charge:	DG EMPL
Implementing DG in charge:	DG EMPL
Implementing Body in charge:	EIF
Expected Overall (2014-2020) Programme Budget:	EUR 16 million
Executed Budget since beginning until 31/12/2016:	Commitments: EUR 12,72 million Payments: EUR 10,78 million

A - Summary

EaSI Capacity Building will be implemented by the European Investment Fund in accordance with the amendment of the Delegation Agreement entered into on 19/12/2016 between the European Union, represented by the Commission and EIF. Under the Agreement, the Commission mandated EIF to implement EaSI Capacity Building investments through direct and indirect equity investments in financial intermediaries and loans with an "equity-like" risk profile in term of subordination or maturity profile to financial intermediaries that are not allowed to receive equity investments by law or due to regulatory restrictions.

The estimated budget allocation foreseen for the total programming period amounts to EUR 16 million. The EU contribution (excluding repayments) may be committed until 31 December 2020, however "annual repayments generated by one financial instrument shall be assigned to that financial instrument until 1 January 2024" (source: EaSI Regulation, article 30(4).

Based on the target leverage[79] of the instrument (minimum of 2), it is estimated that the total amount of 16 million used will generate around EUR 32 million investments made to 8-10 Financial Intermediaries and Sub-Intermediaries for the purpose of capacity building.

As regards the duration, the instrument's winding up date is 31/12/2033.

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').

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

Policy objectives and scope

The EaSI Capacity Building is one of the Financial instruments foreseen under the Employment and Social Innovation ('EaSI') program. The objectives of this financial instrument have been described in Regulation (EU) No 1296/2013 and can be found in Article 4:

[79] The target leverage figure refers to envisaged investments to financial intermediaries

General objective
- To promote employment and social inclusion by increasing the availability and accessibility of microfinance for vulnerable people who wish to start up a micro-enterprise as well as for existing micro-enterprises, and by increasing access to finance for social enterprises.
Specific objectives under Article 26: build up the institutional capacity of microcredit providers

EaSI Capacity Building Investments will be implemented through direct and indirect equity investments in financial intermediaries and loans with an "equity-like" risk profile in term of subordination or maturity profile to financial intermediaries that are not allowed to receive equity investments by law or due to regulatory restrictions.

Implementation arrangements
EaSI Capacity Building financial instrument is implemented by the European Investment Fund (EIF) on behalf of the European Commission. The amended EaSI Delegation Agreement introducing the set up and the implementation procedures of EaSI Capacity Building was signed between the EC and the EIF on 19/12/2016.

Added value
EaSI Capacity Building Investments aim at building up the institutional capacity of financial intermediaries that have not yet reached sustainability (i.e. break-even, operational capacity, etc.), including greenfield financial intermediaries, or financial intermediaries that are in need of risk capital to expand further their operations, both in the microfinance and in the social entrepreneurship space. The absorption capacity of the market due to the envisaged capacity building investments will be improved.

(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 31/12/2016 EUR 12 725 384
Aggregate budgetary payments as at 31/12/2016 EUR 10 780 407

(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 (financial intermediaries), and corresponding number of eligible final recipients;	Not applicable (no transactions signed with financial intermediaries as at 31/12/2016, since the DA amendment introducing the programme was signed on 19/12/2016 only); Target is EUR 32 million for 8-10 financial intermediaries (see above sub §A - Summary)
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	Not applicable (see above)

Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 0 million 0
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 yet applicable

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 10 780 407

	In EUR
Balance on the fiduciary account (current account)	10 780 407
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)	
***Other assets* (if applicable)**	
= Total assets	**10 780 407**

Impact of negative interest rates:
No impact as at 31/12/2016 due to the fact that the amended EaSI Delegation Agreement introducing the set up and the implementation procedures of EaSI Capacity Building was signed between the EC and the EIF on 19/12/2016 and the relevant payment was made on 22/12/2016.

(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;

Not yet applicable

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

The target minimum leverage effect set is 2 over the lifetime of the financial instrument.

Based on the target leverage of the instrument, it is estimated that the total budget envelope of 16 million will generate around EUR 32 million investments made to Financial Intermediaries and Sub-Intermediaries for the purpose of capacity building.

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 amended EaSI Delegation Agreement introducing the set up and the implementation procedures of EaSI Capacity Building was signed between the EC and the EIF on 19/12/2016, therefore, no operations have been inititated within 2016.

E - Other key points and issues

- **Main issues:**
  - EaSI Capacity Building investments are needed to help improve the availability of equity and building up the institutional capacity of financial intermediaries that have not yet reached sustainability (i.e. break-even, operational capacity, etc.), including greenfield financial intermediaries, or financial intermediaries that are in need of risk capital to expand further their operations, both in the microfinance and in the social entrepreneurship space.
  - EaSI Capacity Building Investments will be implemented through direct and indirect equity investments in financial intermediaries and loans with an “equity-like” risk profile in term of subordination or maturity profile to financial intermediaries that are not allowed to receive equity investments by law or due to regulatory restrictions.
- **Main risks:**
- No specific risks identified at this stage of implementation.
- **General outlook:**
  - The implementation of the EaSI Capacity Building has started at the end of 2016, following the signature of the amendment of the Delegation Agreement of the EaSI Guarantee financial instruments between the EC and the EIF on 19/12/2016. Indicative target results are 8-10 capacity building investments made to Financial Intermediaries and Sub-Intermediaries. The target has been based on relevant past experience and market testing.

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 31/12/2016*:**	Commitments: EUR 649,9 million**** Payments: EUR 424,7 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. The legal base allowed the possibility of using such additional resources for the purpose of the same instrument only if they were received prior to 31/12/2013.*

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 40 EUR of finance to SMEs for 1 EUR of the Union contribution.

SMEG07 has a wide geographical coverage: as at 30/12/2016, the instrument involves 52 financial intermediaries, which have been providing finance to SMEs in 23 participating countries (the loans associated with that guaranteed amount account for EUR 21,1 billion).

According to the 2011 ECA's Performance Audit, the Facility should be able to reach the number of 315 000 supported SME recipients as foreseen in the ex-ante assessment under CIP. This target has already been trespassed, as 385 772 SMEs were already supported by the end of December 2016.

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).[80]

(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,[81] 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.

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

[81] 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 31/12/2016 EUR 649 886 744
Aggregate budgetary payments as at 31/12/2016 EUR 424 703 607

(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 523,4 million[82] 52FIs [83]
Amount of financing expected to be provided by financial intermediaries to eligible final recipients, and expected number of eligible final recipients	EUR 23 116,1 million[84] 315.000 FRs[85]
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 21 101,8 million[86] 385 772 FRs[87]
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 30 858,9 million[88]

Additional operational information

For the period 2007-2013, EUR 1 275,1[89] 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.

[82] Correspond to the overall SMEG 07 portfolio's guarantee cap amount, as per EIF's Q4 Quarterly Report dated 31/12/2016 with data as at 31/12/2016.

[83] Source: EIF's Q4 Quarterly Report dated 31/12/2016 with data as at 31/12/2016.

[84] Correspond to the SMEG 07 overall portfolio's "estimated SME financing guaranteed", as per the latest data available, i.e. EIF's Q4 Quarterly Report dated 31/12/2016 with data as at 31/12/2016.

[85] 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 31/12/2016 (see below) the number of benefitting final recipients already trespassed this target/expected number.

[86] Correspond to the total loan volume received by the recipient SMEs as per the latest data available, i.e. EIF's Q4 Quarterly Report dated 31/12/2016 with data as at 31/12/2016.

[87] Source: EIF's Q4 Quarterly Report dated 31/12/2016 with data as at 31/12/2016.

[88] Source: EIF's Q4 Quarterly Report dated 31/12/2016 with data as at 31/12/2016.

Regarding the payments appropriations for the period 2007-2016, out of the EUR 889,2 million made available for the CIP financial instruments, EUR 424,7 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 December 2016 (latest available figures as at writing date),

- SMEG 07 consisted of 70 guarantee agreements with 52 Financial Intermediaries from 23 countries, with a total of EUR 523,4 million guarantee cap from the Union budget for direct and counter-guarantees;

- 385 772 SMEs had received debt finance facilitated by financial support provided under SMEG07,[90] through nearly 469 269loans;

- the EIF had signed agreements for a cumulative total amount guaranteed of EUR 15 162,91 million.[91] The loans associated with that guaranteed amount account for EUR 21,1 billion.

SMEG impact on employment

For the entire period as of 31 December 2016 (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: 1 337 555;
- number of jobs created or maintained: 385 772.[92]

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

For the period 2007-2016, 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 31/12/2016 EUR 99 616 452

	In EUR
Balance on the fiduciary account (current account)	14 003 876
Term deposits/Bonds (if applicable)	85 606 573
Term deposits < 3 months (cash equivalent)	*85 606 573*
Term deposits > 3 month < 1 year (current assets)	*N/A*
Term deposits > 1 year (non-current assets)	*N/A*
Bonds current	*N/A*
Bonds non-current	*N/A*
***Other assets* (if applicable)**	6 003
= Total assets	99 616 452

[89] This amount has been lowered in 2016 by EUR 25 million decommitments.

[90] Source: EIF's Q4 Quarterly report dated 31/12/2016 with data as at 31/12/2016.

[91] Cumulated 'Actual Utilisation' of all agreements under the Facility (Source: EIF's Q4 Quarterly report dated 31/12/2016 with data as at 31/12/2016.)

[92] 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 31/12/2016[93]

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

Revenues of the year 2016	EUR 2 124 043
Repayments of the year 2016	EUR 0

Aggregate additional resources regularised for the instrument as at 31/12/2016
EUR 21 773 583[94]

(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 31/12/2016 EUR 292 633 832

(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 approx. 40.[95]

The expected CIP SMEG07 leverage effect for signed operations (calculated as "Estimated SME financing" / EU guarantee cap amount) is estimated around 44[96] for the entire duration of the programme.

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

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

As at 31/12/2016, the SMEG07 already contributed to provide more than 21,1 billion EUR of financing to nearly 386 000 Final Recipients (SMEs) through more than 469 000 underlying loans, accounting for an estimated 30,86 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. [97]

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

[93] 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.

[94] Of which EUR 12 089 884 re-committed to the same instrument.

[95] Source: EIF's Q4 Quarterly report dated 31/12/2016 with data as at 31/12/2016; total loan volume received by the recipient SMEs = 21 101,8 million EUR / EU guarantee cap amount = 523,4 million EUR.

[96] Source: EIF's Q4 Quarterly report dated 31/12/2016 with data as at 31/12/2016; "Estimated SME financing" = 23 116,1 million EUR / EU guarantee cap amount = 523,4 million EUR.

[97] CSES (2012).

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[98]:

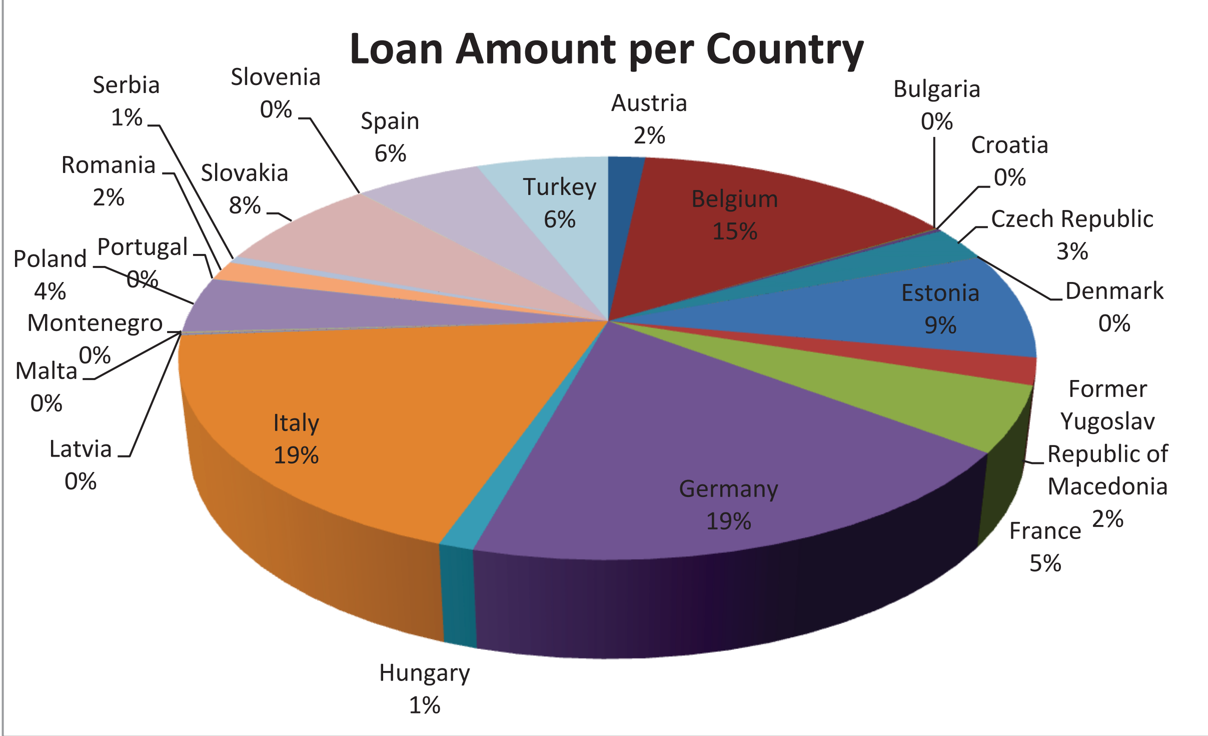
- 46% stated that the EU financing scheme was the only option available for them to get financing,
- 18% stated that without the EU support they would have received only part of the funding needed, 42% stated that the EU support helped them to get additional finance and
- 64% stated that EU support was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

In this regard, the SMEG Facility has a wide geographical coverage. The instrument involves 52 financial intermediaries, which have been providing finance to SMEs in 23 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: ***Geographical distribution of SMEG Loan amounts, million EUR***[99]



[98] CSES (2012).
[99] 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 2016 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 2016 did not indicate major deviations.

- Audits and internal controls:
  - As stated in ECFIN L2's 2016 Annual Activity Report, no issue is pending.
  - A positive Statement of Assurance was received from the EIF as at 19/4/2017.
  - 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".
  - The ECA carried out a performance audit on the guarantees supported by the EU budget , for which ECFIN L2 accompanied the ECA on a visit to a FI on 14/7/2016: the final report on the overall audit has not been communicated to ECFIN as at writing date.

- The second part of the monitoring of the EIF on 'return and de-commitments of funds' was successfully carried out as of 11/11/2016, with a view to assessing the compliance of the effective operations under the procedure on the “Transfer of revenues and repayments to Horizon 2020 and COSME (Ares(2015)4949413)", based on the relevant Recovery Orders issued in 2016.
- As regards the 2016 monitoring visit to the EIF, having as scope the review of the performance and findings of the EIF in a desk-review of a FI carried out by the EIF, no finding was identified.
- Efficiency indicators regarding SMEG:
  - number of findings/minor observations (stemming from ECFIN's monitoring activities): no findings, 3 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 2016 procedures: none;
  - number of erroneous operations in 2016: none;
  - return to fiduciary account in 2016 linked to errors: none;
  - results on the checks on the balance of the TA in 2016: 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 EMPL
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 31/12/2016:	Commitments: EUR 23,6 million Payments: EUR 22,55 million*

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

A - Summary

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 30/09/2016, EIF has signed 36 guarantee agreements in 18 member states for a total cap amount of EUR 20,96 million, supporting EUR 235,63 million of aggregate volume of micro-loans. During the implementation of the Facility, 19 713 micro-borrowers and vulnerable persons and 37 038 jobs have been supported.

As of 30/09/2016, the European Progress Microfinance Facility including both Guarantees (EPMF-G) and Funded instruments (EPMF – FCP FIS) already provided 56 221 micro-loans to final recipients reaching the volume of EUR 471,7 million.

B - Description

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

Decision No 283/2010/EU[100] of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion.[101]

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

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

(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.

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 30/09/2016, 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	31/12/2016	EUR 23 600 000
Aggregate budgetary payments as at	31/12/2016	EUR 22 549 387

(e) The performance of the financial instrument, including investments realised (as of 30/09/2016);[102]

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 286,48 million 25 508 eligible FRs[103]
Amount committed to financial intermediaries	EUR 20,96 million[104]
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 409,25 million[105]
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 235,6 million 19 713 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 336,5 million[106]

Impact on employment

For the entire period as of 30 September 2016, EPMF achievements for the Guarantee Facility component of the programme were as follows:

- Number of micro-loans: 20 980
- Total amount of micro-loans: EUR 235,6 million
- Total number of employees (in the supported micro-enterprises): 37 038

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[102] EPMF FMA - 2016 Annual Implementation Report
[103] estimate based on an average loan amount per FB as at 30/9/2016 = 11 231 EUR
[104] Total guarantee cap amount.
[105] 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.
[106] 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.

Additional operational information

- As of 30/09/2016, 36 Guarantee Agreements have been signed in 18 Member States for a total guarantee cap amount of EUR 20,96 million.
- In 2017, 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 30/09/2016 the European Progress Microfinance Facility including both Guarantees (EPMF- G) and Funded instruments (EPMF – FCP FIS) already provided 56 221 micro-loans to final recipients reaching the volume of EUR 471,7 million, compared to the initial programme target of 46,000 micro-loans with the volume of EUR 500 million. The Facility has already surpassed the micro-loans initial target by 22%.

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

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

(g) The balance of the fiduciary account;

At the end of the financial year 31/12/2015 EUR 9 597 622

	In EUR
Balance on the fiduciary account (current account)	2 618 043
Term deposits/Bonds (if applicable)	6 957 654
Term deposits < 3 months (cash equivalent)	*6 957 654*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Other assets **(if applicable)**	21 925
= Total assets	9 597 622

Impact of negative interest rates on EPMF-G : no impact as at 31/12/2016.[107]

(h) Revenues and repayments;

Revenues of the year 2016 EUR 47 228

Aggregate revenues as at 31/12/2016 EUR 1 007 305

[107] 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.

Repayments of the year 2016	EUR 0
Aggregate repayments as at 31/12/2016	EUR 0
Additional resources regularised in 2016 for the instrument	EUR 0
Aggregate additional resources as at 31/12/2016	EUR 349 387

(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 31/12/2016 EUR 12 124 582

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

As of 30/09/2016, based on the signed Guarantee agreements, the expected volumes of micro-loans to final recipients are estimated to EUR 286,48 million and the total EU contribution committed is EUR 23,6 million which brings the expected leverage effect to 12,14 which is much higher than the minimum target leverage estimated at 6,67.

As for achieved leverage until 30/09/2016, the total EU contribution commmitteed of EUR 23,6 million has supported so far EUR 235,6 million of new micro-loans, implying a leverage nearing 10.

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 30/9/2016, the EPMF-G already contributed to provide more than 235,6 million EUR of financing to 19 713 Final Recipients through 20 980 underlying loans, accounting for an estimated 336,5 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).[108]

At the aggregate EPMF Facility level (including both Guarantee and Funded Instruments),[109] the gender breakdown for the 14 873 natural persons benefitting from loans under the Facility show that considerable outreach to females was achieved (36,8% of the micro-borrowers guaranteed were women).

In addition, 48,8% of individual micro-borrowers who received support under the Facility so far, were either unemployed or inactive at the time they received their loan.

At Facility level, individuals which were final recipients of micro-loans were, by and large, educated at the secondary level (40,9%). Nevertheless, EPMF continues to be of importance in serving the financing needs of individuals with more substantial education beyond the secondary level (40,8%).

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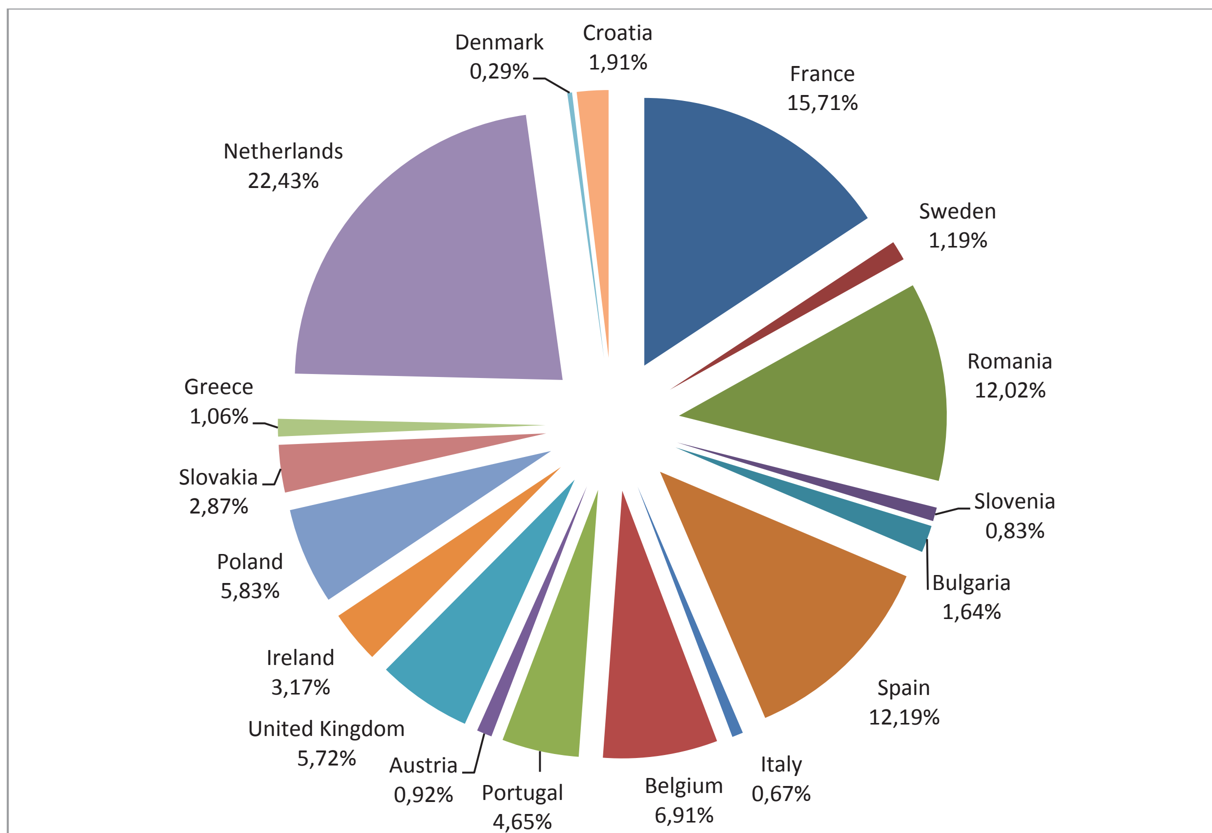
[108] Bendig, Unterberg and Sarpong (2012); Convergences (2013); Evers&Jung (2014); EMN (2012); Kraemer-Eis, Lang and Gvetadze (2013); UEAPME (2013).

[109] EPMF – Annual Implementation Report 2016 – Social Reporting Analysis. The data used in this paragraph is based on a survey of a sample of micro-borrowers.

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 235,6 million as of 30/09/2016) by the EPMF – G instrument to eligible final recipients is presented in the following graph.



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 2016, 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 96 million [110]
Expected Overall Budget as at 31/12/2016:	EUR 96 million[111]

A - <u>Summary</u>

As has been shown by ex-ante evaluations,[112] 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.

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[110] Commitment for the EaSI Guarantees. Besides EaSI-G and EaSI-CBI, an additional envelope of EUR 84m has been appropriated under EaSI (out of which EUR 0,81m already reflected in the Delegation Agreement), to be used in part for funded instruments.

[111] Commitment for the EaSI Guarantees. Besides EaSI-G and EaSI-CBI, an additional envelope of EUR 84m has been appropriated under EaSI (out of which EUR 0,81m already reflected in the Delegation Agreement), to be used in part for funded instruments.

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

B - Description

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

Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on a European Union Programme for Employment and Social Innovation ("EaSI") and amending Decision No 283/2010/EU establishing a European Progress Microfinance Facility for employment and social inclusion.[113]

(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.[114]

Implementation arrangements

The Delegation Agreement between EC and the EIF was signed on 22/06/2015 and amended on 16/12/2016 introducing the EFSI frontloading provision and on 19/12/2016 introducing the set up and the implementation process of EaSI Capacity Building.

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

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

[114] 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.

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).

http://www.eif.org/what_we_do/microfinance/easi/

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2016	EUR 68 799 200
Aggregate budgetary payments as at 31/12/2016	EUR 42 227 944

(e) The performance of the financial instrument, including investments realised (as of 31/12/2016);[115]

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients,	EUR 753,58 million
- *of which expected to be provided thanks to combined EaSI/EFSI resources*	*EUR 19,08 million*
and corresponding number of eligible final recipients;	55 815 eligible FRs
- *of which for Microfinance*	*EUR 637,49 million* *54 507 eligible FRs*
- *of which for Social entrepreneurship*	*EUR 116,08 million* *1 308 eligible FRs*

[115] EaSI - 2016 Annual Operational Report.

Amount committed to financial intermediaries - *of which for Microfinance* - *of which for Social Entrepreneurship* - *of which Operations made possible thanks to combined EaSI/EFSI resources* And the corresponding number of financial intermediaries: - *of which support thanks to combined EaSI/EFSI resources*	EUR 59,41 million *(total guarantee cap amount)* *EUR 50,35 million* *EUR 9,06 million* *EUR 1,68 million* 36 *2*
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 1 076,54 million[116] *EUR 910,71 million* *EUR 165,83 million*
Amount of financing already provided by the instrument to eligible final recipients, - *of which for Microfinance* - *of which for Social Entrepreneurship* - of wich provided thanks *to combined EaSI/EFSI resources* and the corresponding number of recipients; - *of which for Microfinance* - *of which for Social Entrepreneurship* - *of which supported thanks to combined EaSI/EFSI resources*	EUR 157,96 million *EUR 152,29 million* *EUR 5,67 million* *EUR 0 million* 12 804 eligible FRs *12 741 eligible FRs* *63 eligible FRs* *0 FRs*
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* - *of which thanks to combined EaSI/EFSI resources*	EUR 225,65 million EUR 217,55 million EUR 8,1 million EUR 0 million

[116] 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 31 December 2016 (latest available operational data as at 30/09/2016), EaSI achievements for the Microfinance Guarantee Instrument were as follows:

- Number of micro-loans: 13 021
- Total amount of micro-loans: EUR 152,29 million
- Total number of employees (in the supported micro-entreprises): 21 161

EaSI achievements for the Social Entrepreneurship Guarantee Instrument were as follows:

- Number of loans to social enterprises : 64
- Total amount of loan to social enterprises : EUR 5,67 million
- Total number of employees (in the supported social entrerprises): 1 168

Additional operational information

- As of 31/12/2016, 40 Guarantee Agreements (33 Microfinance, 7 Social Entrepreneurship) have been signed in 20 Member States for a total guarantee cap amount of EUR 59,41 million.

EaSI Microfinance Guarantee Instrument

- The original EU contribution of EUR 56 million earmarked for the EaSI Microfinance Guarantee has already been entirely used by the end of 2016, i.e. after 1,5 years of operation. In 2017, the demand from microfinance providers will remain significant but the available resources of the new EaSI Microfinance Guarantee (EPMF-G successor programme) will not be sufficient to cover it. Therefore, apart from the EFSI frontloading signed in December 2016 under the Amendment No. 1 of the Delegation Agreement, a top up of EUR 100 million is envisaged.

EaSI Social Entrepreneurship Guarantee Instrument

- Based on forecasts subject to variations a further EUR 11,25 million in operations is expected to be signed with Financial intermediaries for Social Entrepreneurship by the end of 2017.

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

Not applicable for 2016.

(g) The balance of the fiduciary account;

At the end of the financial year 31/12/2016 EUR 38 857 289

	In EUR
Balance on the fiduciary account (current account)	22 608 834
Term deposits/Bonds (if applicable)	15 146 401
Term deposits < 3 months (cash equivalent)	*15 146 401*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	

Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	1 102 054
= Total assets	38 857 289

Impact of negative interests for EaSi : no impact in 2016.[117]

(h) Revenues and repayments;

Revenues of the year 2016 EUR 20 776
Aggregate revenues as at 31/12/2016 EUR 24 561
Repayments of the year 2016 EUR 0
Aggregate additional resources regularised in 2016 for the instrument EUR 0

(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;

Called guarantees as at 31/12/2016: EUR 552 551

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

The target 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.

As of 31/12/2016, based on the signed Guarantee agreements, the expected volumes of loans to final recipients are estimated to EUR 753,58 million and the total EU Contribution Committed is EUR 69,61 million (EUR 68,79 million of aggregate budgetary commitments plus EUR 0,81 millon of EFSI exposure) which brings the expected leverage effect for Signed Operations to approx. 11 (minimum target leverage was set at 5,5).

As for achieved leverage, until 30/09/2016 (latest operational data available), the total EU Contribution Committed of EUR 68,79 million has supported so far EUR 157,96 million of new micro-loans and loans to social entrerprises, implying a leverage of 2,3.

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 30/9/2016, the EaSI -G already contributed to provide more than 157,96 million EUR of financing to 12 804 Final Recipients through 13 085 underlying loans, accounting for an estimated 225,65 million EUR investment amount.

For the EaSI Guarantee microfinance window,[118] the gender breakdown show that considerable outreach to females is already achieved (34,9% of the micro-borrowers guaranteed were women).

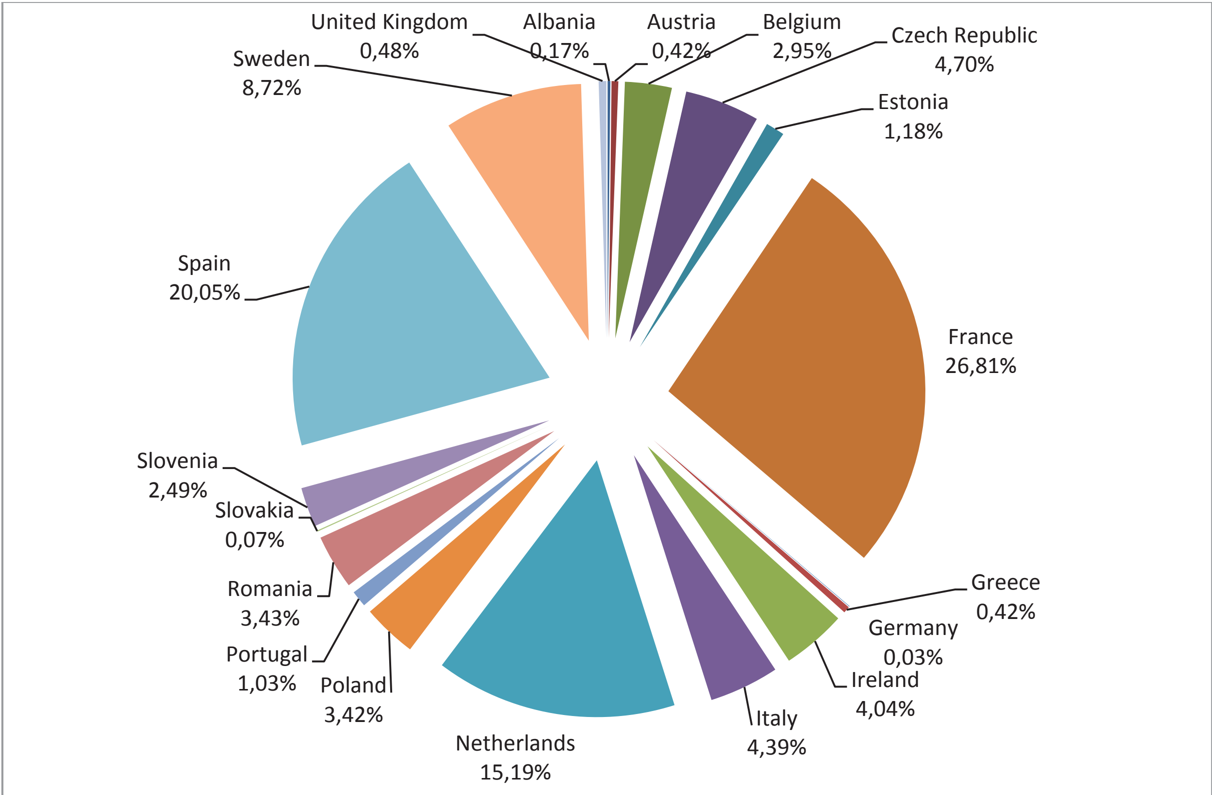
[117] There was no impact of negative interest either in the Trust Account or in the sub accounts.

In addition, 19,3% of individual micro-borrowers who received support under the Facility so far, were either unemployed or inactive at the time they received their loan.

Individuals which were final recipients of micro-loans were, by and large, educated at the secondary level (36,1%). Nevertheless, EaSI continues to be of importance in serving the financing needs of individuals with more substantial education beyond the secondary level (50%).

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) is 10,6%.

The share of each participating country in the total amount of financing already provided (EUR 152,29 million as of 30/09/2016) by the EaSI Guarantee instrument (Microfinance window) to eligible final recipients is presented in the following graph.



For the EaSI Guarantee social entrepreneurship window,[119] the reporting data collected shows that 39% of the social enterprises benefitting from the EaSI Guarantee have as main activity producing and/or distributing healthy and /or affordable food.

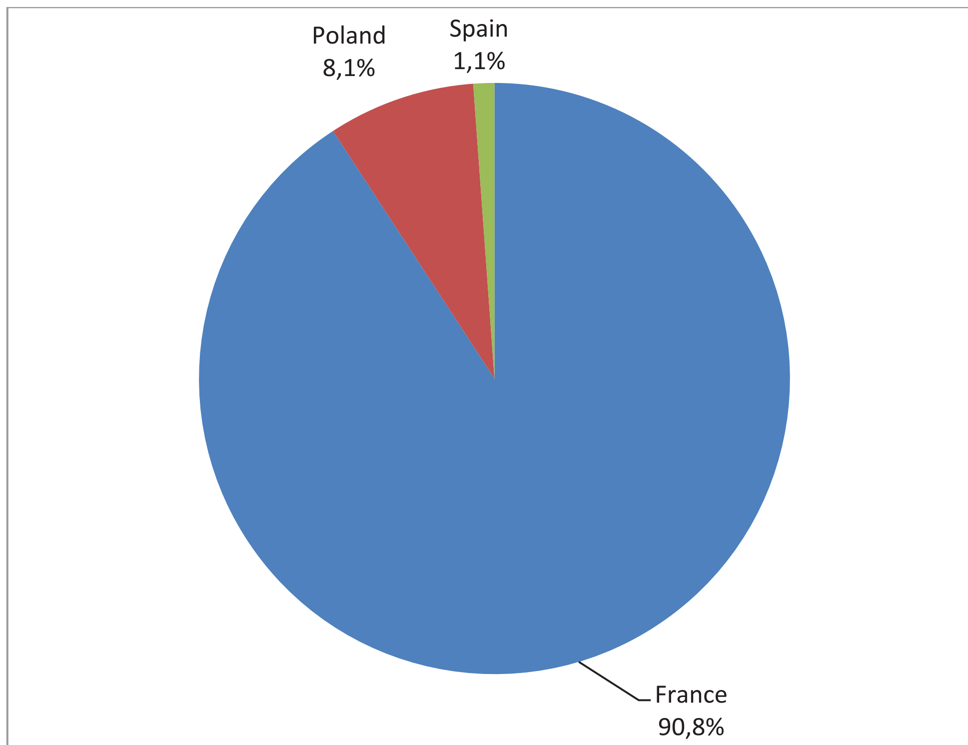
The vast majority of social enterprises supported (98,3%) have an annual turnover of less than 2 million EUR.

59,65% of the social enterprises supported reinvest up to 65% of their profits/surplus in the delivery of the social aim within the social enterprise.

[118] EaSI – Annual Impact Report 2016. The data used in this paragraph is based on a survey of a sample of micro-borrowers.

[119] EaSI – Annual Impact Report 2016. The data used in this paragraph is based on a survey of a sample of micro-borrowers.

The share of each participating country in the total amount of financing already provided (EUR 5,67 million as of 30/09/2016) by the EaSI Guarantee instrument (Social Entrepreneursip window) to eligible final recipients is presented in the following graph.



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 Union budgetary commitments for the years 2017-2020 have been frontloaded in order to make them available as of December 2016, enabling the EIF to sign operations more quickly to keep pace with the market demand. In general, in the area of microfinance, the available funding has reached the available commitments so the main issues arising for the implementation of the instrument are the necessity to ensure additional and on time available funding in order to facilitate the ongoing implementation and increased demand of the Programme.
- ***Main risks:***
    - 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 50,35 million (90% of the total amount of EUR 56 million foreseen for Microfinance) within a period of only 15 months of initial implementation (30/9/2015-31/12/2016).

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[120]
Current Overall Budget:	EUR 970 million[121]

A - Summary

The successful roll-out of the LGF continued in 2016, also thanks to the additional risk bearing capacity available from the SME Window of EFSI, with more than 143 000 SMEs already having received financing, with a strong focus on the smaller and younger SMEs which have more difficulties in getting the financing due to risk considerations.

B - Description

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

Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 – 2020) 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.

The Loan Guarantee Facility (LGF) provides:

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

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[120] 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.

[121] This amount is composed of the amounts committed towards the LGF for the year 2014-2016, of the amounts allocated towards the LGF in 2017-2018 as currently foreseen in the COSME work programmes and of the indicative amounts allocated to the LGF for 2019-2020. The 2017-2020 amounts are indicative and may be 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 LGF consists of:

- o capped portfolio 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 of 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 guarantees on the middle mezzanine tranche of securitisation operations.

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 31/12/2016 EUR 375 525 065
Aggregate budgetary payments as at 31/12/2016 EUR 182 966 661

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

Amount of EU Contribution committed to financial intermediaries, *out of which thanks to combined COSME/EFSI resources,* and the corresponding number of financial intermediaries , *out of which thanks to combined COSME/EFSI resources*;	EUR 611,7 million *EUR 495,1 million* 61 FIs *52 FIs*
Amount of financing expected to be provided by financial intermediaries to eligible final recipients, *out of which thanks to combined COSME/EFSI resources* , and expected number of eligible final recipients *out of which thanks to combined COSME/EFSI resources*;	EUR 18 904,7 million *EUR 16 194,8 million* 291 000 Eligible FRs *249 000 Eligible FRs*
Amount of financing already provided by financial intermediaries to eligible final recipients, *out of which thanks to combined COSME/EFSI resources;* and the corresponding number of eligible final recipients, *out of which thanks to combined COSME/EFSI resources*;	EUR 5 547,2 million *EUR 3 555,8 million* 143 344 Eligible FRs *58 656 Eligible FRs*
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 7 766 million[122]

Additional LGF operational information

As the resources available under the LGF 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 SME Window of the European Fund for Strategic Investment (EFSI) so as to avoid disruption of the succesful rollout of the LGF. Thanks to EFSI, the COSME LGF Enhancement continued its accelerated roll-out in 2016.

[122] Estimation based on EIF – EFSI multiplier calculation methodology with 1,4 EUR of mobilised investments for 1 EUR of mobilised financing

A third amendment to the COSME Delegation Agreement was signed in April 2016 to allow for the implementation of the securitisation option under the SME Initiative. Italy opted in 2016 for a combination of resources with COSME under this option.

(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;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 160 286 016

	In EUR
Balance on the fiduciary account (current account)	33 160 065[123]
Term deposits/Bonds (if applicable)	127 125 187
Term deposits < 3 months (cash equivalent)	*127 125 187*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	764
= Total assets	160 286 016

Impact of negative interest rates on COSME LGF: No impact as at 31/12/2016.[124]

(h) Revenues and repayments;
Cumulative Revenues as at 31/12/2016: EUR 292 263[125]
Cumulative Repayments as at 31/12/2016: 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 4 790 471

[123] Including EUR account and sub-accounts in tradable currencies (BGN, CZK, DKK, GBP, HUF, PLN, RON, TRY, HRK).
[124] Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained positive in 2016, mainly due to positive interest rates for GBP, HRK, HUF, PLN, RON and TRY, compensating the negative interest rates for EUR and DKK.
[125] Revenues as set out in the Economic Outturn Account of the 2016 LGF Audited Financial Statements.

(k) The target leverage effect, and the achieved leverage effect[126];

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 and the number of firms ranging from 220 000 to 330 000.[127]

The achieved leverage effect

Based on the amount of financing provided by financial intermediaries to eligible final recipients compared to the aggregate budgetary commitments as at 31 December 2016, including the actual EFSI exposure, the leverage achieved amounts to 9,7.

The "Expected Leverage for Signed Operations"

Based on the maximum amount of financing available to SMEs under the operations signed with financial intermediaries as at 31 December 2016, the expected leverage is 32,9.

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 2016, the LGF already contributed to provide around EUR 5 547 million of financing to more than 143 000 SMEs, also 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 2016, 67 guarantee agreements have been signed with 61 financial intermediaries located in 25 participating countries, with actual financing already provided to SMEs in 21 countries, as set out in the graphs below.

Available implementation data shows that the LGF more specifically supports the smaller and younger SMEs where it is recognized that they encounter more difficulties to get the financing they need. Under the LGF, more than 91% of the SMEs having got financing have below 10 employees and 45% are start-ups.

While it is still premature to fully assess the impact of the LGF, an initial analysis on a reduced sample base indicates that, on average, SMEs who benefitted from a guarantee under the LGF have significant increases in annual turnover (+ 16,4%) and in employment (+ 9,4%) at the end of 2015.

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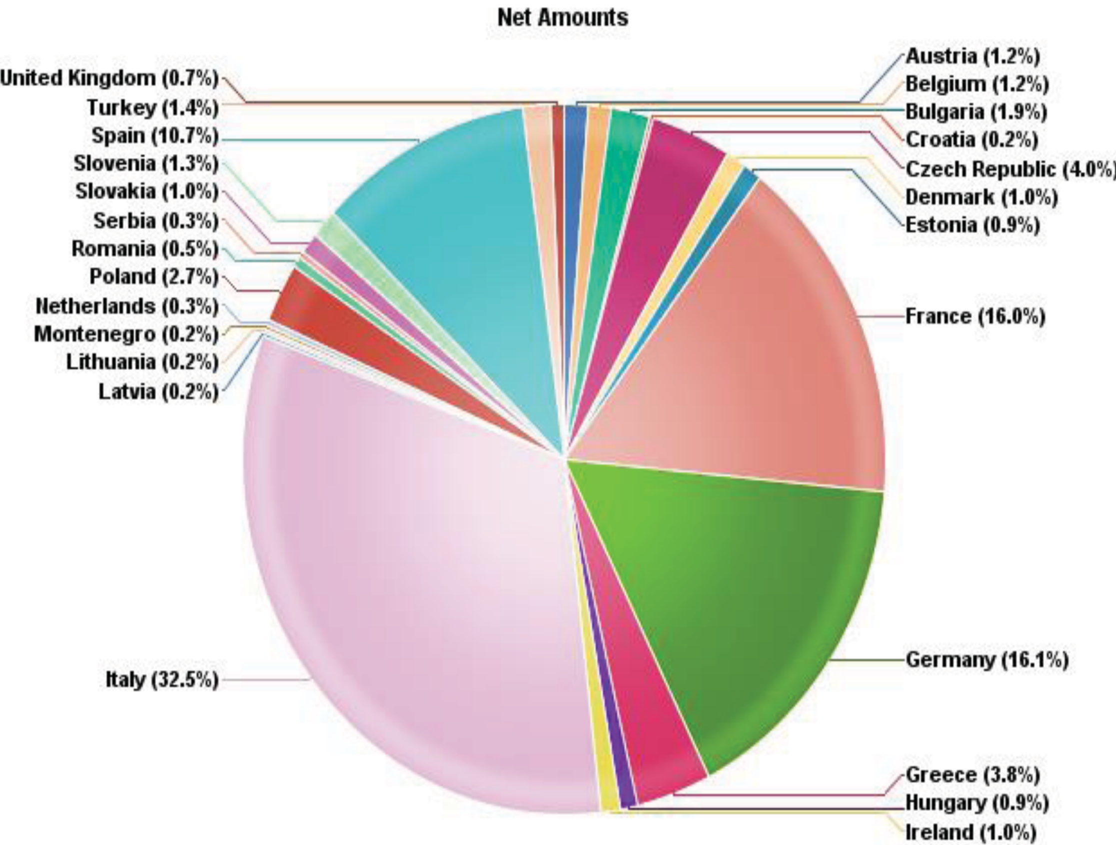
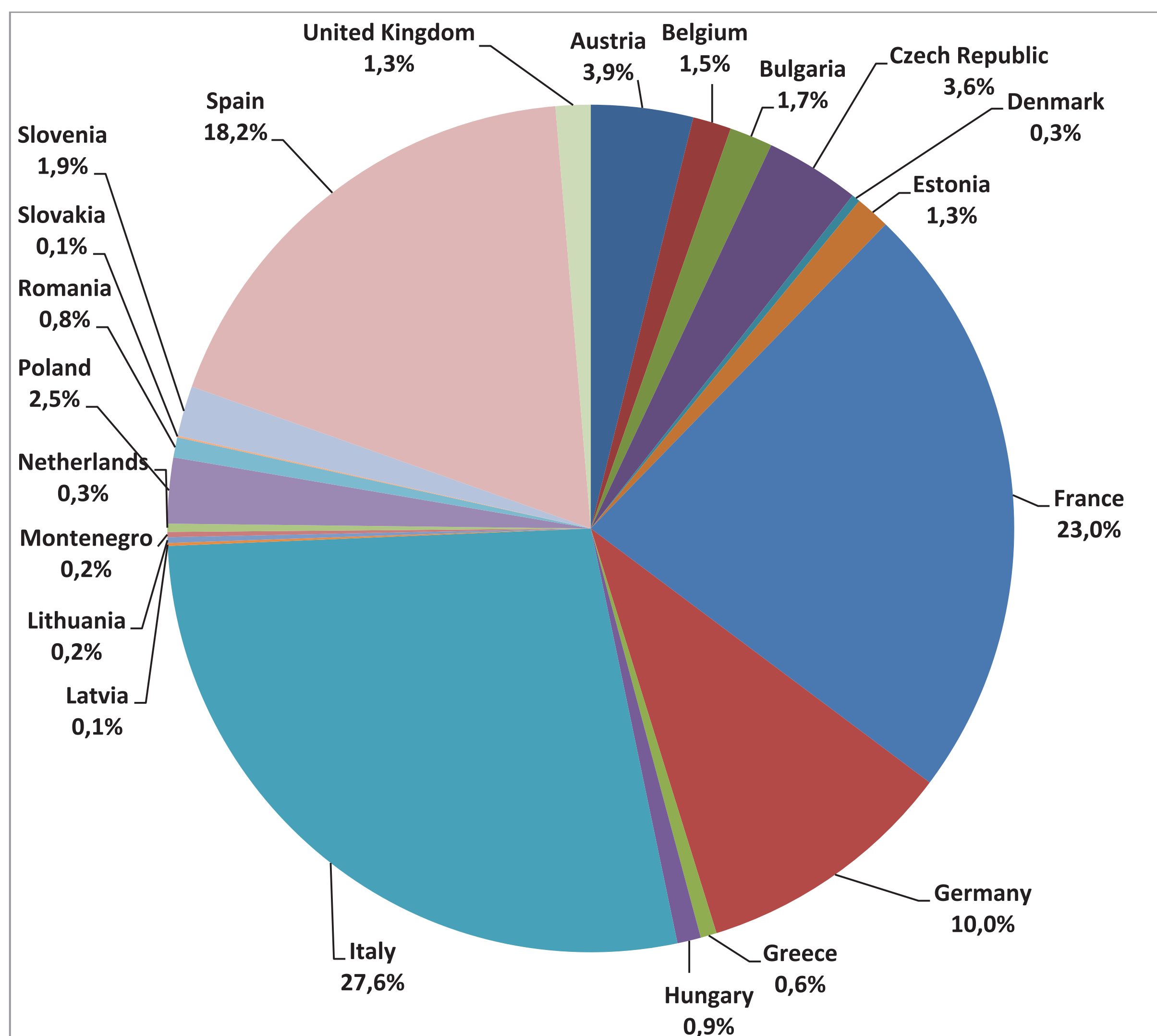
[126] Taking into account the combined COSME/EFSI resources, the aggregate amount of budgetary commitments (EUR 375,5 million) has been increased by the actual EFSI exposure as at 31 December 2016 as reported in the LGF Audited Financial Statements (EUR 198,8 million) for the purpose of calculating both the achieved and the expected leverage effect.

[127] Cf. Annex to Regulation (EU) No 1287/2013 on indicators for general and specific objectives and targets.

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



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



E - Other key points and issues

- ***Main issues for the implementation:***
  - It is crucial to continue to provide sufficient resources towards the LGF in order to avoid any disruption in later years of the programme as financial intermediaries start to apply for follow-on transactions to their current guarantee or counter-guarantee agreements.
- ***Main risks:***
  - No risks were identified with regard to eligibility of financial intermediaries and final recipients, contractual compliance process and performance.
- ***General outlook:***
  - Thanks to the conversion of the temporary additional risk-bearing capacity provided under EFSI into a permament top-up mechanism of the resources available for the LGF, it is expected that the continuous strong market demand can be met for the next years.

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 35 banks and guarantee societies: this has enabled them to support up to an estimated 4 146 innovative SMEs and small midcaps (estimated corresponding investment amount: EUR 4 660 million). In only two years' time, these financial intermediaries now cover 17 countries in the European Union and Associated Countries.

B - Description

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

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

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

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

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

Policy objectives and scope

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

Implementation arrangements

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

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

Aggregate budgetary commitments as at 31/12/2016	EUR 270 000 000
Aggregate budgetary payments as at 31/12/2016	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 35 banks and guarantee societies: this will enable them to support up to an estimated 4 146 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 2 331 million 4 146 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;

EUR 64,1 million have been assigned to InnovFin Horizon 2020 SMEs & Small Midcaps R&I Loans Service Facility which is the successor financial instrument of the pilot guarantee facility for R&I-driven SMEs and Small Midcaps under the FP7 (RSI).

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 181 825 346

	In EUR
Balance on the fiduciary account (current account)	7 979 809
Term deposits/Bonds (if applicable)	173 845 537
Term deposits < 3 months (cash equivalent)	*43 902 285*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	*80 807 109*
Bonds non-current	*49 136 143*
***Other assets* (if applicable)**	
= Total assets	181 825 346

Impact of negative interest on RSI: no impact as at 31/12/2016.[128]

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

(h) Revenues and repayments;

For the period 2012-2016 the following revenues and repayments were received by the EU on the EU RSI Account:

Total operating revenues[129]: EUR 1 892 423
Repayments: EUR 64 105 752

(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 31/12/2016 EUR 14 698 037

(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 3 301 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 2 331 million and an EU contribution of EUR 270 million

[128] Even with market conditions deteriorating over time, the net interest income generated on short term deposits are slightly negative in 2016 but remained positive in aggregate figures since implementation.

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

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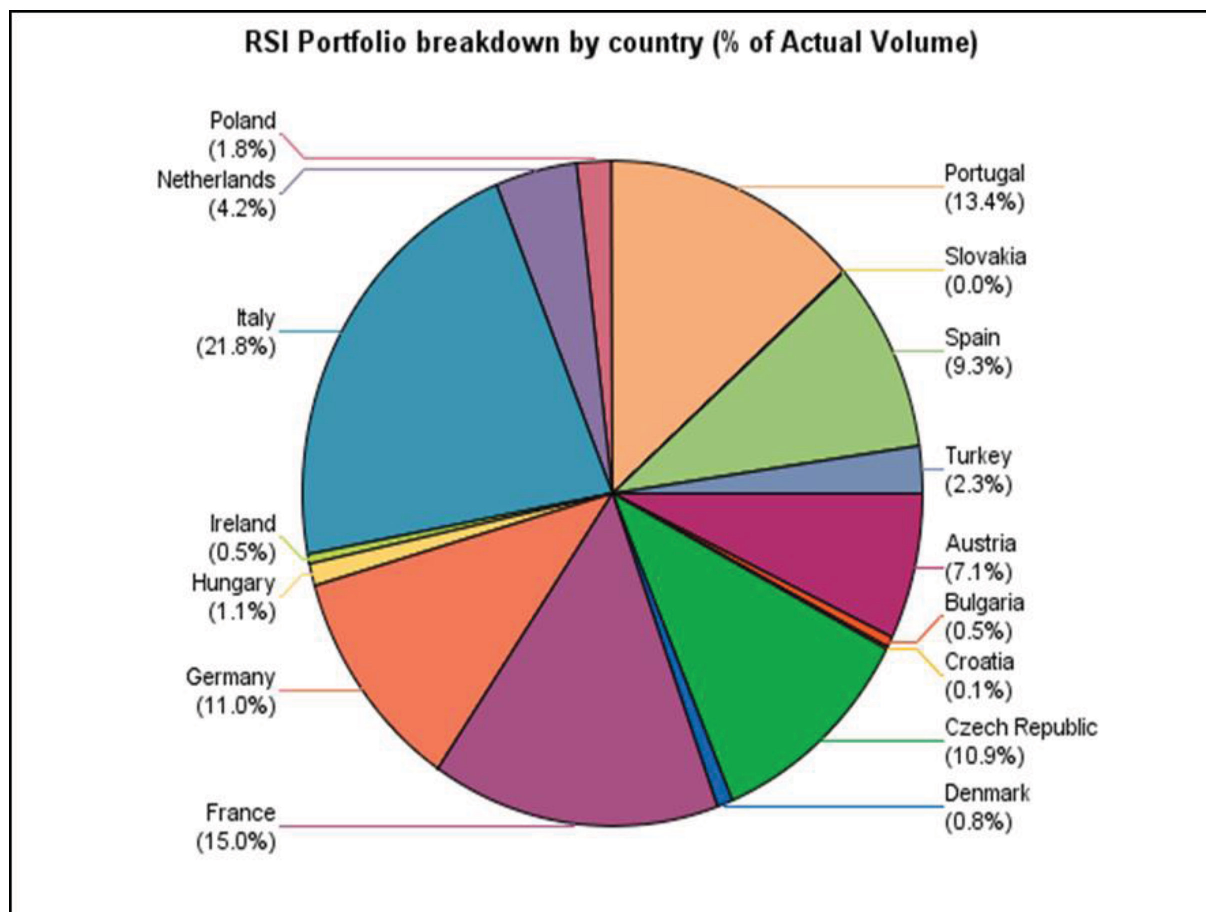
D - Strategic importance/relevance

(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 2016, the instrument has so far provided over EUR 2,33 billion in guarantees and counter-guarantees to 35 banks and guarantee societies: this will enable them to support up to an estimated 4 146 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 17 countries in the European Union and Associated Countries.

Graph: ***Geographical distribution of RSI actual portfolio volume in participating countries***



E - Other key points and issues

The Risk Sharing Instrument (RSI) has come to an end, and 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 (Innovfin SME Guarantee)

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

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

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 targeted 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.

The successful roll-out of InnovFin SMEG continued in 2016, also thanks to the additional risk bearing capacity available from the SME Window of EFSI, with more than 5 682 SMEs and small mid caps already having received financing

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 31/12/2016 EUR 534,47 million

Aggregate budgetary payments as at 31/12/2016 EUR 478,21 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, - out of which thanks to combined H2020/EFSI resources and corresponding number of eligible final recipients;	EUR 8 648 million EUR 6 939 million 24 400 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable - out of which thanks to combined H2020/EFSI resources	EUR 12 550 million EUR 10 070 million
Amount of financing already provided by the instrument to eligible final recipients, - out of which thanks to combined H2020/EFSI resources and the corresponding number of recipients;	EUR 1 944 million EUR 1 560 million 5 682 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 2 820 million

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

EUR 1,89 million of 2016 revenues have been assigned to InnovFin Horizon 2020 SMEs & Small Midcaps R&I Loans Service Facility

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 466 970 441

	In EUR
Balance on the fiduciary account (current account)	31 462 403
Term deposits/Bonds (if applicable)	435 508 038
Term deposits < 3 months (cash equivalent)	*19 060 566*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	

Bonds current	*66 443 183*
Bonds non-current	*350 004 289*
***Other assets* (if applicable)**	
= Total assets	466 970 441

Impact of negative interest rates on the Facility: no impact as at 31/12/2016.[130]

(h) Revenues and repayments;

Revenues[131]: EUR 2 168 480

(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 2 279 056

(k) The target , the expected and the achieved leverage effect;[132]

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.

Based on the amount of financing provided by financial intermediaries to eligible final recipients of EUR 1944 million compared to the aggregate budgetary commitments as at 31 December 2016, including the actual EFSI exposure, the leverage achieved amounts to 2,2.

Based on the amount of financing expected to be provided by financial intermediaries to eligible final recipients of EUR 8648 million compared to the aggregate budgetary commitments as at 31 December 2016, including the actual EFSI exposure, the leverage expected amounts to 9,6.

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 31/12/2016, the Innovfin SME Guarantee already contributed to provide 1 944 million EUR of financing to 5 682 Final Recipients, accounting for an estimated 2 820 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:

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[130] 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.

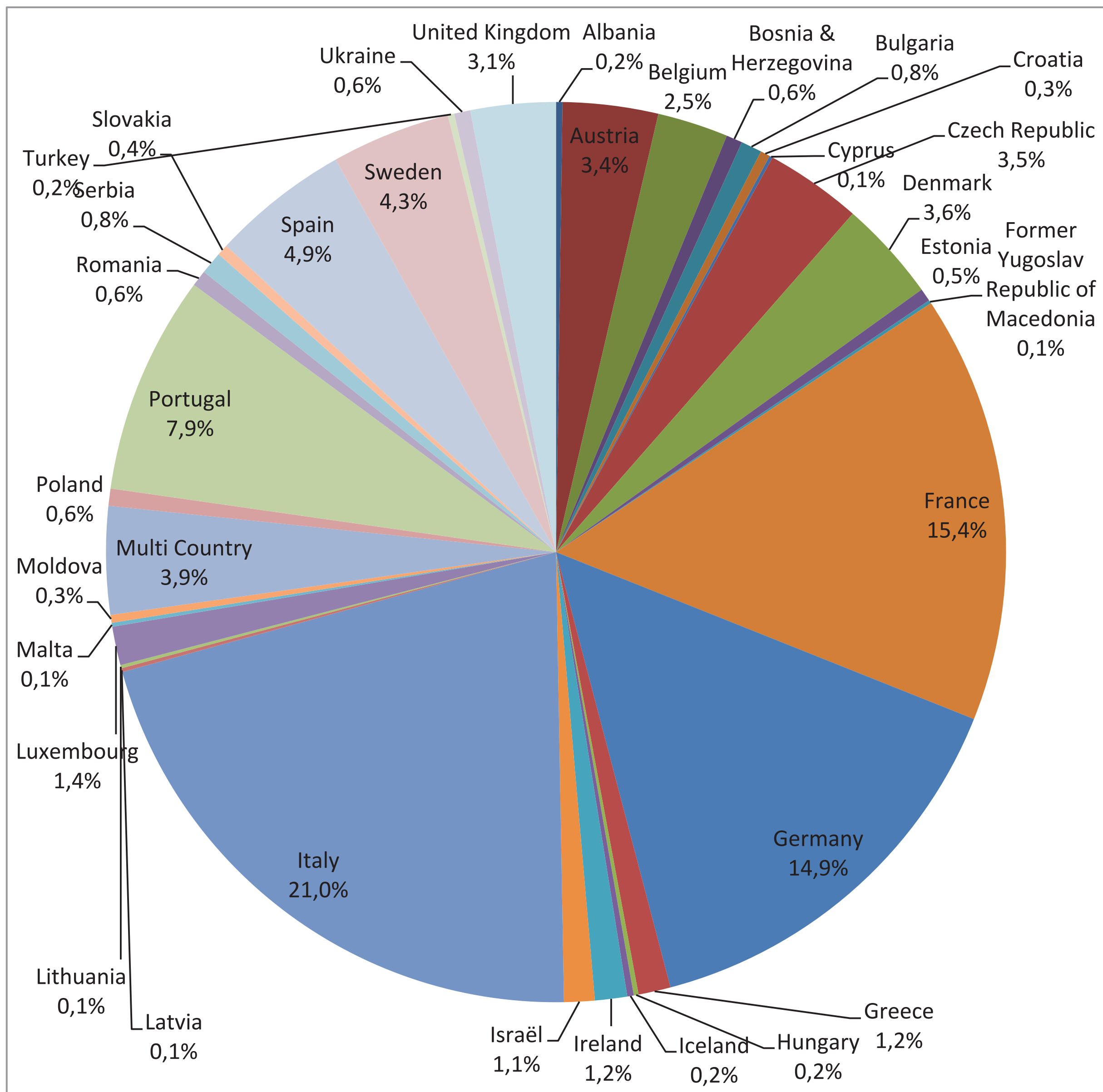
[131] Revenues and repayments reported include those notified by the entrusted entities as well as those stemming from the economic outturn account.

[132] Taking into account the combined H2020/EFSI resources, the aggregate amount of budgetary commitments (EUR 534.5 million) has been increased by the actual EFSI exposure as at 31 December 2016 as reported in the InnovFin SMEG Audited Financial Statements (EUR 364.8 million) for the purpose of calculating both the achieved and expected leverage effect.

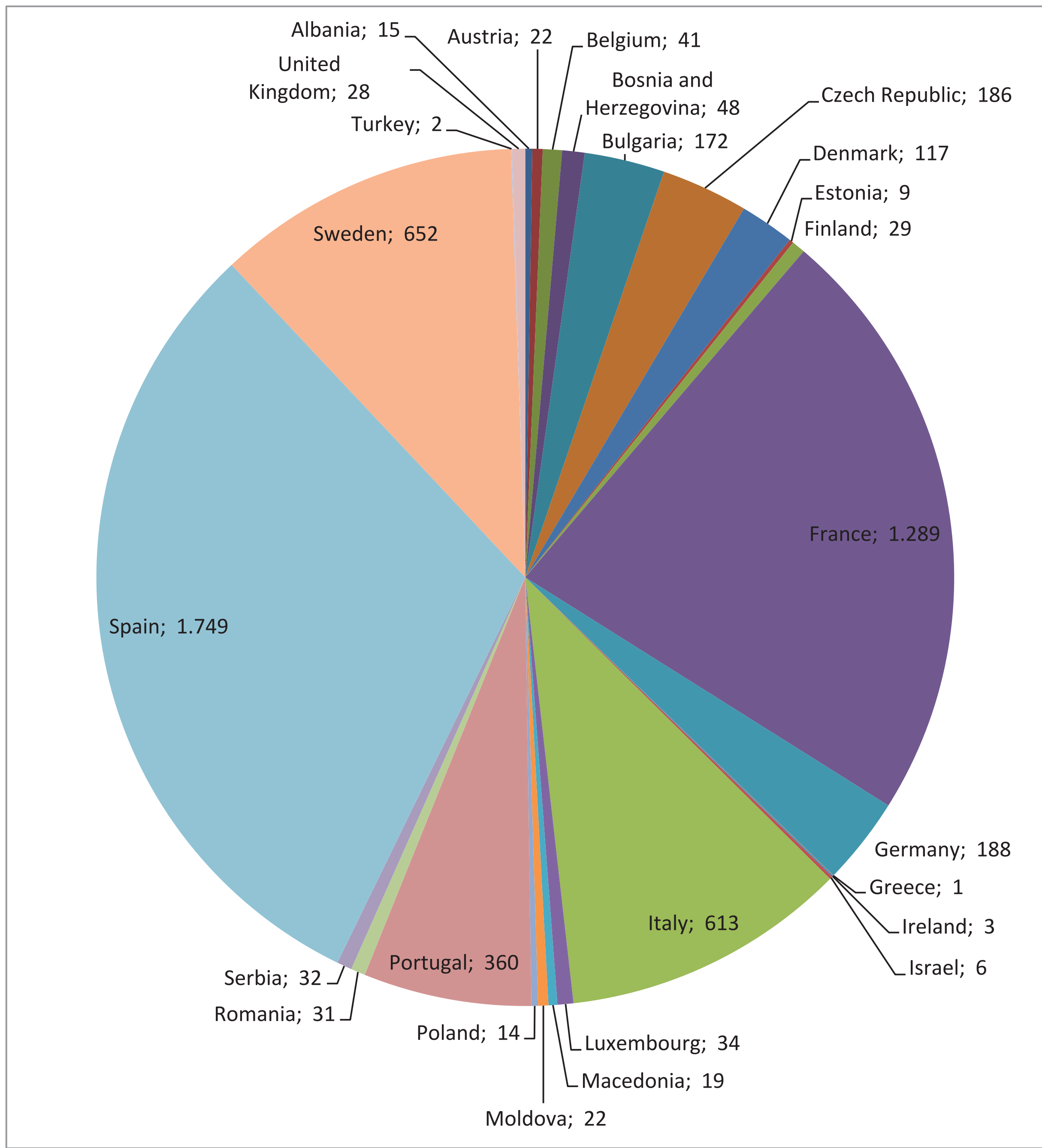
- increase in private finance and address the financing gap for innovative SMEs and Small Midcaps seeking loan finance for their riskier investments in RDI**;**
- support, via risk-sharing (guarantees and counter-guarantees), for innovative SMEs and Small Midcaps investing across Horizon 2020 Societal 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: ***Geographical distribution of InnovFin SMEG Maximum portfolio volume 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:**
  - 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[133]
Current Overall Budget:	EUR 121 million [134]

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

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

[134] 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 121 millions in the 2016-2020 period and a targeted leverage effect of 5,7 the financial instrument may leverage around EUR 689 million of additional funding or the cultural and creative industries.

B - <u>Description</u>

(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.[135]

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.

Implementation arrangements

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

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

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'.[136]

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[137]

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

Commitments:

Aggregate budgetary commitments as at 31/12/2016	EUR 14 800 000
Aggregate budgetary payments as at 31/12/2016	EUR 5 980 000

Nota: planned commitments: EUR 21 931 000 for year 2017
EUR 121 million for 2016-20 (indicative).[138]
Planned payments: EUR 3 307 715 for year 2017

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

NA :yet the first guarantee agreements with Financial Intermediaries were signed in Q1 2017

(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;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 5 676 072

(h) Revenues and repayments

EUR 0

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

NA (guarantee fund).

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

[137] 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.

[138] Note: this amount does not include a further (maximum) EUR 2 million expected recoveries from the preceding financial instrument the MPGF.

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

(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 689 million of additional funding for SMEs and organisations from cultural and creative sectors.

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

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

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

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

E - Other key points and issues

- ***Main issues for the implementation:***
  - To reach a sufficient critical mass of Financial Intermediaries to ensure a successful start to the programme.
  - To manage expectations, given the backloaded budgetary profiole of the CCS GF.
- ***Main risks:***
  - no specific risk identified.

- ***General outlook:***
  - based on market testing carried out by the EIF and direct contacts and an info session with potential Financial Intermediaries, there is a positive forecast demand for the guarantees.
  - The calls for expression of interest were published in Q3 2016, immediately after the signature of the Delegation Agreement between the European Commission and the EIF. The first guarantee agreements with the financial intermediaries from Spain, France and Romania were signed in A1 2017. There is a number of applications undergoing currently the due diligence procedure.
  - The call for the selections of the capacity building provider is expected to be published in the S1 2017.

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

Via guarantees to financial institutions the Erasmus+ Master Student Loan Guarantee Facilty seeks to make available loans on favorable terms for mobile Master students (regardless of their social background) studying in other Erasmus+ Programme countries. The guarantees will thus support mobility, equity and study excellence. As at 31/12/2016 the Facility's total commitment amounts to EUR 115,67 million.

The main priority in 2016 was to ensure a broader geographical coverage so that students across Europe are able to access loans supported through the facility in 2016-17. At the end of 2016 an amount of EUR 25 914 815 has been committed through signed guarantee agreements with 6 financial intermediaries in 5 countries, unlocking EUR 160 million in Erasmus+ Master loans.

Due to the delay in effective start-up (1,5 years) the current implementation is well below expectations. Given the market response and feedback, as well as the absence of the national promotional institutions, the initial budget envisaged in the Erasmus+ Regulation (EUR 517 million) appears too ambitious under the current time-frame. Discussion are ongoing with EIF on readjusting the necessary budget allocations.

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 - <u>Implementation</u>

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

Aggregate budgetary commitments as at 31/12/2016 EUR 115 667 000
Aggregate budgetary payments as at 31/12/2016 EUR 21 239 718

Nota: Commitments EUR 50 million foreseen in 2017
EUR 200 million for 2017-20 (indicative)
Payments EUR 1,5 million for 2016
EUR 7,1 million for 2017-18 (indicative)

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

In order to minimise risks on negative interest, an avoidance strategy is being implemented (via active treasury management). The reduction of the Minimum Reserve (from EUR 10 million to EUR 5 million) resulted in a reduced amount of payments required in 2016.

As Financial Intermediaries in the UK and Turkey signed up to the Facility, foreign currency purchases has to be made as non-speculative hedging to cover for eventual defaults by these intermediaries. These currencies are currently yielding a positive interest.

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;	159 967 994 11 500

Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	159 967 994
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	3 057 936 247 Master students
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	3 057 936

(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;
Aggregate balance of the fiduciary account as at 31/12/2016 EUR 15 938 990

	In EUR
Balance on the fiduciary account (current account)	2 964 028
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	*12 974 962*
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	15 938 990

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 EUR 10 to EUR 5 million was agreed;
- the Fiduciary Account was moved to another bank with better cash conditions;
- also a "call account" with better returns and condition was set up by the EIF.

The balance of the fiduciary account at 31/12/16 stands at EUR 15 938 990, with 2 964 028 in cash positions and EUR 12 974 962 in treasury assets.

(h) Revenues and repayments;

- Revenues of the year 2016: 100 285;
- Repayments of the year 2016: none;
- Additional resources regularised in 2016 for the instrument: none.

(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;
0

(k) The target leverage effect, and the achieved leverage effect;
EU contribution of EUR 517 million is targeted to unlock about EUR 2 947 million in student loans; the target leverage effect of the Student Loan Guarantee Facility is 5,7.

Due to the initial stage of the instrument and low initial take-up, the currently achieved leverage is low still (0,026)[139] and is intended to rise incrementally to an expected target leverage of 1,383 over the lifetime of the EU Guarantees signed.[140]

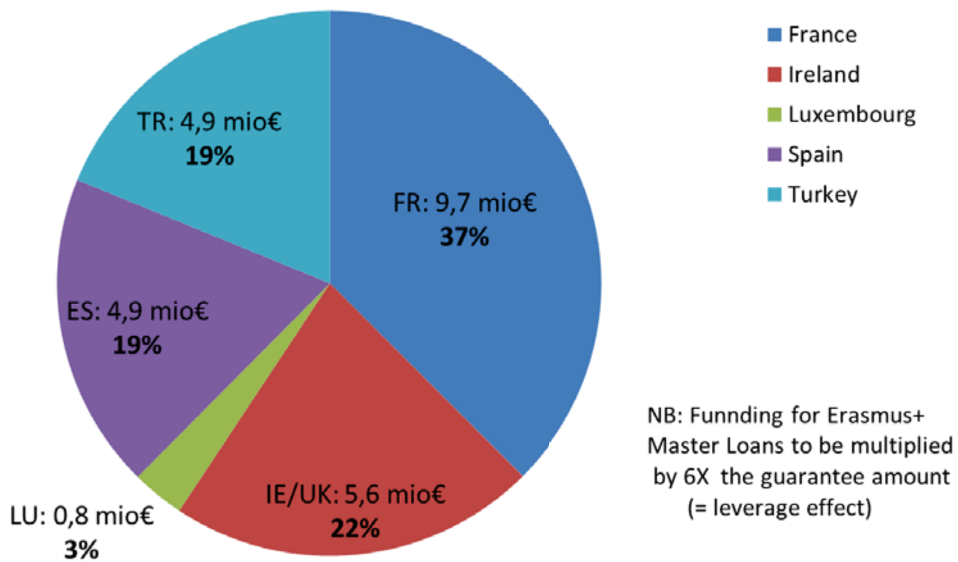
D - Strategic importance/relevance

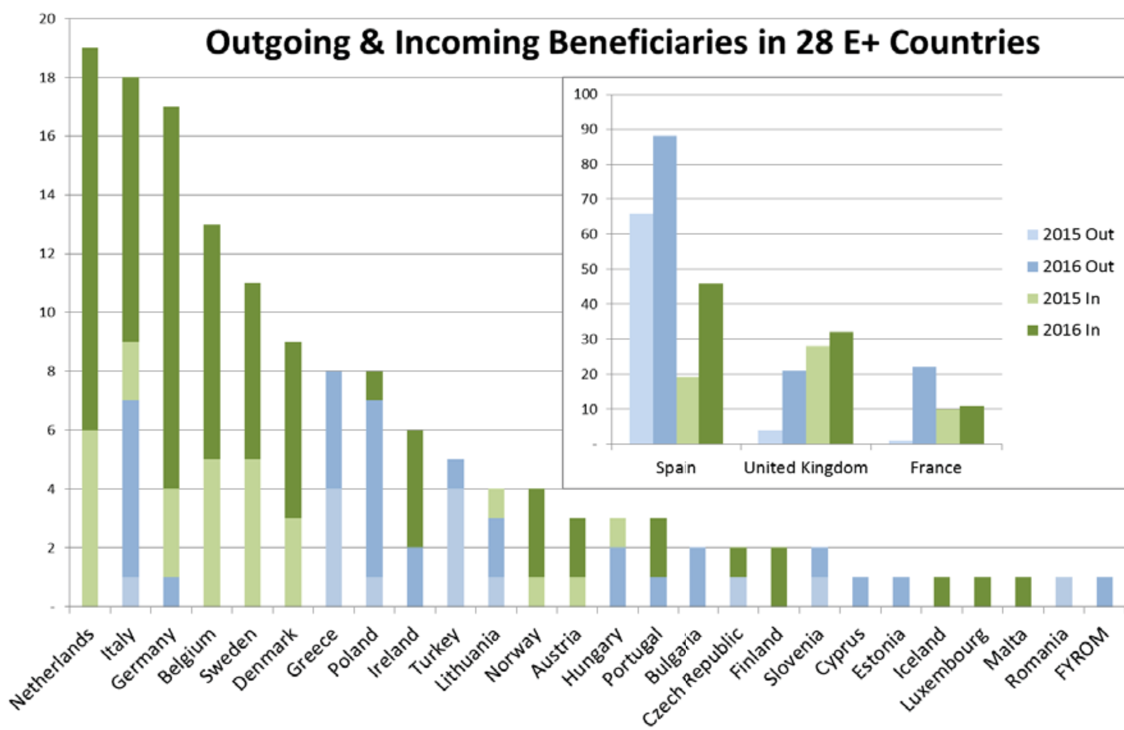
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

A call for Expression of Interest by Financial Intermediaries was published by the EIF in February 2015. As at the end of 2016, the ERASMUS+ Student Loan Guarantee Facility leveraged an amount of almost EUR 160 million of available financing (through 6 signed guarantee agreements totalling EUR 25 914 815), enabling to provide Erasmus+ Master Loans to an estimated 11 500 eligible Final Recipients during the next 3 years.

Further to the first guarantee agreement signed in June 2015 with a bank in Spain (resulting in 85 loans granted in 2015), financial intermediaries in France, the UK and Turkey, as well as a first university (from Luxembourg) joined the scheme in 2016. A further 162 students obtained an EU-guaranteed Erasmus+ Master loan, mainly through the Spanish intermediary. Already 28 of the Erasmus+ Programme Countries are either a country of origin or of destination for benefiting Master students.

[139] Source: EIF's Q4 Quarterly report dated 31/12/2016 with data as at 31/12/2016; total loan volume received by the recipient beneficiaries = 3 057 936 EUR / Total EU Contribution Committed = 115 667 000 EUR.
[140] Source: EIF's Q4 Quarterly report dated 31/12/2016 with data as at 31/12/2016; maximum portfolio volume = 159,97 million EUR / Total EU Contribution Committed = 115,667 million EUR.





In January 2017 the University of Luxembourg signed up to the Erasmus+ Master Loan Scheme, piloting an innovative arrangement (offering deferred payment of tuition and housing costs to incoming students - rather than a direct loan). This could potentially be replicated at universities in other countries and opens a highly interesting new deployment opportunity for the Facility.

Initial feedback from students was positive in terms of policy objectives and implementation, though limited by the small sample size[141]. 70% of respondents stated tey would not have been able to study for their Master abroad without the loan guaranteed through the scheme. Half of the respondents are 1st generation higher education attendees, with a substantial number having families with 'some difficulty in making ends meet'.

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 implemenation of the programme.
  - adequate geographical spread of Financial Intermediaries, so as to ensure wide availability of the student loans across the 33 Erasmus+ Programme Countries.
- ***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.
  - Sufficient information to students (by universities and national agencies) on the opportunities offered to study abroad.
- ***General outlook:***
  - The fact that universities are now participating opens up a highly interesting new deployment opportunity for the Facility, since universities are key stakeholders in the development of the Erasmus+ programme.
  - EIF is promoting this new opportunity with universities that could sign up individually, as well as in a national, thematic or European network;
  - In the light of the current take-up, the EIF and the European Commission will maintain their commitment to the scheme's objectives but review the necessary budgetary allocations.

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[142]
Current Overall Budget:	EUR 80 million *(2014-2017)*[143]

[141] The student beneficiary survey received 44 responses on a total of 85 students taking a loan in 2015.

[142] 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.

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.[144]

(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 but designed to be extended and scaled up. PF4EE aims to provide access to adequate and affordable commercial financing for eligible energy efficiency (EE) investments targeted by schemes developed by Participating Countries to implement their National Energy Efficiency Action Plans (NEEAP) or other programmes in line with EU Directives relating to Energy Efficiency.

Implementation arrangements

The PF4EE instrument provides to financial intermediaries (FIs):

- a portfolio-based credit risk protection (Risk Sharing Facility or RSF), combined with
- expert support services for the FIs in order to support the implementation of the PF4EE instrument and
- long-term financing.

The RSF is designed to mitigate the credit risk faced by FIs when lending to final recipients undertaking eligible EE investments. By means of collateral deposited on the collateral account, the RSF will cover losses at the collateral rate incurred under EE loans included in the portfolio to be built by the FIs for the financing of EE investments.

The size of the EE loans provided to beneficiaries range from EUR 40 000, which can be reduced to accommodate small investments within the residential sector, to EUR 5 million and in exceptional cases up to EUR 15 million.

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[143] Including EUR 3,2 million for the Expert Support Facility.

[144] (OJ L 116/1, 17.04.2014)

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 31/12/2016 EUR 70 000 000
Aggregate budgetary payments as at 31/12/2016 EUR 19 126 667

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

The PF4EE delegation agreement was signed on 8 December 2014. Agreements with a total of six financial intermediaries were signed by end 2016 and a total of 6 final recipients in the Czech Republic.

(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;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 17 987 757

	In EUR
Balance on the fiduciary account (current account)	17 230 928
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)**	756 829
= Total assets	17 987 757

Impact of negative interest on PF4EE: no impact as at 31/12/2016.[145]

[145] Notwithstanding the current market conditions, no negative interest was generated since the payments to the Trust Account.

(h) Revenues and repayments;

Revenues of the year 2016	EUR	629
Repayments of the year 2016	EUR	0
Asdditional resources regularized in 2016	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 envisaged to reach up to approximately EUR 430 million. Additional debt financing is envisaged 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 first six operations signed by the end of 2016 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 a total of six financial intermediaries were signed by end of 2016 and a total of 6 final recipients in the Czech Republic. The new operations brought the total amount committed by PF4EE to Risk Sharing Facility operations to EUR 28.9 million. By December 2016 the EIB had signed loans to support PF4EE operations for a total amount of EUR 375 million. The achieved 13x EIB loan-to-committed collateral ratio is higher than the originally expected 6x. This leverage ratio is expected to be maintained throughout the pilot phase of PF4EE indicating an efficient use of EU Contribution.

- *The "Expected Leverage for Signed Operations"*

The Delegation Agreement (DA) was signed in December 2014. Agreements with a total of six financial intermediaries were signed by end of 2016 and a total of 6 final recipients in the Czech Republic.

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 (DA) was signed in December 2014. Agreements with a total of six financial intermediaries were signed by end of 2016 and a total of 6 final recipients in the Czech Republic.

E - Other key points and issues

- **Three main issues for the implementation**:
  - the PF4EE instrument will provide valuable piloting experience for possible up scaling. This piloting phase will allow in particular to test the most appropriate level of protection (i.e. minimise) to be provided to financial intermediaries in about 10 banks in different Member States for different categories of beneficiaries.
  - Since its structure is fully decentralized (i.e. the risk protection is provided by the Commission by means of collateral deposited on collateral accounts, set for each financial intermediaries and managed by the EIB) the PF4EE is designed to allow for scalable levels of finance using structural funds. In this respect Managing Authorities of Member States can replicate (or provide financial contributions to) this instrument which ensures that the impact of the contribution provided remain within the relevant geographical area, building on the existing ex-ante assessment[146] 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:**
  - In 2014 it was expected that the instrument would support investment of up to EUR 540 million. However, following the operations signed in 2015 and 2016 and in view of the current pipeline, the EIB now targets to achieve EUR 1 billion of new investments by the end of pilot phase in 2017 (EUR 430 million from EIB and EUR 570 million from financial intermediaries), covering 10 Member States.
  - The 6 deals signed by the end of 2016 are the following:
    - Komercni Banka, Czech Republic: EUR 75 million worth of energy efficiency loans for corporates and lighting systems for buildings and industrial sites
    - Banco Santander, Spain: EUR 50 million worth of energy efficiency loans for hotels and other touristic buildings

[146] "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.

    - Credit Cooperatif, France: EUR 75 million worth of energy efficiency loans for SMEs and building renovation
    - BELFIUS, Belgium: EUR 75 million worth of targeted energy efficiency loans for SMEs
    - Banco BPI, Portugal: EUR 50 million in targeted loans for businesses
    - BPER, Italy: EUR 50 million worth of energy efficiency loans for private sector

  In 2017, additional deals could be signed in Croatia, the UK, Greece and Cyprus.

- The strong interest by banks and the increased EIB investment target indicate the underlying market demand and thus the potential for scaling up over the 2018-2020 period. In fact, PF4EE is contributing to creating a new financial product in the market targeting energy efficiency and consequently directly contributing to the decarbonisation of the EU economy, in line with the COP21 goals.

Brussels, 25.9.2017
SWD(2017) 312 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 2016

{COM(2017) 535 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 31/12/2016	EUR 960,73 million
Aggregate budgetary payments as at 31/12/2016	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 476 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 **EUR 839 290 000**

	In EUR
Balance on the fiduciary account (current account)	7 978 000
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	*100 927 000*
Term deposits > 3 months< 1 year (current assets)	*0*
Term deposits > 1 year (non-current assets)	
Bonds current	*44 159 000*
Bonds non-current	*675 149 000*
Other assets **(if applicable)**	11 077 000
= Total assets	839 290 000

Please note that the figures provided include RSI figures.

Impact of negative interest on RSFF: no impact as at 31/12/2016.[197]

(h) Revenues and repayments;

For the period 2007-2016, the following revenues and repayments were received by the EU on the EU RSFF Account:

Total operating revenues: EUR 279.43 million
Total repayments: EUR 196,57 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 31/12/16 EUR 10,69 million

[197] The net interest income generated on short term deposits are slightly negative in 2016 but offset by positive financial revenues on the bond portfolio .

(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 10,6 (amount of financing achieved / EU contribution), whereas the expected 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 - <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;

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.

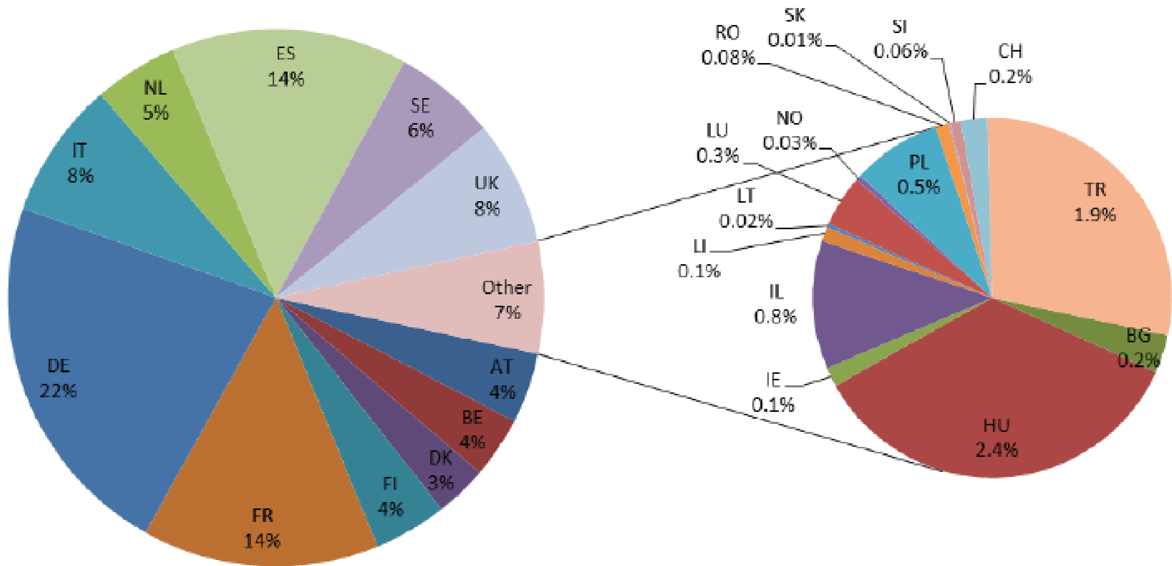
The first interim evaluation[198] concluded that the RSFF had been successfully introduced into the EU's research funding scheme within FP7, was a model example of an EU financial instrument, and should be further developed and strengthened. Recommendations included the need to better target SMEs and 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 - <u>Other key points and issues</u>

At the end of 2016, reflows of EUR 476 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 - <u>Summary</u>

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 31/12/2016 EUR 796 million[200]

[200] Including the transfer from RSFF to H2020 as indicated under 'additional information' of point h

Aggregate budgetary payments as at 31/12/2016 EUR 786 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 5 918,2 million 97 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 17 063 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 3 544,5 million 72 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 10 220 million

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

EUR 6 million of 2016 revenues have been assigned to Horizon 2020 Loan Services for R&I Facility

(g) The balance of the fiduciary account; EUR 697 996 000

	In EUR
Balance on the fiduciary account (current account)	1 000
Term deposits/Bonds (if applicable)	693 815 000
Term deposits < 3 months (cash equivalent)	*10 352 000*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	*71 598 000*
Bonds non-current	*611 865 000*
***Other assets* (if applicable)**	4 180 000
= Total assets	697 996 000

Impact of negative interest on the Facility: no impact as at 31/12/2016[201]

(h) Revenues and repayments;

Aggregate additional resources as at 31/12/2016 EUR 31 494 000

Additional information

It should be noted that EUR 476 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 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 31/12/16 90,53 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 31/12/2016 is close to 4,5 with an amount of financing provided of EUR 3 544,5 million and an EU contribution of EUR 796 million.

The expected leverage effect as at 31/12/2016 is close to 7,5 with an amount of financing signed provided of EUR 5 918,2 million and an EU contribution of EUR 796 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;

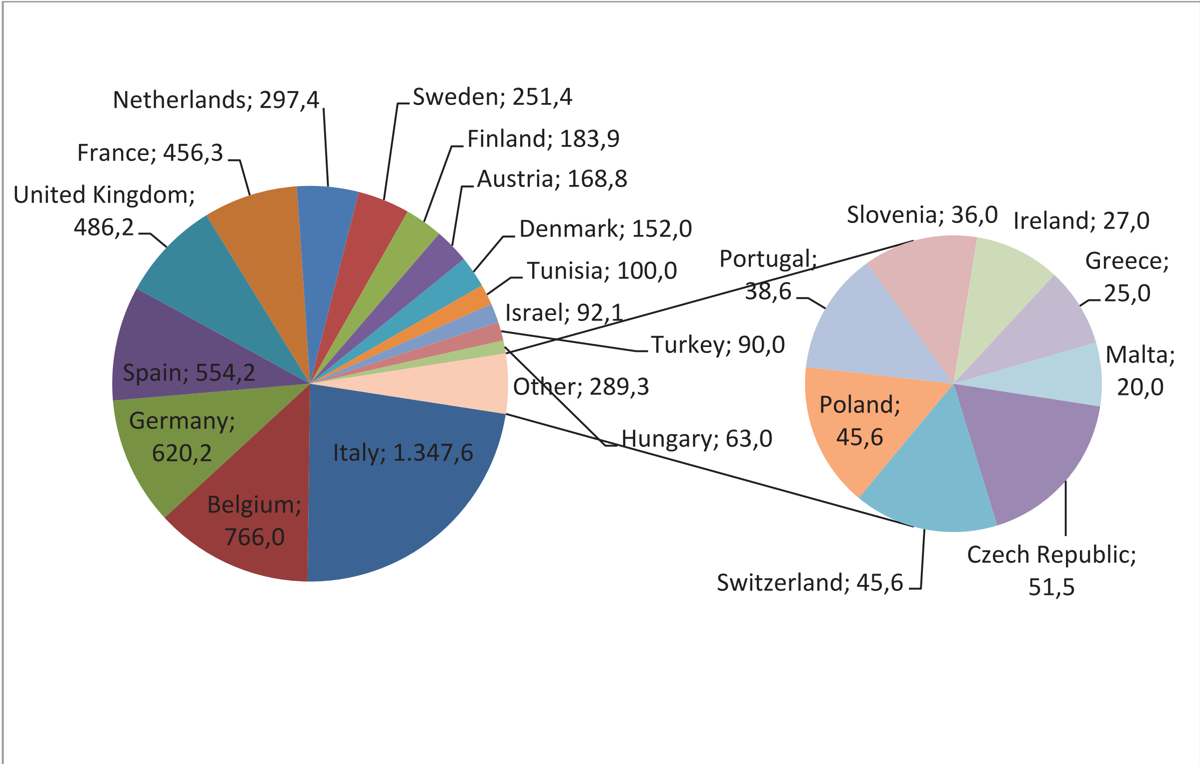
InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee, like their predecessor scheme (RSFF), are demand-driven instruments, with no prior allocations between sectors, countries or regions, or types or sizes of firm or other entities.

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.

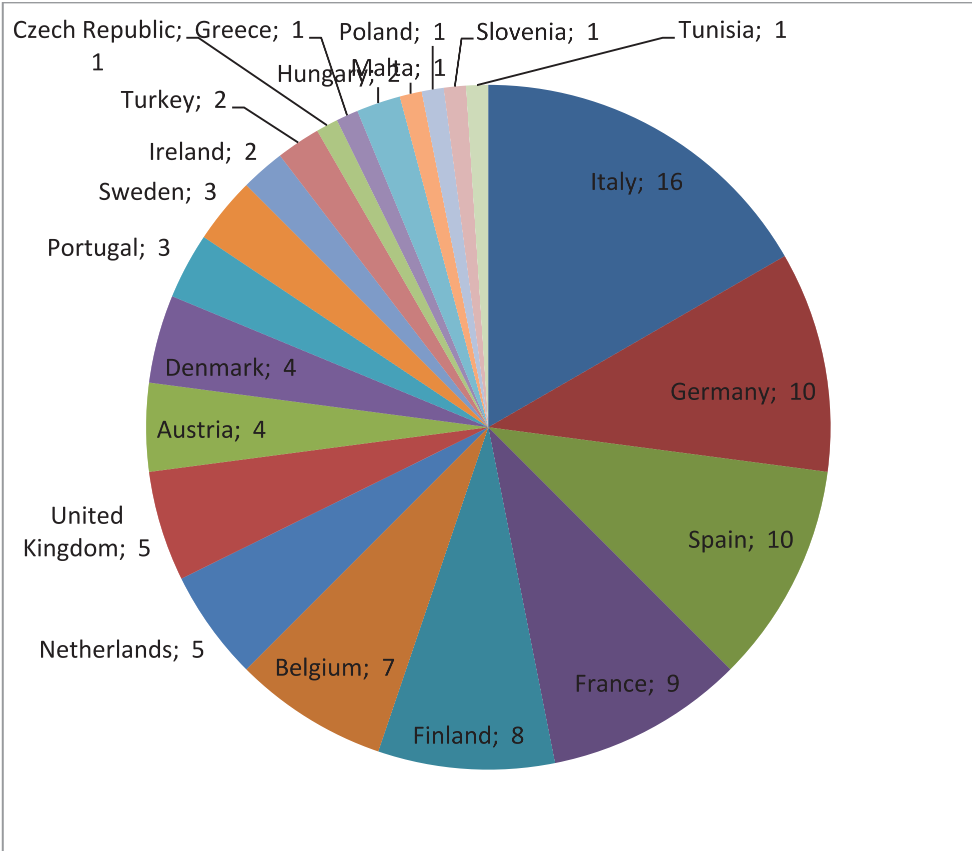
For 2014-2020, the EU contribution of EUR 1 060 million is targeted to mobilise an amount of financing of EUR 13 250 million for the target final recipients.

[201] The net interest income generated on short term deposits is slightly negative in 2016 but is offset by financial revenues on the bond portfolio

Graph: ***Signed loans EU+EIB windows as at 31/12/2016 (in EUR million)***



Graph: ***Number of operations by country as at 31/12/2016***



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. Risk sharing debt instrument under the Connecting Europe Facility (CEF Debt Instrument)

Including the legacy instruments: LGTT and Pilot phase of the Project Bonds (PBI) established in the period 2007-2013 and merged into the CEF Debt

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

	EUR 2 557 149 756
Current Overall Budget:	Up to 8,4% of the funds from the CEF Regulation (EU) 1316/2013 EUR 2 557 149 756

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[202].

(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).[203]

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.

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[202] (OJ L 348, 20.12.2013)

[203] European Commission (2014b), *Ex-Ante Assessment on the Potential Use of Financial Instruments within the Connecting Europe Facility*, March 2014.

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 DI. 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 Debt Instrument Steering Committee has approved a complementary approach of the interplay between EFSI and the CEF debt instrument and possible future instruments, 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 subordinated debt financing cannot 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 (as according to part III, point I of Annex I to the CEF Regulation).

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 (as according to part III, point I of Annex I to the CEF Regulation).

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 may also be selected (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 31/12/2016: EUR 688 669 980

MOVE	EUR	551 881 251
ENER	EUR	99 289 000
CNECT	EUR	37 499 729

Aggregate budgetary payments as at 31/12/2016: EUR 479 381 251

MOVE	EUR	449 381 251
ENER	EUR	10 000 000
CNECT	EUR	20 000 000

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

As at end 2016, following the merger of PBI and LGTT portfolios as of 1 January 2016, the CEF DI portfolio comprised 11 signed projects, as follows:

- Three projects in the transport sector (which benefitted from financing under the LGTT instrument;
- One energy project, i.e. Greater Gabbard project, signed in November 2013 under the Project Bond Initiative;
- One broadband project, i.e. Axione Telecom Infrastructure, signed in 2014 under the Project Bond Initiative;

- Three TEN-T projects were signed under the PBI, i.e. A11 Motorway (2014), A7 Motorway (2014), Port of Calais (2015), while two transport projects were signed after the portfolio merger in 2016, i.e. Passante di Mestre and N25 New Ross Bypass PPP;
- In June 2016, fiancial close for the refinancing of Autobahn A8 Augsburg-Ulm project in Germany (initially supported under the LGTT instrument) was achieved. The Senior Debt Credit Enhancement amounting to EUR 67.7 million played an important role in the optimisation process. No additional EU budget contribution was required for this refinancing.

An overview of the projects forming part of the CEF DI portfolio as of 31 December 2016 is provided here below:

CEF DI Project	Sector	Country	CEF DI product	Project Costs 31-Dec-2016 (EUR m)
AUTOBAHN A-5 PPP TEN	Transport	Germany	LGTT	628,4
EIX TRANSVERSAL C-25 PPP	Transport	Spain	LGTT	815,3
LGV SUD EUROPE ATLANTIQUE	Transport	France	LGTT	7 851
OFFSHORE TRANSMISSION NETWORK-ROUND 1 (Greater Gabbard)	Energy	UK	PBCE[204]	424,9
A11 BRUGGE PPP	Transport	Belgium	PBCE	657,5
N25 NEW ROSS BYPASS PPP	Transport	Ireland	PBCE	169
AXIONE TELECOM INFRASTRUCTURE	Broadband	France	PBCE	189,1
AUTOBAHN A-7 PPP TEN	Transport	Germany	PBCE	772,6
CALAIS PORT 2015	Transport	France	PBCE	862,5
PASSANTE AUTOSTRADALE DI MESTRE	Transport	Italy	PBCE	990
AUTOBAHN A8 AUGSBURG ULM PPP TEN	Transport	Germany	SDCE	505
				13 865,3

In November 2016, the first Framework Agreement under the EC-EIB Green Shipping Guarantee Programme has been signed for an amount of EUR 150 million between the EIB and Société Genérale as part of the pilot phase to be delegated under the CEF Debt Instrument. The pilot phase is expected to include Framework Agreements signed by the EIB with other partner financial institutions, and to take place in France, the Netherlands and the Scandinavian countries with an objective of providing financing for clean vessels or retrofitting of vessels.

[204] Project Bond Credit Enhancement

The Programme can be further rolled out under the EFSI for a total amount of EUR 750 million of approved financing with an estimated overall volume of investments amounting to EUR 3 billion.

Total financing and investment figures in the table below include the merger of previous instruments LGTT and PBI portfolios.

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;	Expected EIB financing supported by the EU contribution: EUR 1 377 million Total financing expected: 15 583 million eligible FRs N/A
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 15 583 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EIB financing supported by the EU contribution: EUR 877 million Total financing achieved: 13 865,3 million eligible FRs: 11
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 13 865,3 million

(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 31/12/2016

(g) The balance of the fiduciary account EUR 492 897 190

	In EUR
Balance on the fiduciary account (current account)	**7 101**
Term deposits/Bonds (if applicable)	**482 667 774**
Term deposits < 3 months (cash equivalent)	0
Term deposits > 3 month < 1 year (current assets)	0
Term deposits > 1 year (non-current assets)	0

Bonds current and investments in Unitary Fund	61 458 468
Bonds non-current	421 209 306
***Other assets* (if applicable)**	**10 222 315**
= Total assets	**492 897 190**

Impact of negative interest on CEF DI (*in EUR*) as at 31/12/2016: EUR 12 357

(h) Revenues and repayments;

According to the audited statements for 2016 the total revenues attributable to the Commission for the year amount to EUR 13 428 237. The revenues cover revenues from operating activities, including first loss piece remuneration, and financial revenues.

Accumulated Surplus as of 31/12/2016: EUR 23 805 002. This figure includes the revenues generated before 2016 by LGTT and PBI prior to the merger into CEF DI (EUR 4 097 607) which were paid to the EC and recorded in the FS only in 2016 in accordance with article 3 (f) of Annex 11 transitional provisions of the CEF agreement.

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

Not applicable

(j) The accumulated figures on impairments[205] of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

No impairments registered at 31/12/2016

(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).

The achieved leverage is quantified as the aggregate of the amounts raised to finance the projects supported by the CEF DI, divided by the aggregate amount of the EU Contribution committed to the instrument to date,[206] As at 31 December 2016, the achieved leverage effect amounted to approximately 20,1x.[207]

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

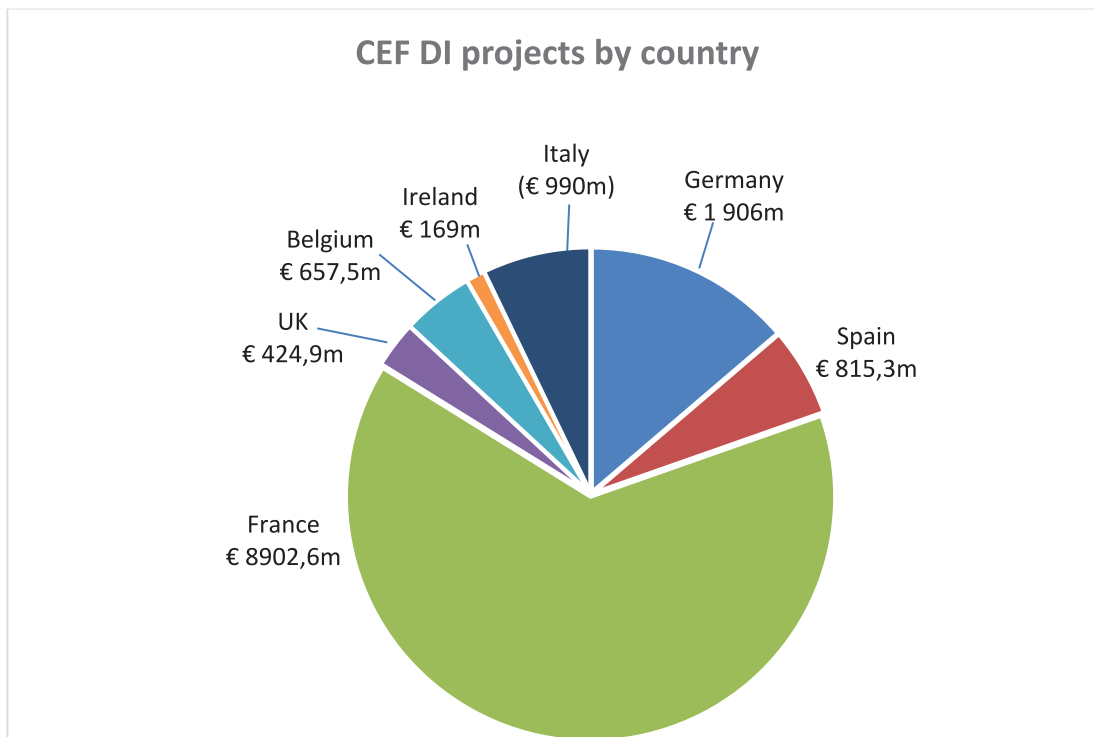
[206] The leverage is calculated as the ratio between the total project costs (including LGTT and PBI projects) and the total amounts committed from the EU budget to the instrument (including EU contribution committed to PBI and LGTT instruments). The calculation of the leverage achieved excludes the amount of the project costs that are expected to be supported under the framework agreement signed in November 2016 as part of the Green Shipping Guarantee programme. This is because at end 2016 there was no individual transaction signed by the partner financial institution with a final beneficiary.

[207] Total project costs EUR 13 865,3 million / Eu contribution committed EUR 688,7 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;

The financial instruments to be deployed under the CEF Debt 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 debt instrument under the CEF is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage. The CEF debt instrument 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 debt instrument 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

- **Main issues**

No specific issues.

- **Main risks**

No specific risks identified.

- **General outlook**

The CEF Debt Instrument has an important role to play through facilitating access to project and corporate financing of infrastructure projects eligible to the sectorial guidelines of the

CEF Regulation in a complementary manner to EFSI, in particular to pilot projects, sectors, or financings in Member States.

The latest pipeline of projects expected to receive support under the CEF Debt Instrument over 2017-2018 is as set out below:

Project	**CEF Sector**
Port Development	TEN-T
Port Development	TEN-T comprehensive network
Pilot phase of the Green Shipping Guarantee (first guarantee signed in November 2016)	TEN-T
Liquefied natural gas project	TEN-E
Gas PCI Programme	TEN-E
Natural gas pipeline project	TEN-E

3.4. 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[208]
Current Overall Budget:	EUR 60 million *(2014-2017)*

A - <u>Summary</u>

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

[208] 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. An extension of the implementation period is under prepration.

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.[209]

(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.

[209] 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. An extension of the implementation period is under preparation. 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 - <u>Implementation</u>

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

Aggregate budgetary commitments as at 31/12/2016	EUR 50 000 000
Aggregate budgetary payments as at 31/12/2016	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 2016.

(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 10 250 000

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	In EUR
Balance on the fiduciary account (current account)	**10 250 000**
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	**10 250 000**

Impact of negative interest on NCFF: no impact as at 31/12/2016.

(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;

• **The target leverage effect**.

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.

- **The achieved leverage effect**: NA for 2016

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 31/12/2016.

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 remain 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 operation, 'Rewilding Europe', has been launched in April 2017, and one or two further operations are expected to be signed in 2017. They concern two indirect operations, one in the form of a loan, the other in the form of an investment in an equity fund, and a direct loan operation. Several further potential operations are being investigated covering several project categories. The entities proposing the (potential) operations come from different MS. The investment that has been launched involves a larger number of MS. This is in line with the aim to have a balanced geographical spread.

3.5. EU SME Initiative (*focus on indirect Commission management part, i.e. COSME/H2020)*[210]

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)[211]
Current Overall Budget:	EUR 1 137 million (ERDF)

A - Summary

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 competitiveness 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),

[210] 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 aggregate data relevant with regard to the implementation of financial instruments under shared management will only be available by the end of each year, and this is true also for 2017.

[211] 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 31/12/2016) in Spain, Malta and Bulgaria. In Finland and Romania, financial intermediaries were at the stage of being selected by the EIF, so as to subsequently disburse new loans to SMEs, backed by the SME Initiative's uncapped guarantee. In Italy, 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%). Similarly, such target volumes can be calculated for the other participating Member States as well (see summary table in the Annex to the Report).

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):
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).

(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 was to expire on 31 December 2016. As defined in the funding agreement to 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 31/12/2016, financial intermediaries were selected in Spain, Malta and Bulgaria, and partly in Finland[212]. The selection process of banks by the EIF was still ongoing in Romania and partly in Finland, and in preparation in Italy. The instrument's implementation in all the participating Member States is based on their respective Operational Programmes approved by the European Commission between 2014 and 2016 and their Intercreditor and Funding Agreements signed in 2015 and 2016.

Added value
As indicated in the legal base, the added value of the EU contribution results in a minimum leverage effect (e.g. 4 in 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 e.g. around EUR 6 billion for Spain and Malta (based on all available funds, i.e. ERDF, H2020, EIB/EIF and private (bank) funds). Apart from this minimum leverage, for the ERDF part of the Initiative, most Member States have negotiated target leverages with the EIF in their Funding Agreements, which go beyond the respective minimum leverages.

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

[212] 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

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.

(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 31/12/2016: 23 280 826,31[213]

Aggregate budgetary payments as at 31/12/2016: 19 277 097,31[214]

(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 31/12/2016.

(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;

EUR 782 176 for all risk takers

(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

[213] Composed of EUR 19 277 097,31 from H2020 and EUR 4 003 729 earmarked under the aggregate budgetary commitments for the COSME Loan Guarantee Facility (LGF) only; nota for info: EUR 800,04 million for ERDF (OP amounts committed to the FI, as at 31/12/2015, and as reported by the managing authorities in accordance with Article 46 of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council (CPR) – see also comments above).

[214] from H2020 only; nota for info: EUR 800,04 million EUR for ERDF (OP amounts paid to the FI, as at 31/12/2015, and as reported by the managing authorities in accordance with Article 46 of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council (CPR) – see also comments above).

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.

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

SME Initiative in Spain:

- SIUGI actual total loan volume : EUR 2 616 million,
    - Out of which from H2020 : EUR 251,7 million
    - Number of SIUGI Final Recipients Transactions: 33 285

- The achieved leverage effect for signed operations over ERDF/Horizon2020 reaches 3,2

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 CPR[215]'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. Those for Bulgaria (ERDF contribution EUR 102 million) and Italy (ERDF contribution EUR 100 million) were signed towards the end of 2015, while those for Romania (ERDF contribution EUR 100 million) and Finland (ERDF contribution EUR 20 million) were signed in spring 2016. In all these Member States, following the signature of these Operational Programmes, Intercreditor Agreements (bringing together all the risk-takers/contributors to the structure, i.e. the respective Member State, the Commission, EIB and EIF) and Funding Agreements (between Member State and EIF – for the ERDF part) were negotiated and signed (the last ones in autumn 2016). Subsequently, the EIF launched calls for expression of

[215] 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

interest to select the banks that were to benefit from the uncapped guarantee and/or securitisation, in exchange for generating new loan portfolios to SMEs at favourable conditions for these final recipients.

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.

E - Other key points and issues

- ***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). In 2016, this workstream could be successfully finished, with the common provisions for option 2 being in place and available for implementation. .
- ***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 and the preparatory steps in all of the Member States concerned progressed according to plan in 2016, and the Commission was satisfied to see an increased takeup of the instruments. It is expected to continue in 2017 with the outstanding steps to be completed timely in 2017 (i.e. finalisation of the selection process of banks by the EIF for Romania and Finland and similarly in Italy, where this was less progressed though at the end of 2016).

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 EMPL
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 31/12/2016:	Commitments: EUR 80 million Payments: EUR 80 million

**Initial voted commitments out of which EUR 75 million from DG EMPL and EUR 3 million from EPPA (DG REGIO).*

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 30/09/2016, EIF had signed 50 loan agreements in 16 member states including a Commission contribution of EUR 80 million while 32 428 micro-enterprises and vulnerable persons had been supported under the Facility for a total microloans volume of EUR 236,06 million thereby supporing 56 861 jobs.[216]

As at 30/09/2016, the entire programme (EPMF-G + EPMF-FCP FIS) provided 56 221 micro-loans to final recipients, reaching the volume of EUR 471,7 million.

B - Description

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

Decision No 283/2010/EU[217] of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion.[218]

[216] EPMF FCP – 2016 Annual Implementation Report
[217] European Progress Microfinance Facility includes both Guarantees (EPMF-G) and Funded instruments (FCP-FIS).

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.

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.

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

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 ended 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 31/12/2016	EUR 80 000 000
Aggregate budgetary payments as at 31/12/2016	EUR 80 000 000

(e) The performance of the financial instrument, including investments realised (as of 30/09/2016);

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 402,3 million 60 062 eligible FRs[219]
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 574,71 million[220]
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 236,06 million 32 428 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 337,2 million[221]

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 31/12/2016 the total contributions of the shareholders (Commission and EIB) to the EPMF FCP amounted to EUR 180,00 million (Commission contribution = EUR 80 million to FLP and EIB contribution to second loss piece = EUR 100 million) .

As of 30/09/2016, 50 Agreements have been signed in 16 Member States including a Union contribution of EUR 80 million, with a clear geographical balance between Eastern and Western Europe.

Impact on employment

For the entire period as of 30 September 2016, EPMF achievements for the FCP-FIS component of the programme were as follows:

- Total amount of micro-loans: EUR 236,06 million
- Total number of microloans: 35 241
- Total number of employees (in the supported micro-enterprises): 56 861 [222]

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

As of 30/09/2016, the European Progress Microfinance Facility including both Guarantees and Funded instruments already provided 56 221 micro-loans to final recipients reaching the volume of EUR 471,7 million, compared to the initial programme target of 46,000 micro-

[219] Estimate based on an average loan amount per FB as at 30/9/2016 = 6 698 EUR

[220] 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.

[221] 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.

[222] EPMF FCP-FIS Annual Implementation Report – 2016, data as of 30th September , 2016.

loans with the volume of EUR 500 million. The Facility has already surpassed the initial programme target of 46 000 microloans. 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;

EUR 0 (for revenues and repayments to the Budget)

Nota : the FCP-FIS being a fund, there were some revenues generated within the fund; for the sake of completeness of information, here are the related figures

Revenues in 2016:	*EUR 3,5 million*
Aggregate revenues as at 31/12/2016:	*EUR 16,8 million*
Repayments in 2016:	*EUR 15,1 million*
Aggregate repayments as at 31/12/2016:	*EUR 24,8 million*

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

EUR 75,1 million[223]

(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 30/09/2016, based on the signed loan agreements, the total expected volumes of micro-loans to final recipients are estimated to EUR 402,3 million, bringing the expected leverage effect to 5,02 (the expected volumes of microloans divided by EUR 80 million of Commission's contribution); this is much higher than the minimum target leverage of 2,83.

As for achieved leverage until 30/09/2016, the Commission's contribution paid of EUR 80 million has supported so far EUR 236,06 million of new micro-loans, implying a leverage of 2,95.

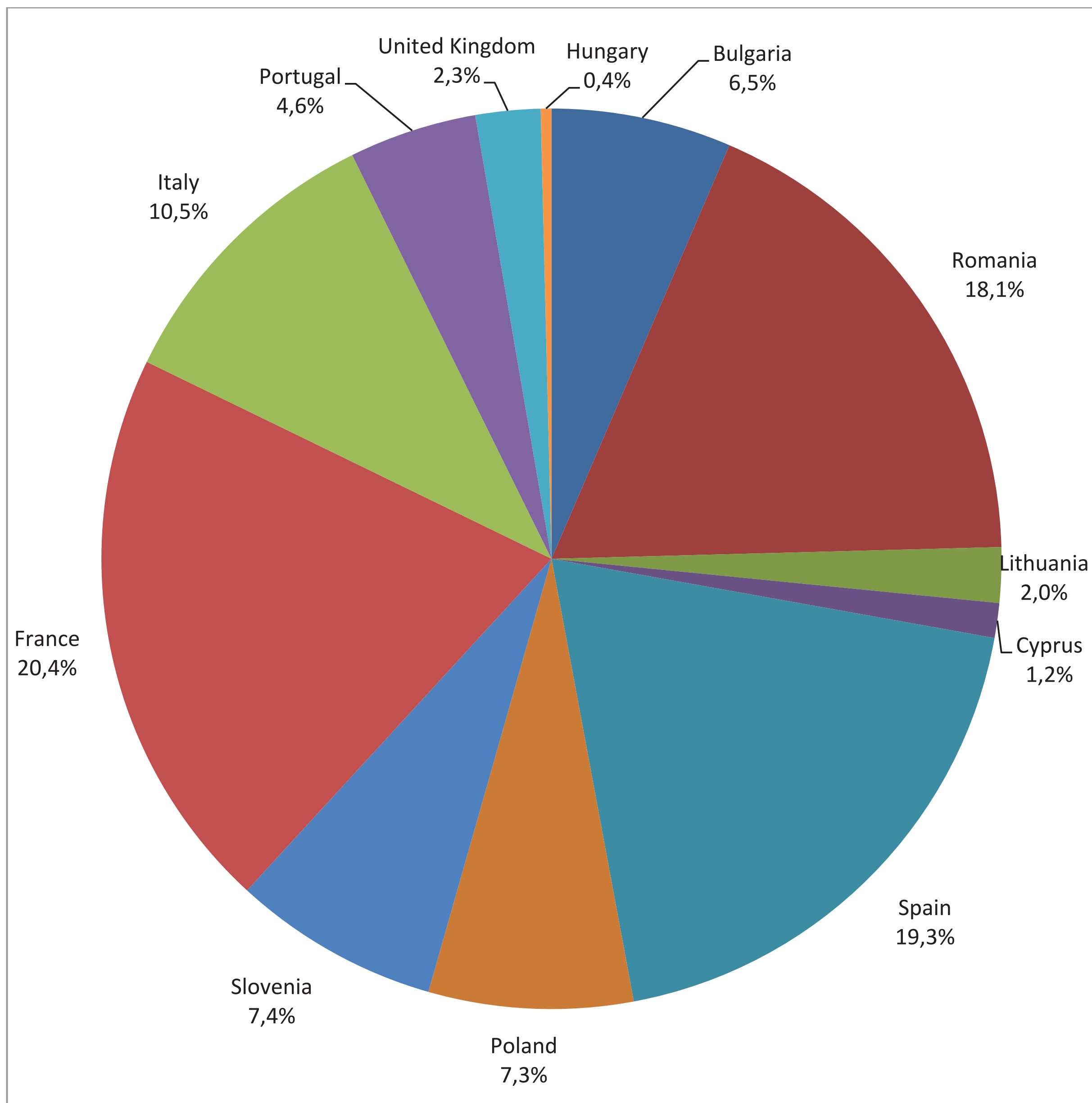
D - <u>Strategic importance/relevance</u>

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

(See above, under section "2.2 European Progress Micro-finance Facility – Guarantee, part "D"")

The share of each participating country in the total amount of financing already provided (EUR 236,06 million as of 30/09/2016) by the FCP instrument to eligible final recipients is presented in the following graph.

[223] NAV, source : 2016 audited accounts EPMF FCP-FIS



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

- ***Main issues for the implementation:***
  - in terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2016, 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 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:***
  - The Investment Period of the Fund ended on 7 April 2016, the Fund paid the first distribution for the repayment of units to investors (EIB) of EUR 23,85 million.

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 - Description

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

Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans- European transport and energy networks (OJ L 162, 22.6.2007, p.1). [224]

Commission Decision C(2010) 941 of 25 February 2010 on European Union participation in the 2020 European Fund for Energy, Climate Change and Infrastructure (the Marguerite Fund).

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

Policy objectives and scope
The Marguerite Fund is a Pan-European equity fund developed in the context of the financial crisis and in recognition of the need for successful long-term infrastructure investment in Europe. It supports infrastructure investment within the transport (TEN-T), energy (TEN-E) and renewables sectors in Member States and primarily invests in Greenfield Projects

Expected results:

- at least 3,5 times the 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 Private Placement Memorandum states that 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) and may be extended for up to two additional one-year periods. (up to December 2031).

In June 2016, following the recommendations made by the working group (consisting of representatives of Marguerite's Core Sponsors and the European Commission) in charge of identifying alternatives for a fund expansion beyond Marguerite I's investment period. the Supervisory Board decided (1) to extend the investment period, (2) to propose the establishment of a successor fund to Marguerite, and (3) to proceed to the sales of part of the current assets in the Portfolio after a market sounding exercice .

As a result, the investment period has been extended to December 2017 in order to ensure the continuity of investment activity while establishing the successor of the current Fund ("Marguerite Fund II").

Implementation arrangements

[224] (OJ L 162/1, 22.6.2007)

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 twelve projects as of December 2016 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 31/12/2016	EUR 80 000 000
Aggregate budgetary payments as at 31/12/2016	EUR 43 720 000

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

As of 31 December 2016 the Marguerite Fund has committed to invest in twelve projects: three projects in TEN-T transport and seven in the renewable energy sector, one in energy and one in ICT. This represents a total equity commitment by the Fund of EUR 455 million supporting a total project cost of EUR 1 842 million.[225]

The Fund committed EUR 66,8 million of equity to the three TEN-T transport projects (16%).

The table below shows the detailed list of the projects.

Projects in fund portfolio (as at 31-12-2016), in EUR million[(1)]		
Project name (Country) – year	**Sector**	**Totals**
C-Power (Belgium) – 2011	Renewables	
Toul (France) – 2011	Renewables	
Massangis (France) – 2012	Renewables	
Aeolus (Poland) - 2012	Renewables	
Chirnogeni (Romania) – 2012	Renewables	
Autovia Arlanzon (A1) (Spain) - 2012	TEN-T	
Poznan Waste-to-Energy (Poland) – 2013	Renewables	
Butendiek (Germany)[(3)] - 2013	Renewables	
Zagreb Airport (Croatia) - 2013	TEN-T	
N17 – N18 motorway (Ireland) - 2014	TEN-T	
A/S Latvijas Gaze	Energy	
Rosace SAS	ICT	
TOTAL EQUITY COMMITMENT[(2)]		**455**
TOTAL AMOUNT OF MOBILIZED FINANCE[(3)]		**1 842**

Source: *Services calculations based on fund reports as at 31-12-2016*

Notes:

(1) The EC has a 11,27% share in the fund

[225] The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project (sources: EVCA Report 31/12/2016 – page 6). 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. For the 3 projects still under construction, not all of the finance mobilized was invested as of 31-12-2016.

(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 twelve projects in the portfolio are at various stages of development: eight are already fully constructed and operating, and four are still under construction (Autovia Arlanzon, N17/N18 Motorway, Zagreb Airport and Rosace SAS). In the course of 2016, the fund received distributions for an amount of EUR 9,2 million[226] from several projects. This allowed the fund to cover its operating costs without drawing on investors' capital calls to fund them.

Following a decision by the Management Board, a cash distribution to investors of around EUR 50 million - resulting from refinancing gains and dividends of projects financed by Marguerite, will take place at the end of April 2017. In this context, the EU budget will receive EUR 5.63 million.

In 2016 two deals were succesfully concluded:

- 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 December 2015.
- 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 21,5 million).

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 was 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

[226] Progress Report (XXVII) to the Supervisory Board – 31/12/2016 (page 8)

	Marguerite equity investment was 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 455 million of equity committed by the Fund to 12 projects (final recipients), which mobilized EUR 1,8 billion of finance in equity and EUR 5,4 billion of finance in total (Marguerite equity, co-investor equity and debt). [227]
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 5,4 billion of finance mobilized[228]

(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 31/12/2016.

(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 31/12/2016, no distribution has taken place. A distribution of up to EUR 5,63 million will occur by end of April 2017 (see information provided above).

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

Compared to the value for 31.12.2015 the Net Asset Value of the Commission investment in the fund has increased from EUR 37,9 million to EUR 54 million. This implies a change of the non-realized capital gain of the Commission from EUR 6,6 million to EUR 10,3 million representing an increase of EUR 3,7 million over the course of the year 2016.

[227] 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.

[228] See detailed definition in the previous footnote.

In EUR	31/12/2015	31/12/2016
Cumulated payments by EC	31 320 000	43 720 000
Fair value (NAV) of EC stake	37 912 657	54 023 534
Non-realized capital gain (loss) of EC	**6 592 657**	**10 303 534**

Source of Net Asset Value: Quarterly report of the Marguerite Fund to 31 December 2015 and 2016, 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.
A depreciation (EUR 2,8 million) of Aeolus shares (EUR 23,16 million) has been recorded in order to reflect the lower production and the decrease of green certificates in Poland.

The corresponding losses for the Fund have 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 2016.

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

- **The target leverage effect**:

No target leverage effect was indicated in the legal base.

- **The achieved leverage effect**:

Between 2009 and 2016, Marguerite invested an amount of EUR 456 million in projects (mainly equity and mezzanine loans). The total estimated amount of equity provided (by Marguerite and other investors) to projects supported by Marguerite was EUR 1 842 million[229] at the end of 2016. The EU budget payments to Marguerite stood at EUR 43,72 million out the total EUR 80 million committed.

This means that the leverage effect amounts to 42 (= 1 842/43.720). The leverage effect computed at the level of Marguerite Fund is around 4 (= 1842/456) due to the significant percentage of participation in equity that the Fund has taken.

At the end of 2016, the overall investment mobilised under the twelve deals in which Marguerite Fund has invested amounted to EUR 5 402 million (this includes both equity and debt). This shows the capacity of the Fund to mobilise other resources (mainly from the private sector) in the deals supported by Marguerite.

The way to compute the leverage effect has been updated and further explained to address an issue raised in the report on financial instruments issued by the Court of Auditors in the

[229] Figures mentioned in the paragraph are extracted from the EVCA report – 31/12/2016 (unaudited data)

course of 2016. This new computation allows to clarify the leverage effect's computation for Marguerite vis-à-vis the other financial instruments managed by the European Commission.

D - Strategic importance/relevance

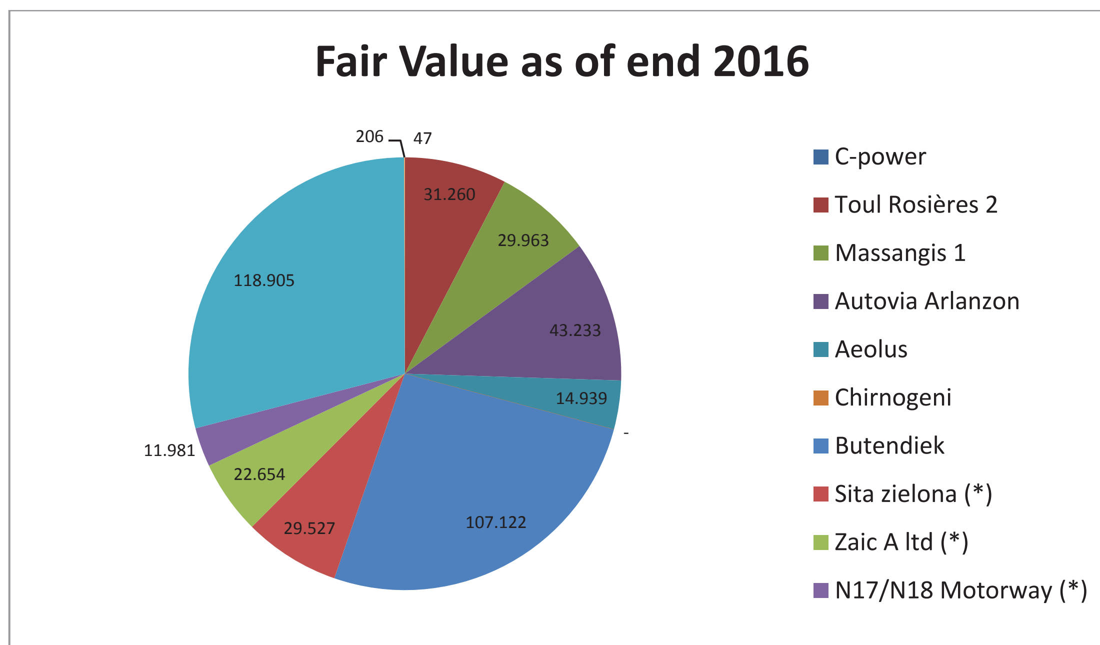
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

As of 31-12-2016, 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 1,5x of the amounts paid by the Commission to the fund as of 31-12-2016. This is still below the 3,5x target established for the end of the investment period. Two deals are currently under discussion (RCEA road PPP and Greek regional airports).

As of 31-12-2016, 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 455 million of equity commitment to ten projects representing EUR 5,4 billion of mobilized finance (equity and debt).



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

- **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.
  - The Fund operates in full compliance with its Investment Guidelines and other governance and operational provisions.
- **General outlook : future of the Marguerite Fund:**
  - The Fund constantly develops a pipeline of investment opportunities across the target sectors (TEN-T transport, renewable energy, energy and ICT). It is in close contact with market participants and actively seeks out new transactions.
  - As the term of the investment period is scheduled on December 2017, potential deals assessed in the course of 2017 could end up in the portfolio of the Marguerite Fund II, when this is finally established.
  - The NPBs and the EIB have already well advanced in their internal validation procedures which constitute a necessary step prior to the establishment of Marguerite Fund II. This process should be finalised in the course of 2017.
  - The European Commission will not directly invest in the structure but will be linked to the successor of Marguerite Fund by the fact that the EIB's participation is expected to be carried out under EFSI and a part of it is guaranteed by the EU budget.

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[230]. 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 actively looking for additional investors.

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[231]

[230] 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.

[231] (OJ L 346, 30.12.2010, p. 5)

(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 SIF). 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[232].

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').

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 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[233] 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 2016, 12 projects were approved for EUR 128 million. Apart from this, there is no fixed deadline for proposals.

Implementation arrangements

Fund/Investment Manager

Deutsche Bank (DB) is responsible i.e. for selecting projects and conducting a due diligence process before submitting the projects to the Fund's Investment Committee for advice and to the Management Board for approval. DB also managed the TA component, submitting TA propositions to DG ENER for approval.

Investment Committee

The Investment Committee (IC) is responsible for assessing projects submitted to it by the fund manager and giving recommendations to the Management Board. Two EIB members and one member from CDP are appointed to the IC.

Management Board

The Management Board (MB) has broad powers to administrate and manage the Fund; it decides on the investments upon recommendation by the IC. However, it cannot decide on major issues (such as change of the statutes and documentation) without approval by the Supervisory Board (SB). It reports quarterly to the SB. It is composed of representatives from the European Commission (1), the EIB (1, the chair) and the CDP (1).

[232] 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.

[233] 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.

Supervisory Board
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 standard financial products such as senior loans, subordinated and shareholders loans, more sophisticated equity participations or forfeiting schemes. The Fund is also intended to attract further private and public investors.

(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; Deutsche Bank is also a minor investor in the instrument. CDP and the EIB are core investors in the instrument.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2016[234]	EUR 146 334 644,50
Aggregate budgetary payments as at 31/12/2016[235]	EUR 116 203 765,34

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

The EEE F had successfully disbursed EUR 99,8 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 31 December 2016, EUR 128 million have been allocated to 12 projects that has generated some EUR 231 million of total investments[236].

For 2017, the project pipeline contains 17 projects with a total volume of EUR 337 million for which the envisaged EEE F share is EUR 142 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

[234] Out of which EUR 125 000 000 committed in the Fund, and EUR 21 334 644,50 in Technical Assistance.
[235] Out of which EUR 99 829 868,36 paid for the Fund, and EUR 16 373 896,98 for Technical Assistance.
[236] Out of these, the Fund has signed contracts with 11 projects for EUR 121 million, already generating 224 million final investments.

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 million not yet determined
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 561 million (based on current investment pipeline)
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 121 million (signed amount) 11 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 224 million for 11 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 31/12/2016 EUR 8 million[237]

Impact[238] of negative interest on EEE-F: minor impact as at 31/12/2016

(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 4.48 million in 2016[239] *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.*

[237] 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 31/12/2016 was EUR 2,6 million. The TA Trust Account is credited with the part of the EU Contribution to be used for the Technical assistance, interest earned, funds recovered from Technical Assistance and debited with payments of EU Contribution to eligible costs for Technical Assistance, external audit costs, funds to be returned to the Commission and the Technical assistance management fee. Its balance on 31/12/2016 was EUR 5,3 million.

[238] 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 2016.

[239] Source: unaudited 2016 Annual accounts.

(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 97,13 million as at 31 December 2016[240]. It was EUR 96,88 million as at 31 December 2015. 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 31/12/2016.

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

0

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

No target leverage effect was indicated in the legal base.

The achieved leverage (total investment volume/amount of EU contribution disbursed) at 31/12/2016 is 2,2. This is calculated as the ratio between the total amount of the investments supported by EEEF (EUR 224 million) and the amount of the EU contribution actually disbursed (EUR 99.8 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.

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[241]. 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. It is worth noting that no losses have been incurred since the inception of the fund, despite the variety of financing instruments and technologies financed.

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[240] Source: end-2016 Net Asset Value statement of account.

[241] The total value (EUR 12,4 million) of the two projects which have an equity investment component has been taken into account.

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 2016, the Fund's financing of EUR 121 million has allowed the mobilisation of an additional EUR 103 million on Energy efficiency, Renewable Energies and Clean urban transport projects, thereby generating EUR 224 million of total investments.

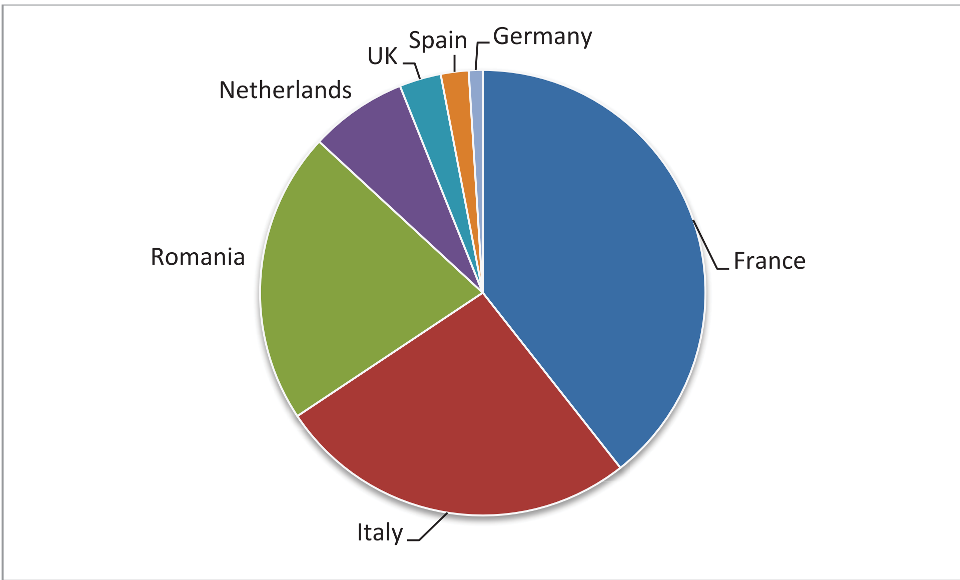

Figure 1 - Investments by country (% of total)

Investments by country (% of total)	
France	39
Italy	26
Romania	21
Netherlands	7
UK	3
Spain	2
Germany	1

Source: EEEF Quarterly report Q4 2016

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[242] and against key performance indicators to allow for an alignment of interests.

- **General outlook:**

  For 2017, the project pipeline contains 17 projects with a total volume of EUR 337 million for which the envisaged EEE F share is EUR 142 million.

  By now, the Fund has progressively established a solid track record of profitable investments (net profit registered from 2013) and is 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

[242] 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.

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 31/12/2016	EUR 21 900 000
Aggregate budgetary payments as at 31/12/2016	EUR 21 900 000

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

The first three operational agreements with the banks were signed in 2013 and the next three in 2014 and 2015. In total, they 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;

Interest from cash and cash equivalents EUR 3 415

(g) The balance of the fiduciary account EUR 19 341 196

For Risk-sharing and Guarantee Instruments	
Balance on the fiduciary account (current account)	834 782
Term deposits/Bonds (if applicable)	18 506 414
Term deposits < 3 months (cash equivalent)	18 506 414
Term deposits > 3 months < 1 year (current assets)	0
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	0
= Total assets	**19 341 196**

Impact of negative interests on EDIF GF: EUR 604 as at t 31/12/2016.

(h) Revenues and repayments;

Interest from cash and cash equivalents EUR 19 950

(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 513 540

(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 2016, the EDIF already contributed to provide EUR 117,9 milion of financing to 1 430 cumulative number of Final beneficiaries. As some SMEs have received more than one loan, the number of loans is slightly higher than the number of final beneficiaries, i.e. 1 540.

The financial intermediaries selected through an open call for expression of interest in 2013, with whom guarantee agreements were signed 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.

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

- **Main issues for implementation:**
  - **Provision of regulatory capital relief:** the provision of regulatory capital relief under the Guarantee Agreements has been identified as a pivotal characteristic and its importance in the pooling of a sufficient number of qualified applicants and the selection of the most suitable 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".
  - Nearly 90% of the loans originated under the Western Balkans Guarantee Facility are for EUR 150 000 or smaller, demonstrating that these loans are going to smaller

SMEs which are usually the type that are searching for financing in this region- the loans are going to the intended target group and those that need it most. 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. Hence, the multi-country IPA 2014 allocated a further EUR 17,5 million to the instrument and another financing is programmed under IPA 2017. The additional allocation from 2014 was contracted under a new delegation agreement with the EIF, bears the name EDIF Guarantee Facility II and is reported separately.

- **Main risks identified:**
  Contractual and process compliance is ensured through continuous reporting and monitoring.
- **General outlook:**
  The good absorbtion of this instruments and the markets test made so far regarding the financial needs on the ground proved the necessity to have a continuation of the Guarantee Facility. The WB EDIF GF 2, which was financed under MCP IPA 2014 and contracted in 2015 is the direct continuation and replenishes the WB EDIF GF.

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 1,4 million is a provision for fees to the EIF as the Manager and EUR 16,1 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 Guarantee scheme which achieved

leverage of 5,4), the budget of EUR 17,5 million was targeted to mobilise more than EUR 94,5 million of new loans.

B - Description

(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 31/12/2016	EUR 17 500 000
Aggregate budgetary payments as at 31/12/2016	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. On the basis of the call for Expression of Interest (March 2016) EIF succeeded to receive and assess the applications to the call, conduct due diligence, negotiate the new agreements and sign them in less than 10 months. The five agreements signed by the end of 2016 are with the following banks: CKB Montenegro (EUR 20 million); ProCredit Kosovo (EUR 35 million); ProCredit former Yugoslav Republic of Macedonia (EUR 10 million); ProCredit Serbia (EUR 25 million), Raiffeisen Albania (EUR 17 million). The Call for the Expression of Interest for the EDIF GF 2 was launched in all 6 beneficiary countries, Albania, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia. However, signature of portfolios happened at a first come first served basis.

This has notably translated an EU budgetary allocation of just over EUR 17,5 million (administrative fees included) into an overall expected portfolio volume of EUR 107 million for lending to SMEs- more than the targeted one of EUR 94,5 million, resulting in an increased expected leverage effect of 6,1 x.

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 107 000 000 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 **EUR 9 639 820**

Balance on the fiduciary account (current account)	1 943 272
Term deposits/Bonds (if applicable)	7 696 548

Term deposits < 3 months	7 696 548
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	9 639 820

Impact of negative interests on EDIF GF 2: EUR 10 658 as at 31/12/2016.

(h) Revenues and repayments;

Interest on cash and cash equivalents: EUR 478

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;

EUR 0

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

Target leverage effect is between 4 and 5,2.

The expected leverage of the signed operations is 6,1.

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[243];

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.

[243] No geographical breakdown as at 31/12/2015 is yet available (the facility having been launched very recently only).

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 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 million 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

- **Main issues**

No particular issue identified.

- **Main risks**

No particular issue identified

- **General outlook**

There is a potential with regards to a diversification of future funding under this instrument, both in the form of a national window component with Serbia as well as a thematic component with Youth Employment focus.

From the 6 beneficiaries, Serbia was interested to further commit from their IPA national envelope for 2016 and EUR 20 million was earmarked as a national window for Serbia under the Guarantee Facility II, the process is in advanced stage of negociations with the National Autorities and the window will be brought under the GF II umbrella.

A further replenishment of the Guarantee Facility is in process of programming under IPA for 2017. The replanishment will increase the fund's scale and impact in the region and will also be, but not exclusively, used to incentivise the development of guarantee loan portfolios by SMEs that secure youth employment and training- in line with the decisions taken at the Western Balkans Summits in Vienna (2015) and in Paris (2016). EIF plans to deploy the same guarantee instrument which is currently utilised under the WB-EDIF Guarantee Facility, i.e. the First Loss Portfolio Guarantee (FLPG) product with the possible deviations for the guarantee rate.

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

(including fees, see point C)

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 5 million and EUR 20 million. Typical investment tickets will be in the range of EUR 1 to 7,5 million, potentially doubled through the LEF co-investment. Investments will be structured using a broad range of instruments, including equity and quasi-equity securities such as preferred shares, convertible bonds, mezzanine or subordinated debt on a selective basis. Such strategy is closely related to the immaturity of the exit markets, where the scarcity of financial and strategic buyers forces investors to use mainly self-liquidating instruments.

ENEF was formally incorporated under Luxembourgish Law on 14 February 2014 with EIF (Acting as a trustee of the EC and committing own funds), DEG and EBRD subscribing a total of EUR 38,5 million 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.[244] EBRD manages ENEF through its offices in each beneficiary country.ENEF was formally incorporated under Luxembourgish Law on 14 February 2014 and in the course of the year concentrated on deal origination. The investments under the instrument will start in 2015. Following an investment period of maximum 5 years, its portfolio will be wound up in a subsequent period of maximum 5 years (duration until 2025). The geographical coverage will be the Western Balkans in line with the Common Implementing Regulation.

EU added value
At the level of the finance-pooling, ENEF will add value through attracting private sector investors to what is perceived as a risky and complex SME market (the Western Balkans) with small, fragmented economies. Furthermore, building on the EBRD experience, ENEF will diversify sources of financing for the high-potential companies, enabling growth and employment creating investments.

(c) The financial institutions involved in implementation;

- EIF – acting as a trustee on behalf of DG NEAR's contribution and investor in ENEF
- EBRD – Investment Adviser of ENEF as well as its investor

Nota : ENEF has received commitments from the following investors:

- *The European Commission (EC) with a contribution of EUR 11 million of which EUR 9,5 million invested via the European Investment Fund by means of a Trusteeship (the rest is fee + TA),*
- *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 million from the Italian Investment Special Fund ("IISF")),*

[244] *Deutsche Investitions- und Entwicklungsgesellschaft*

- *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 - <u>Implementation</u>

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

Aggregate budgetary commitments as at 31/12/2016 EUR 11 000 000
Aggregate budgetary payments as at 31/12/2016 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 31/12/2016.

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;	9 500 000
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , And expected number of eligible final recipients;	48 500 000 EUR (fund size after second closing, to be leveraged 1:1 with EBRD co-investment, ending up with circa EUR 97 million expected financing in total) approx. 15
Amount of financing already provided by financial intermediaries to eligible final recipients*, and the corresponding number of eligible final recipients; * *(6 investments signed in total, but as of 31/12/2016 only three disbursement made altogether)*	EUR 4 750 000 in 2016 for 3 companies 3 FRs
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 **EUR 9 787 573**

For Equity Instruments	
Balance on the fiduciary account (current account)	962 040
Term deposits/Bonds (if applicable)	7 601 022
Term deposits < 3 months	7 601 022
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[245]	1 224 511
***Other assets* (if applicable)**	
= Total assets	9 787 573

Impact of negative interests on ENEF : no impact as at 31/12/2016.

(h) Revenues and repayments;

N/A.

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

Net Asset Value at 31/12/2016 was EUR 1 224 511.

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

EUR 0

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

ENEF has a fund size of EUR 48,5 million at second closing. 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, which brings the total expected financing to EUR 97 million; based on that figure, the total expected leverage of ENEF is 8.8 (EUR 97 million/EUR 11 million EU commitment). ENEF has received commitments from the following investors:

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

- The European Commission (EC) (DG NEAR formerly DG ENLARG) with a contribution of EUR 9,5 million 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 24 million (including EUR 3 million from the Italian Investment Special Fund ("IISF")), and
- 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

The achieved leverage is 0,43 (EUR 4,75 million achieved financing / EUR 11 million EU commitment)..[246]

D - Strategic importance/relevance

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

In the course of 2016, ENEF had its second closing, which marked the end of the fund raising stage. The size of the fund as of end 2016 is EUR 48,5 million.

Until the end of 2016, more than 360 companies were met for assessment of potential deals. 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.

Pipeline conversion rate has improved in 2016, with more core deals signed during the end of 2016. This conversion from marketing to real pipeline remains however difficult due to, inter alia, limited opportunities for equity deals and a challenging economic situation in the region. Equity deals are often challenging because many of the targeted companies are reluctant to invest – a situation which the investment team hopes to improve following the introduction of a senior loan option into the investment strategy.

Experience shows that higher potential industries remain food processing, retail and niche segments in IT and Telecom as well as export- oriented manufacturing.

After its first investment in June 2015, to Viva Fresh, a retail chain operating in Kosovo (the total amount of the investment is EUR 6 500 000) and a second one in December 2015 in a Bosnian company (the total amount of the investment is EUR 2 000 000) , on 27 May 2016, the ENEF IC approved the third investment of the fund. The recipient is a Serbian company, Delmax, a car and truck parts distributor and retailer. The total amount of the investment is EUR 1 800 000 to be shared between ENEF and EBRD on 50:50, pari passu basis. The next three investments signed in 2016 are in former Yugoslav Republic of Macedonia (EUR 3 million), in Serbia (EUR 1,3 million) and Croatia (EUR 10 million)

[246] The fund just started its activities in 2016, therefore, the absorption and linked achieved leverage is rather low by the end of 2016.

As of 31 December 2016, the Fund had drawn down €6,722,001 in five capital calls (EUR 303 001 on 19 June 2014, EUR 1 669 000 on 21 July 2015, EUR 600 000 on 21 March 2016, EUR 1 050 000 on 29 July 2016 and EUR 3 100 000 on 20 October 2016), equivalent to 13,9% of the committed capital.

E - Other key points and issues

- **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:**
  - Following strategic discussions, the ENEF shareholders were approached to amend the legal documentation of the fund in order to allow more flexibility for use of senior debt instruments. The considerations of this amendment were triggered by the EBRD's concern by the limited availability of equity and quasi equity opportunities in the WB region which it concluded would be improved if an initial link can be established via the use of a senior loan. After receiving formal approval in July 2016, the EBRD utilises this option to work with companies which are dedicated to improving their operations and corporate governance and the investment team has also managed to build a strong external visibility of ENEF, with a solid understanding of the key industries in the region.
  - 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 2017 continues to improve.

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 - <u>Summary</u>

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 – 1,5 million (provided in several tranches), targeting a stake at entry of ca. 30%.

- Seed Pocket: EIF has proposed and the ENIF Manager has agreed to dedicate an amount of EUR 1,5 million within ENIF to be invested exclusively in 25-30 companies in pre-seed and seed companies across the entire WB Region. Together with the Seed Pocket, the total number of companies to be supported through ENIF at minimum fund size is expected to be 45-55.
- ENIF's first investment took place in February 2016 and several more followed quickly thereafter.

ENIF's portfolio is composed of 5 companies, covering 3 of the Western Balkan countries, for a total commitment of ~EUR 2.1m

Name	Date of First investment	Holding Period (months)	Country	Stage of focus	Total Commitment (EUR k)
Drytools	Feb. 2016	10	Serbia	Seed	300
CityExpert	June 2016	6.5	Serbia	Start-up	700
WorkPuls	July 2016	5.8	Serbia	Seed	80
Agrivi	July 2016	5.2	Croatia	Start-up	1,000
Letz	Sept. 2016	4	Macedonia	Seed	100

After ENIF's first closing (September 2015) the second one was completed on 8 April 2016, bringing the total size of the fund to EUR 39,9 million.

No active steps for fundraising have been taken afterwards by the Fund, which is now focusing solely on deploying the investment strategy.

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 21,2 million (of which EUR 12,5 million investment, EUR 6,2 million direct contribution to the Fund Managers expenses only during the investment period and fees)
- 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 2,51 million
- Private Investors – EUR 5,3 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 31/12/2016 EUR 21 200 000

Aggregate budgetary payments as at 31/12/2016 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, and the corresponding number of financial intermediaries;	21 200 000 EUR 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;	14 100 000
Amount of financing expected to be provided by financial intermediaries to eligible final recipients, And expected number of eligible final recipients;	50 000 000 EUR
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	1 181 000 EUR 5 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 **EUR 19 593 268**

Balance on the fiduciary account (current account)	(55 265)
Term deposits/Bonds (if applicable)	18 419 205
Term deposits < 3 months	18 419 205
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)[247]	**443 325**
***Other assets* (if applicable)**	**786 002**
= Total assets	**19 593 268**

Impact of negative interests on ENIF: no impact as at 31/12/2016.

(h)Revenues and repayments;

N/A.

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

EUR 443 325.

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

EUR 0

(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.
The achieved leverage of ENIF is 0,06.

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;

After its second closing the Fund's size reached ots target size- EUR 39,9 million. ENIF actual investments started in 2017 and for them the fund manager has screened more than 200

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

deals from the target countries. A stronger deal flow is stemming from Croatia and Serbia with Croatian opportunities mainly being in general more mature than the ones from Serbia. The former Yugoslav Republic of Macedonia also shows reasonably strong deal flow, especially considering the size of the country, whereby most of the opportunities are seed and early stage.
The fund continues to focus on seed and early stage companies in tech-driven companies active in various sectors. Moving forward, more focus will be placed on finding more mature companies with more than EUR 1 million in revenue and a developed organization already in place.

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. The fund gained however pace in 2016 and several investments were signed;
  - **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.
  - As to overcome some of the challenges described above the Fund has been actively promoted in the target region, in some cases together with local Governments and their agencies or in co-operation with various local organizations working with start-

ups and entrepreneurs. As a result ENIF has gotten coverage in the local media in most of the countries in the region, and the investment team members were invited to participate in various start-up events in the region. Activities are also planned under IPA 2017 as to address the demand side of the access to finance and thus help build ENEF and ENIF portfolios.

- **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. It remains critical for the Fund to receive and formalise the outstanding contributions from beneficiary countries, which are necessary for the fund to operate under its envisioned structure (Albania, Bosnia&Herzegovina and Serbia). 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.

  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:[248]	EUR 87 684 935

[248] 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 the 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 "in situ" confirm 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 for catalysing finance for small and medium enterprises (SME) through on-line competition "G-20 SME Finance Challenge".

EFSE is at "cruising speed" and while the Commission should not withdraw or transfer its shares, which are fundamental to the viability of the project,, 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
The 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 - Implementation of the financial instrument

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

Aggregate budgetary commitments as at 31/12/2016	EUR 87 684 935
Aggregate budgetary payments as at 31/12/2016	EUR 87 684 935

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 to a value of EUR 51 361 918 at the time of transfer 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[249]. The performance so far has been very good with key figures steadily growing and the number of NPLs insignificant.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 113 735 538 (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;	113 735 538
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)*	**120 695 active loans in SEE and 702 790 loans disbursed since inception in Dec 2005 for a total amount of EUR 4.3 billion**
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 735 538 (increase of EUR 210 977 in year)

[249] 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;

EUR 0

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

For the Southeast Europe, the financial envelope of EUR 87,7 million has so far leveraged important financial resources. More than EUR 4,3 billion have been disbursed to SEE and borrowed since the inception of the fund in 2005. The achieved leverage implied is 49.

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;

Partner Lending Institutions (PLIs) with active investments is 72 for an outstanding investment portfolio by 31 December 2016 of EUR 924,1 million – EUR 523,6 million of which in the Western Balkans and Turkey[250].

On the TA side, the EFSE Development Facility is managing 51 ongoing projects in the Western Balkan region and Turkey with a total volume of EUR 3,7 million. For example, in Turkey, the EFSE DF is supporting a mid-sized commercial bank in Agriculture Finance to reach out to small holder farmers. Moreover, the EFSE DF has successfully conducted various events to support young start-ups and foster entrepreneurship.

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.
  - The Fund Manager has indicated 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 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.

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[250] Includes Albania, Bosnia and Herzegovina, Croatia, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.

- ***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, in December 2016 the European Commission and the EIF signed a new delegation agreement (trusteeship agreement) that is compliant to the new financial regulation.

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 continued further in 2016. 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% CO2 savings across the energy efficiency and renewable energy portfolio.

The current cumulative251 portfolio of projects with PIs is EUR 489 million, invested in 39 Partner Institutions ("PI") in 19 Target Partners.
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.

[251] total amount of projects financed since the start of the Fund (2006).

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) (OJ L 210, 31.7.2006, p. 82).
Crisis Response Package, IPA 2009/021-373

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

The Green for Growth Fund (GGF) is an innovative fund initiated in 2009 by the European Investment Bank (EIB) and the KfW Entwicklungsbank (KfW) with the support of the European Commission. The Fund provides dedicated financing for energy efficiency and renewable energy projects to help the target countries reduce 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.

The Financial Instrument of the European Union for energy efficiency and renewable energy (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.

GGF's investments seek to achieve a 20% reduction in energy consumption and/or a 20% reduction in CO2 emissions, by:

1) Refinancing Financial Institutions (local commercial banks, non-bank financial institutions such as microfinance institutions and leasing companies and other selected financial institutions) providing loans to households, businesses, municipalities and public sector for energy efficiency measures or renewable energy projects. Investments through Financial Institutions constitute the majority of GGF's investments.

2) Providing direct financing to Non-Financial Institutions (companies, energy service companies, renewable energy companies or projects, small scale renewable energy and energy efficiency service and supply companies) that meet GGF energy saving and/or emissions targets, and comply with the technical criteria and GGF exclusion list.

As an initiative of international financial institutions already active in the area of energy efficiency and renewable energy in the region, the Fund is designed to be complementary to existing programmes and funding sources and contribute to further innovations in financing and expanding the industries in its operating regions.

Implementation arrangements

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation. Under indirect management, the Commission may

entrust implementation tasks to the following multilateral Development Financial Institution: European Investment Fund (EIF).

Added value of the European Union contribution

C-shares bought by the European Union and the German Government are of highest risk and lowest gains, in order to 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 of the financial instrument

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

Aggregate budgetary commitments as at 31/12/2016	EUR 38 633 232
Aggregate budgetary payments as at 31/12/2016	EUR 38 633 232

Additional information

The financial envelope of the instrument amounts to EUR 38,6 million that was committed and paid out (of which EUR 19 581 014 were contracted as an initial buying of C-shares (with EIF as Trustee) and paid by DG NEAR under centralised indirect management contract, while EUR 19 052 218 were subscribed with a second contract via the Transfer and Delegation Agreement between KfW, EIF, and the European Commission).

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

Fund Portfolio

The European Commission committed 38,6 million for South East Europe and Turkey, leveraging the total size of the Fund of 411,7 million as of end December 2016. This amount corresponds to the amount of loans expected to be provided to the end beneficiaries.
The current portfolio of active projects is EUR 363,2 million , invested in 39 Partner Institutions ("PI") in 19 Target Partners, out of which in South East Europe and Turkey 236,2 million with 16 701 final recipients.

88% 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 32 to 39.

(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 (Art.140. 6); (see also Art.38.5 FR in Annex 3 point 4 (b))
N/A

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

EUR 39 354 625 (at GGF fund level).

(j) The accumulated figures on impairments[252] 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 leverage effect of the Fund at present is in the order of 10,7 (total size of the Fund 411,7 million, divided by EU Contribution). It is estimated that the leverage will generate in excess of EUR 489 million of loans to eligible final recipients.
The achieved leverage is in the order of 11,1 (disbursements/loans to end beneficiaries of 429,9 million divided by EU contribution).
The expected leverage for signed operations is in the order of 12,6 (financing to PIs of 489,6 divided by EU contribution).

D - Strategic importance/relevance of the financial instrument

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

In 2015, critical milestone of private investor funding 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. In 2016, EUR 69 million of funding

was raised from five investors, out of which EUR 44 million Notes with four private investors; private capital is now 17% of total

The GGF contributes in the form of a public-private partnership with a layered risk/return structure, to enhancing energy efficiency (EE) and renewable energy (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.

The Issue Document regulates GGF's risk diversification by placing limits on the exposure to individual Partner Institutions. These diversification ratios are taking into consideration in the Fund Advisor's planning and decision-making process of all investments, and are ultimately tracked by the Fund Custodian. At the end of December 2016, GGF is in compliance with all PI limits.

Sub-loan monitoring is done by the Fund Advisor through a combination of internal systems (for loan amounts, maturity, etc.) and the programme eSave (for the energy and CO2 savings) from data provided by the PIs as part of their quarterly reporting requirements. GGF requires its Partner Institutions to monitor and report energy savings and CO2 reductions using an acceptable reporting system.

All PIs are using the eSave system, which was presented to the Board in 2010. In light of the rapid development of the Fund's investment portfolio, a series of eSave implementation projects was proposed in order to respond to the Fund's and FIs' need for a monitoring and reporting tool.

The current cumulative portfolio of projects with PIs is EUR 489 m, invested in 39 Partner Institutions ("PI") in 19 Target Partners.

Measures financed through GGF funding have produced annualized energy savings of 1,548,436 MWh/year and annualized CO2 reduction of 389,434 tons/year. On average, these measures are 51% and 53% more efficient in terms of emissions and energy consumption respectively. This figure is well in excess of the Fund's minimum of 20% for each category.

2.5. SUB-LOAN PORTFOLIO MONITORING[3]

DISBURSEMENT ANALYSIS AS OF 31 DECEMBER 2016

Amounts in Euro

Subloan portfolio		Subloans disbursed since inception*		GGF disbursements to PI*	Disbursement percentage	Remaining ramp-up period
Country	Partner Institution	Number	Amount	Amount	%	months
FIs in ramp-up period		**5,447**	**180,129,749**	**223,577,226**	**81%**	
Albania	BKT	65	22,764,350	25,000,000	91%	12
Egypt	Alexbank	-	-	17,793,594	0%	19
Egypt	NBE	-	-	18,964,536	0%	23
FYR Macedonia	Halkbank MK	3,364	18,664,730	20,000,000	93%	12
FYR Macedonia	Ohridska Banka	2	860,676	4,000,000	22%	3
Georgia	Bank of Georgia	441	24,506,477	15,000,000	163%	2
Georgia	Bank Republic	4	205,492	4,506,941	5%	12
Georgia	TBC Bank GE	1	5,405,400	13,812,155	39%	5
Kosovo	AfK	1	1,500	500,000	0%	15
Montenegro	Alter Modus	491	1,057,950	2,000,000	53%	11
Serbia	ProCredit Bank RS	712	23,779,782	20,000,000	119%	6
Serbia	UniCredit Bank RS	-	-	10,000,000	0%	17
Tunisia	Tunisie Leasing	-	-	10,000,000	0%	10
Turkey	Garanti Leasing TR	-	-	5,000,000	0%	12
Turkey	Yapi Kredi Leasing	357	81,931,452	55,000,000	149%	11
Moldova	Total Leasing	9	951,940	2,000,000	48%	8
FIs out of ramp-up period		**13,164**	**210,040,996**	**220,728,598**	**95%**	
Armenia	Araratbank	54	1,171,415	3,819,036	31%	-
Armenia	ACBA / ACBA Leasing[4]	57	3,683,633	6,967,162	53%	-
Armenia	Inecobank	4,077	5,598,209	7,678,292	73%	-
Azerbaijan	AccessBank	62	6,794,736	10,956,903	62%	-
Bosnia and Herzegovina	Partner	2,241	5,711,582	5,500,000	104%	-
Bosnia and Herzegovina	UniCredit Bank Banja Luka	52	5,557,115	10,000,000	56%	-
Croatia	Privredna Banka Zagreb	59	14,643,301	25,000,000	59%	-
Croatia	Zagrebacka Banka	6	6,930,750	20,000,000	35%	-
Serbia	Komercijalna Banka	862	19,432,213	23,000,000	84%	-
Serbia	Halkbank RS	980	6,285,360	5,000,000	126%	-
Serbia	Intesa Leasing Beograd	4	7,884,195	5,000,000	158%	-
Turkey	AK Lease	10	10,782,473	20,000,000	54%	-
Turkey	Burgan Leasing	14	7,552,109	5,000,000	151%	-
Turkey	Fibabanka	15	22,603,819	15,000,000	151%	-
Turkey	Finans Leasing	32	18,274,489	15,000,000	122%	-

Turkey	Odea Bank	2	8,912,750	10,128,913	88%	-
Turkey	Sekerbank	4,546	48,930,419	25,000,000	196%	-
Ukraine	Megabank	91	9,292,428	7,678,292	121%	-
NFIs		**10**	**28,188,554**	**28,187,217**	**100%**	
Albania	Lengarica	3	9,133,685	9,133,685	100%	n.a.
Georgia	Dariali Energy	5	9,155,921	9,153,949	100%	n.a.
Georgia	Gori Wind	1	3,319,481	3,319,481	100%	n.a.
Georgia	M2	1	6,579,467	6,580,102	100%	n.a.
Former PIs		**3,178**	**11,578,260**	**17,130,525**	**68%**	
Serbia	Banca Intesa RS	2,442	7,684,175	7,000,000	110%	-
Moldova	Microinvest	295	176,601	1,000,000	18%	-
Azerbaijan	Muganbank	-	-	4,130,525	0%	-
Bosnia and Herzegovina	NLB Banka Banja Luka	441	3,717,484	5,000,000	74%	-
Total		**21,799**	**429,937,559**	**489,623,565**	**88%**	

Source: FIM Management Information System (MIS)
* Cumulative since inception until to date

2.6. ENVIRONMENTAL IMPACT

CO2 REDUCTION AND ENERGY SAVINGS AS OF 31 DECEMBER 2016

Measure	Cumulative disbursement amount (EUR)	share of disbursements	CO2 reduction (tCO2/year)	CO2 reduction (%)	Energy Savings (MWh/year)	Energy Savings (%)
Agri-equipment	26,579,292	6%	27,575	25%	117,395	27%
Buildings	127,110,328	30%	173,445	61%	692,690	56%
Complex heat supply and distribution systems	3,952,276	1%	7,789	52%	30,325	45%
Energy service and supply business	32,006,686	7%	-	0%	-	0%
Household devices	250,746	0%	573	38%	1,658	38%
Improvements in processes, process related equipment	110,877,463	26%	64,760	33%	256,632	34%
Lighting	425,434	0%	77	40%	213	40%
Vehicles	6,271,670	1%	3,214	21%	9,345	13%
Sub-total EE	**307,473,895**	**72%**	**277,433**		**1,108,258**	
Use of RE by households and businesses	9,644,607	2%	13,239	93%	50,736	94%
Use of RE for commercial energy generation	112,819,057	26%	98,762	100%	389,442	100%
Sub-total RE	**122,463,664**	**28%**	**112,001**		**440,178**	
Total	**429,937,559**	**100%**	**389,434**	53%	**1,548,436**	51%

Source: FIM Management Information System (MIS)

E - Other key points and issues

- **Main issues**

  - Additional buying of C-shares – the new Delegation Agreement with the EIF has been signed in December 2016, and 20 million euro secured from MC IPA 2016 for additional purchase of C-shares for the operations in the Western Balkans region. Ongoing discussions focus on three issues: tenor of shares (from perpetual to limited), redemption of shares (automatic or upon request), and remuneration (floating or fixed cap of Euribor). One expects the resolution of these issues by end of Q2 2017. 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.
  - Coordination of GGF with other Commission mechanisms – GGF is since late 2014 participating at the regular meetings of the Energy Community's EE Coordination Group (EECG). In this way, the instrument is being coordinated with the other main Commission facility, the Regional EE Programme (REEP), and with other non-Commission EE stakeholders in the region, as well as with the Energy Community. The GGF started reporting on its contribution to the EE and RE targets of the Energy Community. The challenge remains to properly address the EE and RE needs via our two main mechanisms.
  - 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**

  - 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 Fund. This discrepancy has been addressed in the new Delegation Agreement with the EIF.

- **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 favorable 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. In 2016, EUR 69 million of funding was raised from five investors, out of which EUR 44 million Notes with four private investors; private capital is now 17% of total. 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 - <u>Summary</u>

The SME Recovery Support Loan Facility for Turkey (RSL) is a joint European Union (EU) /European Investment Bank (EIB) action consisting of blending EUR120 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 31/12/2016	EUR 30 000 000
Aggregate budgetary payments as at 31/12/2016	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 18 058 192

	In EUR
Balance on the fiduciary account (current account)	18 058 192
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	0
= Total assets	**18 058 192**

Impact of negative interest rates on SME for Turkey Facility : no impact as at 31/12/2016

(h) Revenues and repayments;

Revenues & repayments as at 31/12/2016 EUR 18 058 192

(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 31/12/2016 is the result of exchange losses and actuarial adjustments as follows:

In EUR	**Cumulative**	**2016**
Initial Capital	**29 640 000**	
Exchange Gain/(Loss) (Turkish lira/euro)	(12 798 024)	(2 610 138)
Interest received	10 673 795	1 287 022
Actuarial Adjustment increase/(decrease)	(9 457 579)	
Current Value	**18 058 192**	

(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 - 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 2016, 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 - Other key points and issues

- **Main issues for the implementation:**
  - A 1 year extension was approved for IPA[253] in December 2016 in order to give the EIB the time to explore the existence of the pre-conditions to continue the action with a second round of sub-loans, as already foreseen in the Contribution Agreement signed with the EIB in 2009. 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.

- **Main risks identified:**
  - well managed project. Risks are only subject to market conditions.
- **General outlook:**
  - no further engagement planned under IPA II.

[253] 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).

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 1 678,64 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 2008-2016, the Union contribution of nearly EUR 1,68 billion has leveraged approximately EUR 15,3 billion in loans from European Financial Institutions (EFIs), with total project costs estimated at EUR 29,2 billion.

The NIF strategic objectives are: (1) to increase energy and transport infrastructure and interconnectivity in the region; (2) to address threats to the environment including climate change; and (3) to promote socio-economic development through support for SMEs and the social sector.

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[254] 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).

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

[254] http://eeas.europa.eu/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf.

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
C(2016)3436	199.50	53.00	146.50			199.50
C(2016)8387	25.00	25.00				25.00
TOTAL	1638,54	579,24	1059,3	30,90	9,20	**1678,64**

(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.[255]
Regulation (EU) N° 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument.[256]
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.[257]

(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.

[255] OJ L 310/1, 9.11.2006.
[256] OJ L 77, 14.03.2014.
[257] OJ L 77, 15.04.2014.

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;
- 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 enhancing trade and competitiveness in the EU´s neighbourhood, including the preparation of EU agreements, 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 2017 relating to decisions from 2016. 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 1 678,64 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[258]	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
ENI/2016/39628	146 500 000,00	22 04 01 02
Total South	**1 068 520 334,34**	
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
ENI/2016/39629	78 000 000,00	22 04 02 02
Total East	**597 825 901.58**	
Sub-total	**1 666 346 235,92**	
ENPI/2013/024746 (SUDeP, cf. note under "Current Overall Budget")	*12 300 000,00*	19 08 01 03
Total	**1 678 646 235,92**	

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,

[258] 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).

- 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.

The expected results of the NIF are increased investment in the following sectors contributing to:

1) Better transport infrastructure,
2) Better energy infrastructure,
3) Increased protection of the environment and better focus and control of climate changes impacts,
4) Improved social services and infrastructures,
5) Creation and growth of SMEs and improvement of the employment situations.

The NIF is a blending facility composed of several operations that could take any of the following forms: technical assistance, investment grant, equity or guarantee. The operations mentioned in the following list are those involving a guarantee or an equity participation for which a fiduciary account has been opened on our behalf by a partner institution (projects signed before 31/12/2016):

- Risk Capital Facility for the Southern Neighbourhood countries (EIB);
- SEMED MSME Financial Inclusion Programme (EBRD);
- Women in Business (EBRD);
- Eastern Partnership SME Finance Facility (Phase II) (EBRD);
- EU Deep and Comprehensive Free Trade Area (DCFTA) Facility (EBRD window);
- DCFTA Facility (EIB window);
- Participation in MENA Fund for Micro-, Small and Medium Enterprises (SANAD) (KfW);
- Participation in Green for Growth Fund - Extension to NIF East Region (EIB);
- Participation in European Neighbourhood Fund window of the European Fund for South East Europe (EFSE) (KfW);
- Armenia SME Finance and Advice Facility (EBRD).

(c) The Financial Institutions involved in implementation;

The entrusted budget implementation tasks consist in the implementation of procurement and grants following the rules of the Leading Financial Institution, which is also entrusted with the residual tasks of ex ante or ex post controls. Payments may be executed by the Leading Financial Institution.
The Commission may entrust implementation tasks to the following Financial Institutions:

- ***Multilateral European Finance Institutions****:* currently, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB), the Nordic Environment Finance Corporation (NEFCO) 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).

C- Implementation

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

Aggregate Budgetary Commitments as at 31/12/2016 EUR 1 678 646 235
of which: Aggregate budgetary commitments invested in financial instruments (legal commitments): EUR 185 100 000[259]
Aggregate Budgetary Payments as at 31/12/2016 EUR 757 174 330
of which: Aggregate budgetary payments for financial instruments (legal commitments : 53 805 000).

Budgetary commitment appropriations for year 2018: to be decided later in view of the repartition of funds under budget lines22 04 01 02— Mediterranean countries and 22 04 02 02— Eastern Partnership.
Budgetary payment appropriations for year 2018: cannot be determined yet.

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

The NIF has demonstrated to be a successful operation throughout the nine 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 2016, a grand total of 123 projects have received final approval for NIF financing. About EUR 1,67 billion (from EU budget and NIF Trust Fund) have been blended with about EUR 15,28 billion of funding by European Financial Institutions to projects approved during this period. This amounts to an achieved financial leverage of around 9,1. The total investment cost of these projects is estimated at about EUR 29,22 billion.

In 2016, the Board of the NIF gave positive opinions on contributions to 12 new projects. EUR 224,5 million (all from EU budget and none NIF Trust Fund) have mobilised EUR 1,45 billion from eligible EFIs, with a leverage rate of around 6,48. The total investment cost of these projects is estimated at EUR 1,95 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[260] 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.

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[259] EUR 94 000 000 for the South and 91 100 000 for the East)Aggregate Budgetary Payments.

[260] 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).

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 (in EUR);

Risk Capital Facility for the Southern Neighbourhood countries (EIB)	0
SEMED MSME Financial Inclusion Programme (EBRD)	14 999 689
Women in Business (EBRD)	4 544 131
Eastern Partnership SME Finance Facility (Phase II) (EBRD)[261]	0
EU Deep and Comprehensive Free Trade Area (DCFTA) Facility (EBRD window)	9 359 814
DCFTA Facility (EIB window)	0
Participation in MENA Fund for Micro-, Small and Medium Enterprises (SANAD) (KfW)	34 832
Participation in Green for Growth Fund - Extension to NIF East Region (EIB)	1 866 864
Participation in European Neighbourhood Fund window of the European Fund for South East Europe (EFSE) (KfW)	0
Armenia SME Finance and Advice Facility (EBRD)	0

(h) Revenues and repayments;

Reflows in 2016: 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
Market Value as of 31/12/2016: 5 414 798 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
Market Value as of 31/12/2015: 2 666 474 USD
Market Value as of 31/12/2016: 3 351 973 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

[261] Opening of the fiduciary account was requested to the Commission's Accounting Officer on 27/9/2016. No amount had been paid yet into the fiduciary account as of 31/12/2016.

Market Value as of 31/12/2015: 4 904 127 EUR
Market Value as of 31/12/2016: 4 804 169 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
Market Value as of 31/12/2016: 9 944 146 EUR

(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;

Commission Implementing Decisions C(2016)3436 has been adopted on 20 May 2016 for a contribution of EUR 199,50 million and C(2016)8387 on 7th December 2016 of EUR 25 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 achieved leverage for the period 2008-2016 is estimated at around 9,1 (see details under C[e] above).

The NIF expected leverage for 2016 is estimated at around 6,48 (see details under C[e] above).

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 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 2016, the NIF has provided nearly EUR 1 678 million (from EU budget and NIF Trust Fund) of financing for a grand total of 123 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.

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.

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.

In terms of project design, sound processes and good standards implemented by Financial Institutions were observed. Social, environmental and climate change concerns were adequately addressed in the appraisal process.

The three-tiered governance of the instruments has been effective.

The DG NEAR Internal NIF Rules of Procedures have streamlined the project assessment procedure both within the Commission services and between the Commission and the EFIs.

The MTE also recommended strengthening communication and visibility aspects. Visibility clauses were included in NIF contracts. Overall, visibility needs to be reinforced through the development of a communication and visibility strategy and action plan, in close coordination with key stakeholders. In this respect, efforts are undertaken to combine visibility actions under similar projects under one umbrella branding, such as the EU SME Flagship Initiative in the Eastern Neighbourhood or the EU Initiative for Financial Inclusion in the Southern Neighbourhood.

Reflecting Court of Auditors" and EUBEC recommendations, the added value and additionality of the EU grant provided to NIF projects should be clearly determined from the outset, so that the reasons of financing each project through the NIF are clear to everyone involved in the NIF approval process. This constitutes one of the main points of assessment of project proposals and the respective recommendations to the Board.

The findings of the MTE have been used, with other reports, by the Platform for Blending in External Cooperation (EUBEC[262]), which was set up in December 2012 and covers various different EU facilities. The evaluation recognised the relevance of EUBEC and recommended continued support to its development. The conclusions of the EUBEC policy group of December 2014[263] are now almost fully reflected in the functioning and structure and operations of the NIF, with some outstanding points to be addressed (see below).

The same holds true for the recommendations issued by the Special Report 16/2014 of the Court of Auditors on "The effectiveness of blending regional investment facility grants with Financial Institution loans to support EU external policies"[264] and the European Parliament 2013 Discharge recommendations[265]

<u>E - 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

[262] EUBEC has taken a wide-ranging look at many aspects of the EU's blending facilities. Its policy group has met on several occasions and considered a range of topics. Experts from the Commission, Member States, the European External Action Service, and participating Financial Institutions work together in this Platform (the European Parliament participates as an observer) to further increase the effectiveness of aid delivered by the EU through
blending.

[263] Report COM (2014) 733 of 15 December 2014 from the Commission to the Council and the European Parliament.

[264] http://www.eca.europa.eu/Lists/ECADocuments/SR14_16/SR14_16_EN.pdf.

[265].https://polcms.secure.europarl.europa.eu/cmsdata/upload/071dfeed-a2be-4190-bdb5-04462184df58/A8-0067_2015_EN.pdf, part 23.

Headquarters need to undertake further efforts to send concurring messages to IFIs, both on strategic priorities and specific projects.

- o There is also still room for improvement of 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 has been developed by the Commission that takes into account blending project specificities. This method will be tested in the course of 2017 in 15 pilot projects.
- o The Financial Regulation introduces rules specific to financial instruments. These rules have been applicable since 2014. 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 with the European Financial Institutions, last in 2016. There was no negative effect on contracting of approved projects.

- **General outlook**

  With the decision on the European External Investment Plan it is expected that financial allocations to the regional investment facilities will substantially increase over the next years. The NIF will continue to channel funds from the National or Regional Indicative Programs through the blending mechanisms. The expected raise in funds is, among other motives, related to the context of the ongoing refugee 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 348 567 000
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-Asia and 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, notably, in energy efficiency, environment, water, climate change mitigation, and SME development.

For IFCA the Commission contributions of EUR 143 million supported a total investment volume of *circa* EUR 970 million, including also other public and private investments.

For AIF the Commission contributions of EUR 142 million supported a total investment volume of *circa* EUR 3 152 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)		
ACA/2010/021-627	20 000 000	19 10 02
ACA/2011/023-117	45 000 000	19 10 02
ACA/2013/024-950	20 567 000	19 10 02
ACA/2014/037-538	20 000 000	21 02 03
ACA/2015/038-116	40 000 000	21 02 03

ACA/2016/039-632	20 000 000	21 02 03
TOTAL	165 567 000	
Asia Investment Facility (AIF)		
ACA/2011/022-036	15 000 000	19 10 01 01
ACA/2011/022-036	15 000 000	19 10 01 01
ACA/2013/024-917	30 000 000	19 10 01 01
ACA/2014//037-548	22 000 000	19 10 01 01
ACA/2014/037-548	31 000 000	21 02 02
ACA/2014/038-088	25 000 000	21 02 02
ACA/2015/038-088	20 000 000	21 02 02
ACA/2016/039-604	25 000 000	21 02 02
TOTAL	183 000 000	

In comparison to the 2015 for IFCA the budget has increased with EUR 20 million during 2016 whereas the budget for AIF has increased with EUR 45 million during 2016. AIF has been recreated in 2014 for the Multi-annual Financial Framework (MFF) 2014-2020, with an initial financing decision of EUR 22 million, whereas IFCA was recreated by the end of 2014 through a new financing decision of 20 million 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. IFCA aims to implement investments in five partner countries in Central Asia: Kazakistan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. As regards AIF, partner countries are Asian countries eligible under the Regional Indicative Programme for Asia being Afghanistan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Democratic People's Republic of Korea, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand and Vietnam. 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 consequentely sharing losses and gains primarily from underlying debt assets, while in some cases from equity assets as well.

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)[266]. 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, to support 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 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[267] "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

[266] EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

[267] SEC(2009) 1172

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.
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 the 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), the Cassa depositi e prestiti (CDP) and the Agencia Española de Cooperación Internacional para el Desarrollo (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 31/12/2016:
IFCA: EUR 165 567 000
AIF: EUR 183 000 000
TOTAL: EUR 348 567 000
Aggregate Budgetary Payments as 31/12/2016 EUR
IFCA: EUR 81 947 112
AIF: EUR 50 168 615
TOTAL: EUR 132 115 727

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

IFCA

Through IFCA the Commission has until the end of 2016 approved funding for 22 new projects (corresponding to 25 proposals) amounting to EUR 143 million of EU contribution. These projects have mobilised another EUR 605 million from European financial institutions and reached a total investment volume of EUR 970 million, including also other public and private investments. Four of the projects are implemented in Kazakhstan, eight in the Kyrgyz Republic, two in Tajikistan, two in Turkmenistan, one in Uzbekistan and five have a regional implementing dimension.

In 2016, two new projects (corresponding to three proposals) were approved through a Commission Decision following positive opinion of the DCI Blending Framework for IFCA and totalling to EUR 24 million. The overall investment cost of these projects reached EUR 140 million, mobilising another EUR 53 million from eligible European Finance Institutions.

As of end 2016 and based on projects that have received Board's positive opinion, around 61,1% of the facility contribution to the project was in the form of investment grant, 30,5% as technical assistance and 8,4% in the form of risk-sharing instruments.

AIF

AIF has until the end of 2016 committed a total of 142 million for 24 projects thereby mobilising EUR 1 782 million from European financial institutions. The total investment costs of these projects amount to EUR 3 152 million. The countries where those projects are implemented are Bangladesh (four), Vietnam (three), India (two), Myanmar (two), Pakistan (two), Indonesia (two), Nepal (one), Cambodia (one), Philippines (one), Sri Lanka (one), Laos (one) and Mongolia (one). In addition to these, three projects are of regional character.

In 2016, six new projects were approved trough a Commission Decision following positive opinion of the DCI Blending Framework for AIF totalling EUR 53 million. The total investment cost of these projects reached more than EUR 531 million, mobilising EUR 349 million from eligible European Finance Institutions.

Another project received the positive opinion of the Board in November 2016 for an AIF contribution before fees of EUR 5 million (Commisison decision to be taken after 2016). The total cost of this project is *circa* EUR 27 million.

As of end 2016 and based on projects that have received Board's positive opinion, around 33,0% of the facility contribution to the project was made in the form of investment grant, 57,5% as technical assistance and 9,5% in the form of risk-sharing instruments.

(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 EUR 9 229 960

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)[268 269]	9 229 960
Other assets **(if applicable)**	
= Total assets	9 229 960

Impact of negative interest rates on IFCA AIF: no impact as at 31/12/2015.

SMED – Support for Mongolian economic diversification *(in EUR)*	
Balance on the fiduciary account *(as per 31/12/2016 provisional accounts)*	1 500 008

(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*	31.12.2016	31.12.2015
C2 shares	6 885 872	6 833 522
C3 shares	2 843 429	2 818 715

* The value in USD is the equivalent of the EUR 9 229 960 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 2007-2016:
  - IFCA

    The achieved leverage effect based on historical leverage experience during the period 2010-2016 (since the Facility was only created in 2010) for the IFCA was 6,8 (total project cost = *circa* EUR 970 million/IFCA contributions = EUR 143 million).
  - AIF

    The achieved leverage effect based on historical leverage experience during the period 2011-2016 (since the Facility was created only in 2011) for the AIF was 22,2 (total project cost = *circa* EUR 3 152 million/AIF contributions = EUR 142 million).

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

[269] Net Asset value in EUR as per 31/12/2016 provisional accounts.

- For 2014-2020:
  - IFCA

    The target leverage effect as indicated in the ex-ante evaluation of IFCA is 4 to 5 over the lifetime of the IFCA (2014-2020), based on the leverage attained since its creation.

    On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 140 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 560 million to 700 million for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost) divided by the total amount of the EU blending facility contribution relating to the investment leverage.

  - AIF

    The target leverage effect as indicated in the ex-ante evaluation is 4 to 5 over the lifetime of the AIF (2014-2020), based on the leverage attained since its creation.

    On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 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.

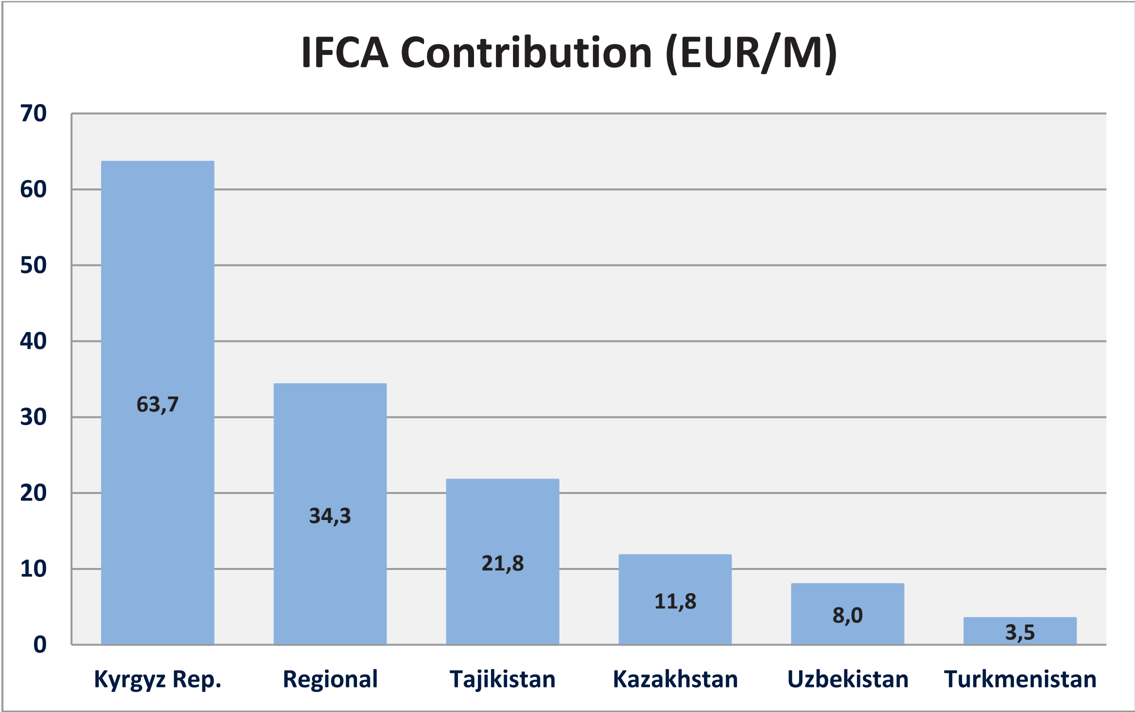
    The facility cannot accurately report yet on achieved leverage, since the number and size of projects concluded so far are not enough to provide a sizeable sample to the achieved leverage of the instrument. However, we expect the final achieved leverage not to be too far from the expected leverage mentioned above for the first years of the instrument.

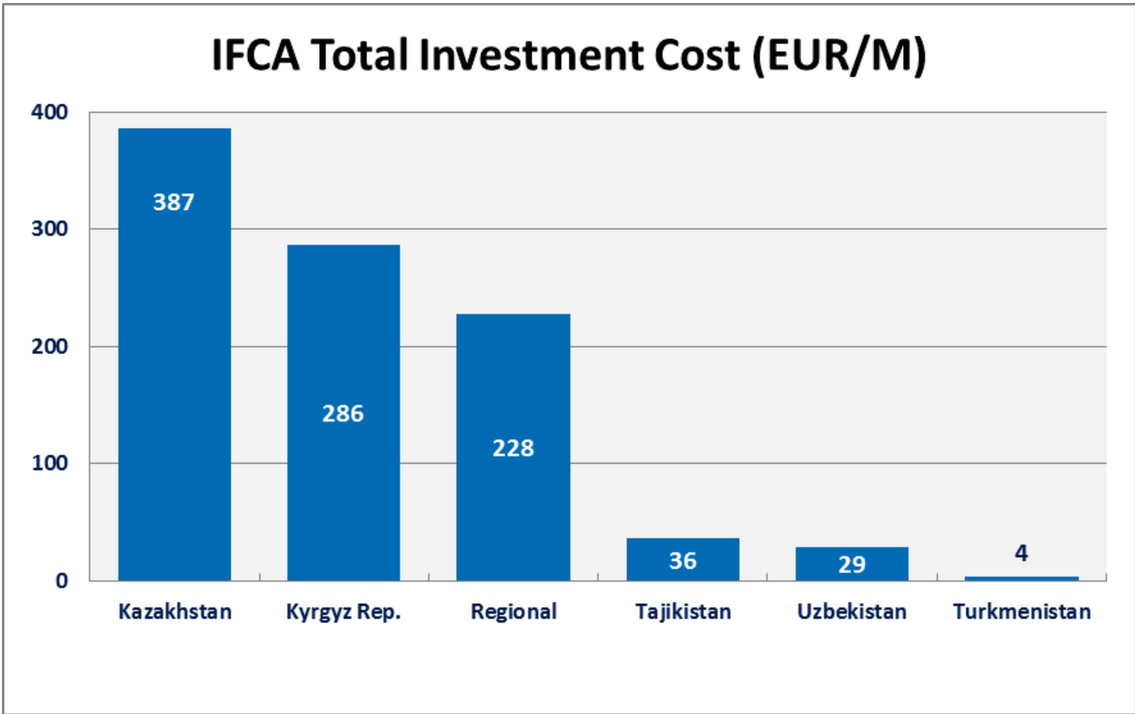
D - <u>Strategic importance/relevance</u>

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

IFCA

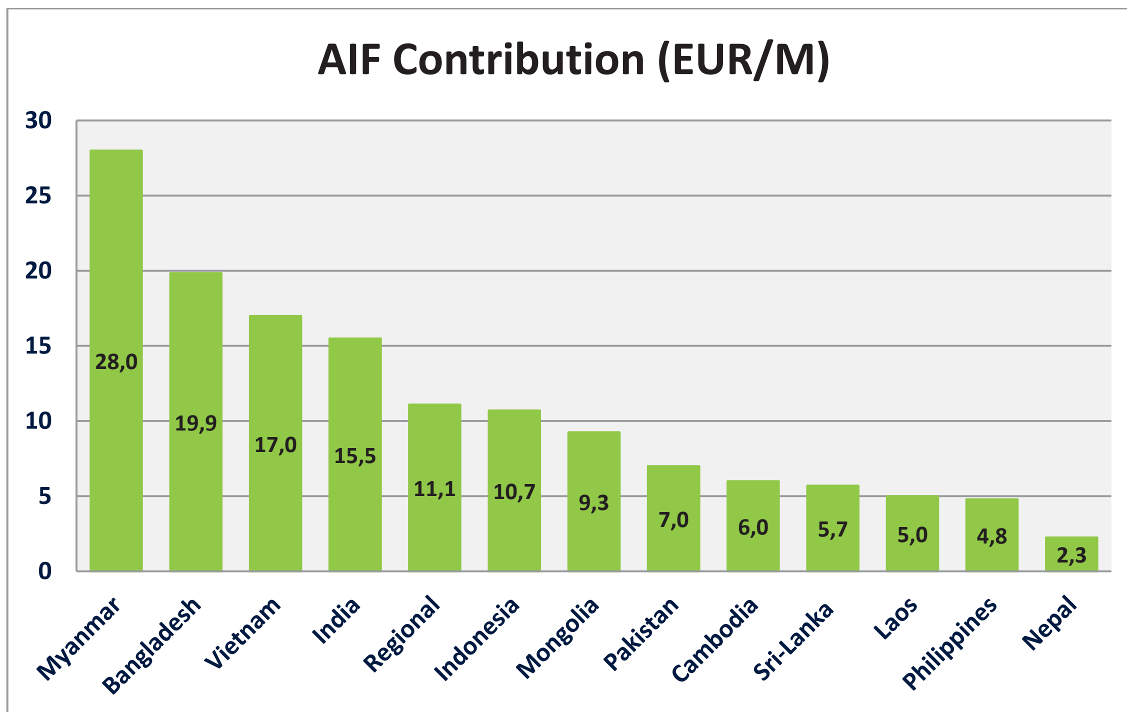
As at the end of 2016, IFCA already contributed to finance 22 projects with a total investment cost of nearly EUR 970 million and had thus an important impact on the real economy of our partners as described below. IFCA contributions during the same period amounted to EUR 143 Million.

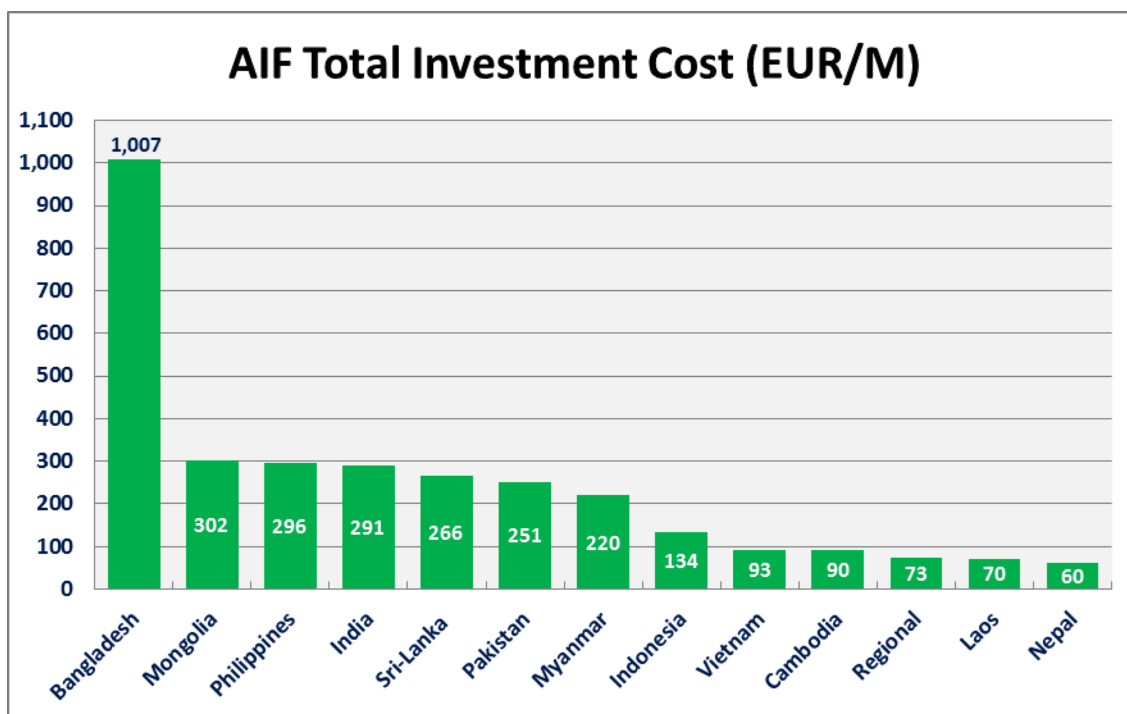




AIF

As at the end of 2016, AIF contributed to finance 24 projects with a total investment cost of nearly EUR 3 152 million 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 142 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 financial institutions separately.

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

- **Main issues for implementation:** for both Facilities
    - A stable political and security climate at the regional level in general and at the country level in particular is needed to promote and secure investments. Partner

countries must be ready to increase the level of investments through their own resources as well as through loans. The pipeline of operations must be of sufficient quality and volume and supply sufficient EU additionality. Strong commitment is needed from recipients (for IFCA). Financial 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:** The EU Platform for Blending in External Cooperation (EUBEC) was launched as an EC Expert Group on 14 December 2012. The objective of the EUBEC is to improve the quality and efficiency of EU development and external cooperation blending mechanisms, taking due account of the policy frameworks that govern the EU relations with the different partner countries, notably EU Development, Neighbourhood and Enlargement policies.

  The EUBEC should provide guidance for the harmonisation of key principles regarding blending activities whilst allowing for differentiation by sectors and regions. It should focus on sectors where financial instruments can be most usefully deployed, within and across geographical regions, and help to strengthen the coherence of blending activities with EU policies.

  The EUBEC works through the Policy Group (PG) that is chaired by the EC and composed of representatives of the EU Member States and the European External Action Service (EEAS), with the European Parliament (EP) and the Financial Institutions (FIs) involved in the technical work as observers. Technical work is pursued by the EC services, the EEAS, FIs and a number of representatives from Member States, as well as the EP.

  In 2016, two specific Technical Groups (TGs) presented their conclusions, one focusing on the mobilisation of private sector resources and the other on the fight against climate change. A Technical Meeting on the Use of Blending to Tackle the Root Causes of Economic Migration was held in May 2016. The Policy Group in June 2016 presented the first basis of the External Investment Plan (EIP) following the EC Communication on establishing a new Partnership Framework with third countries under the European Agenda on Migration.

- **Main risks:**

  - An evaluation of blending was finalised in 2016 and published on 3 April 2017. It covers EU support through seven investment facilities over the period 2007-2014: EU-Africa Infrastructure Trust Fund; Neighbourhood Investment Facility; Latin American Investment Facility; Caribbean Investment Facility; Investment Facility for Central Asia; Asian Investment Facility; and Investment Facility for the Pacific. Its objective was to assess blending as an aid modality. It considered in particular the strategic relevance of blending, its added value and the results of the blending projects. Overall, the evaluation is positive about blending. The report shows the strategic value of blending and identifies key lessons and recommendations to improve and inform future choices of blending..

    In terms of strategic relevance, the evaluation concludes that blending allowed the EU to engage more broadly and with strategic advantage, particularly in support of large infrastructure projects and for cooperating with countries in transition to medium income status. It enabled the EU to engage in countries, sectors and projects (with specific policy challenges), which would have been mostly out of reach with grants alone. The evaluation also shows that blending, particularly for earlier projects, did not reach its full strategic potential and did not address as fully as it could have the development challenges of lower income countries.
    In terms of added value, the evaluation shows that blending, in many instances, added significant value to the EU's grant-based development cooperation by contributing to the advancement of the national policy reform agendas and by leading to robust and well-functioning and well-prepared projects, by widening the access to loan finance and reducing the financial barriers for MSMEs. It has also contributed to strengthen donor coordination.
    At the same time the evaluation also found cases, particularly for the older projects, where the value added was less than the potential in terms of influence on policy reforms or unnecessary offer of credit lines. Transaction costs of some blending projects were considered high due to the use of procurement and other rules that were difficult to apply by implementers.

    Whilst there was compliance with visibility rules and criteria, the evaluation recommends to take a pro-active stance on visibility where such visibility is particularly important or likely to lead to political capital or other gains.
    In terms of results of the blending projects, the evaluation found that to a large extent blending projects have been successful and have already achieved or are likely to achieve the intended results and there is evidence that the project outputs are being used and appreciated by the beneficiaries. However, there is little information available on the effects of blending projects on job creation and there were missed opportunities to better and more directly target the poor.
    The recommendations of the evaluation are being taken into account to further step up efforts undertaken by the Commission and EU Delegations to overcome the remaining challenges of blending as an aid modality.

- **General outlook**:

  - For AIF, the 2016 indicative pipeline of operations includes 23 projects for a total amount of approximatively EUR 2 600 million with an indicative potential for AIF

budget contribution of EUR 196 million. Increased involvement of the Asian Development Bank and other partners in the region could expand this pipeline further.

- Concerning IFCA, the 2016 indicative pipeline of operations includes 9 projects for a total amount of EUR 979 million with an indicative potential for IFCA budget contribution of almost EUR 69 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
Initial Overall Budget Envelope:	EUR 10 850 000
Current Overall Budget:	EUR 322 700 000[270]
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 2009-2016, LAIF grant contributions of EUR 274 million were associated with a total investment volume of circa EUR 7 538 million.

Building on the results of the several regional facilities achieved so far, blending, including LAIF, is set to be an increasingly important aid modality for the EU in the current Multiannual Financial Framework (2014-2020).

A stronger role of the EU Delegations in the decision-making progress, increased ownership by countries and increased coordination and policy coherence between the EU and the IFIs is improving the impact of LAIF funds.

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/2014-2015/037-570	72 342 737	21 02 12 / 21 02 01
DCI-ALA/2016/037-570	52 657 263	21 02 01
DCI ENV/023-403	17 300 000	21 04 01
Total	**322 700 000**	

[270] Including EUR 17 300 000 from the Climate Change Window

In comparison to the 2015 overall budget, there has been an increase of EUR 52 657 263 during 2016.

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).

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 and it was modelled based on the NIF.

(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. A stronger role of the private sector in LAIF projects is actively being promoted. LAIF interventions should focus indicatively on the following sectors:

In coherence with the priorities established in the Multiannual indicative programme 2014 2020 for regional cooperation with Latin America under the DCI, LAIF interventions should focus indicatively on the following sectors:

A) Energy: Priority will be given to projects including:

- Energy efficiency projects.
- Projects which foresee social measures like the "social rate" in order to ensure the development impact and local.
- Energy interconnections among countries to foster regional integration.
- Renewable energies, especially of the innovative kind.

B) Transport: Priority should be given to projects whose aim is to improve regional integration such as trans-borders cooperation as well as trade facilitation.

C) Environment:

- Integrated waste management including necessary related infrastructures.
- Promotion of climate change related investments, i.e. renewable energy, energy efficiency and cleaner industrial production and other environment friendly techniques. An area wich could benefit from additional support would be resilient infrastructure in order to support adaptation measures.
- urban sustainability, including integrated planning, green areas, resilient management.

D) SMEs: Support to the private sector through programmes aimed at:

- Improving financial inclusion and access to finance for SMEs at the different stages of enterprise creation, restructuring and modernization, with a particular focus on the green economy.
- Sustainable jobs creation.
- Internationalization (helping SMEs in exporting their products)
- Women and/or youth entrepreneurship, technological poles, enterprise incubators etc.

E) ICT: interconnectivity among Latin American countries and from the region to the EU should be a priority.

F) Social services, including:

1) Better access to health care and improved health services installations.
2) Better education facilities, increased access to education.

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 while also crowding-in private sector resources.

The LAIF also included, in 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.

Geographical coverage and final recipents

The final recipients will be the Latin American countries (Argentina, Boliva, Brasil, Colombia, Costa Rica, Cuba, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Paraguay, Uruguay and Venezuela) 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. The LAIF Board encourages geographic and sectorial variety. Innovative instruments, such as guarantees and risk capital operations, if appropriately justified and its risk shared among the participating institutions, are encouraged.

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[271]).

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.

[271] EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

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;
- 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;

In accordance with Article 4.1(e) of the Regulation (EU) No 236/2014, this contribution may be implemented through indirect management whenever possible under the lead of the European Investment Bank (EIB) in line with its external mandate under Decision No 1080/2011/EU, a multilateral European Financial Institution (FI) such as the European Bank for Reconstruction and Development (EBRD), or a bilateral European FI, e.g. bilateral development banks.

The Commission entrusts budget implementation tasks to Lead FIs which have been assessed through the pillar assessment pursuant to article 60 of Regulation (EU, Euratom) No 966/2012, and have transparent, non-discriminatory, efficient and effective review procedures in place.

Once the Lead FI is known, a complementary financing decision needs to be adopted in order to fulfil the requirements of Article 84.3 of Regulation (EU, Euratom) No 966/2012. The Lead FI is contracted for an individual operation based on its operational and financial capacity.
The Lead FIs of LAIF projects in implementation or to be implemented until the end of 2016 have been: European Investment Bank (EIB),, Agence Française de Développement (AFD), Kreditanstalt für Wiederaufbau (KfW) and Agencia Española de Cooperación Internacional para el Desarrollo (AECID).

Regional Development Banks participating as co-financiers: the Central American Bank for Economic Integration (CABEI); (CAF) Development Bank of Latin America, and the Inter-American Development Bank (IDB).

C - Implementation

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

Aggregate Budgetary Commitments[272] as 31/12/2016:	
LAIF:	EUR 305 400 000
Aggregate Budgetary Payments[273] as 31/12/2016 EUR	
LAIF:	EUR 151 171 825

In addition:
Climate Change Window:
Aggregate Budgetary Commitments as at 31/12/2016 EUR 17 300 000
Aggregate Budgetary Payments as at 31/12/2016 EUR 15 800 000

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

The LAIF has served its purpose well during its years of operation. By adding a grant element to loan funding from Lead European development Financial Institutions and Latin American development banks, LAIF has helped to secure and mobilise funds for major infrastructure projects at national and regional level in Latin America. It has helped consolidate the position of the European Union and its member states as leading supporters of economic growth and social progress in the region. A key factor in the success of the LAIF has been the participation of the regional Latin American development finance institutions which has boosted partnership and cooperation between them and European finance institutions.

LAIF contributes to achieve 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 2016 is EUR 305 400 000 and it includes EUR 255 400 000 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 2016, 33 projects have been approved, which represent a total LAIF contribution of EUR 274 million. The total amount of investments supported was approximatively EUR 7 538 million, out of which the eligible European Finance Institutions mobilised circa EUR 3 672 million. In 2016, five new LAIF projects were approved through a Commission Decision following positive opinion of the Board of the

[272] From LAIF line only (excluding the climate change window additonal transfers)
[273] Idem above

DCI Blending Framework. The total LAIF contribution to those five projects amounts to *circa* EUR 42 million.

In addition, five projects received the positive opinion of the Board in November 2016 for a LAIF contribution before fees of *circa* EUR 31 million (Commission decision to be taken after 2016). The total cost of these projects is *circa* EUR 522 million.

As of end 2016 and based on projects that have received Board's positive opinion, 55,2% of the facility contribution to the projects was made in the form of investment grant, 40,5% as technical assistance and 4,3% in the form of risk-sharing instruments.

(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 31/12/2016.

(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;

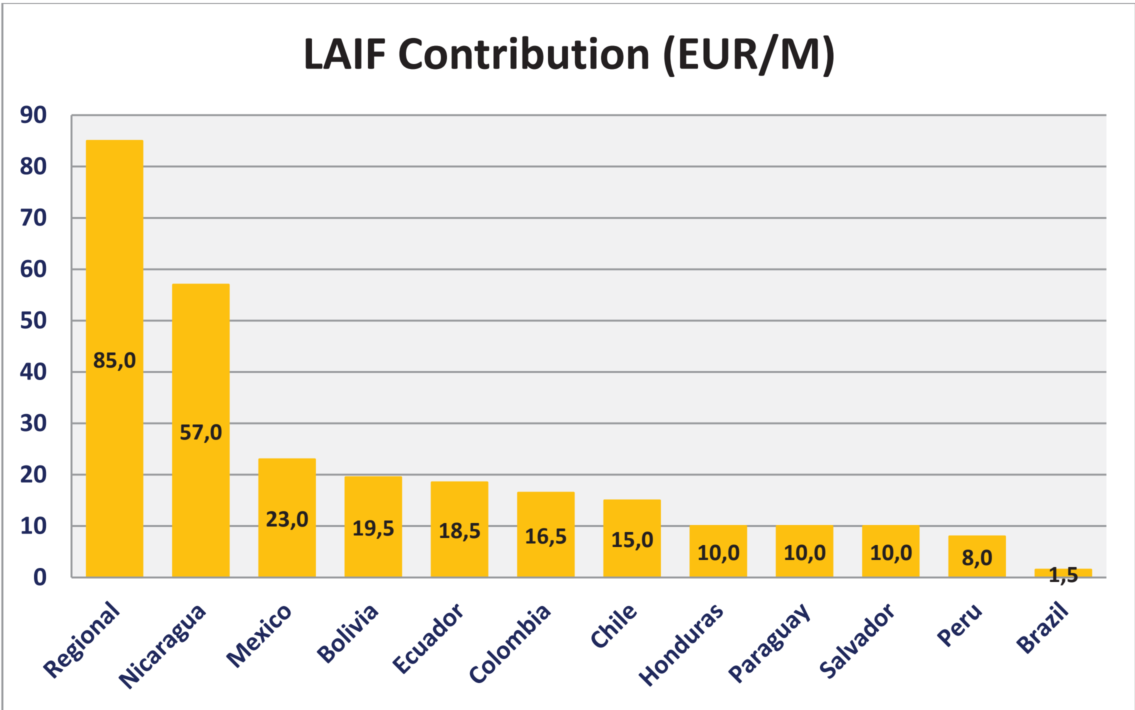
For 2007-2016 instruments:
The achieved leverage effect based on historical leverage experience during the period 2010-2016 for the LAIF was 27,5 (*circa* total project cost = EUR 7 538 million/LAIF contributions = EUR 274 million).

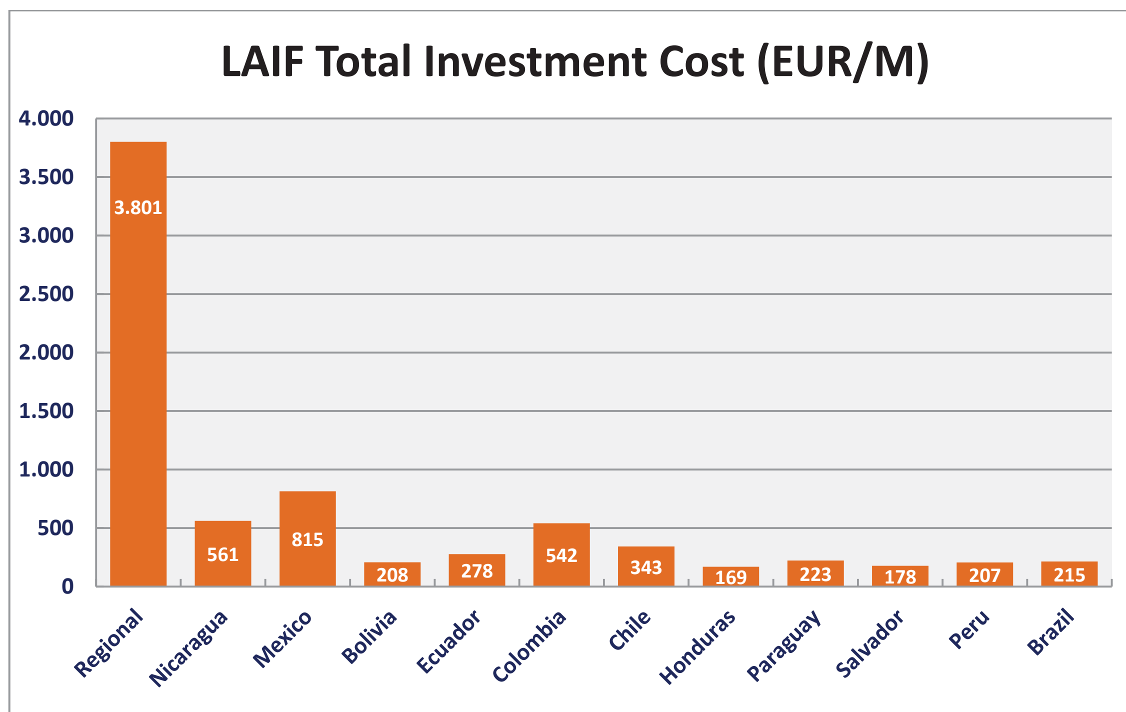
For 2016-2020 instruments:
The target leverage effect as indicated in the ex-ante evaluation is at least for 4 to 5 over the lifetime of the LAIF (2014-2020) as included also in the financing decision of the LAIF.
On the basis of the target leverage of the instrument, it is estimated that the total amount 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

(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 2016, LAIF already contributed to provide approximatively EUR 7 538 million EUR in investments to 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 274 million. In 2017, contracts with two new countries in LAIF, Costa Rica and Cuba, will be signed. Three projects will be, also, signed in Ecuador in 2017, in the context of a renewed support to the catastrophic earthquake that devastated the country in 2016.





The LAIF has proven to be an effective instrument within Union External Policy and achieved its goal of leveraging significant financial resources through grants.

LAIF projects are overall relevant to LAIF strategic objectives, which include: 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 7 538 million.

Building on the results of the several regional facilities so far, blending is set to be an increasingly important aid modality 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. The potential of regional projects in interconnection projects remains yet to be untapped.
  - 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 fact that more and more countries in Latin America have reached the graduated status or are on the way to graduation only stresses this fact. Blending is becoming more and more the right tool

to promote investment and engage in policy dialogue joining forces with other donors and achieving larger impact.

- 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. Where Delegations are involved early on in the design and preparation of blending operations, the alignment with their priorities and channels is fostered. LAIF works best when it is an integral part of the projects.
- 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 should increase the level of investments through their own resources as well as through loans. The pipeline of operations must target the specific policy priorities and sectors set for the region/partner country, be of sufficient quality and volume, and provide the required EU additionality.
- 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. LAIF is going to support its first Financial Instrument Delegation Agreement through Eco-business Fund in 2017. This proves a challenge and an opportunity for the EU to expand its operations and its capacities.
- The Facilities will continue to operate by providing support for loans to partner countries from eligible development financial institutions. By financing technical assistance, innovative instruments (such as risk sharing) and providing complementary grants, LAIF will encourage the recipient governments and institutions to make essential investments, which would otherwise be postponed due to lack of resources. LAIF should also provide better access to finance for Small and Medium Enterprises.
- Reporting is very heterogeneous in quality and quantity; continued effort is being undertaken for the EU both in HQ and in the EU Delegations to ensure follow-up of the projects and proper flow of information.

- **EUBEC Platform and evaluation of blending**:please refer to IFCA/AIF section

- **General outlook:**
  - The indicative pipeline of potential projects updated at the end of 2016 includes 14 projects for a total investment cost of EUR 1 577 million with an indicative potential LAIF contribution of EUR 141 million.
  - Projects to be funded under the 2014-2020 programming are subject to the availability of funds and its subsequent commitment.

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, (originally 44 million less 11 that was returned unused), 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[274] (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.[275]

(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.[276] The recipients of the Risk Capital Facility are the private sector in general and SMEs as well as financial intermediaries.

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)

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[274] 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).
[275] (OJ L 31/1, 9.11.2006).
[276] Note: At this stage, the support to Syria is suspended.

C - Implementation

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

Aggregate Budgetary Commitments as of 31/12/2016	EUR 224 000 000
Aggregated Budgetary Payments as of 31/12/2016	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 52,9 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 was allocated to techncial 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

Aggregate balance of the fiduciary account as at 31/12/2016	EUR 45 369 052

The amount of EUR 13,7 million referred to below has been and will be partly reused to pay for management fees of the instrument. Of this total, EUR 7,8 million have been used for management fees already and EUR 5,8 million have been returned to the general budget.The balance of EUR 0,1 million will be recovered by the Commission and returned to the general budget in 2017 ;

ENPI RCO account in EUR as of 31/12/2016	EUR 16 885 278
ENPI RCO account in USD as of 31/12/2016	EUR 19 211 114
ENPI RCO capital reflow in EUR as of 31/12/2016	EUR 117 703
ENPI RCO revenue reflow in EUR as of 31/12/2016	EUR 4 465
FEMIP TA account	EUR 9 150 492
TOTAL as of 31/12/2016	EUR 45 369 052

(h) Revenues and repayments;

To date, EUR 13,7 million has been earmarked as revenues and repayments from investments made under the Support to FEMIP envelope.

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

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
Cost of Direct Equity Investment as of 31/12/2016	EUR 8 237 280
Value of Equity Investment as of 31/12/2016	EUR 8 125 498

Venture Capital Fund

Cost as of 31/12/2015	EUR 57 466 137

Cost as of 31/12/2016	EUR 64 835 317
Value of Venture Capital Funds as of 31/12/2015	EUR 69 221 696
Value of Venture Capital Funds as of 31/12/2016	EUR 73 251 774

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

For equity instruments:[277]

Impairement as at 31/12/2015	EUR – 7 918 838
Impairement as at 31/12/2016	EUR – 8 913 137

Loans and receivables:

Nominal loans and receivables as at 31/12/2015	EUR 12 855 670
Nominal loans and receivables as at 31/12/2016	EUR 14 546 469

(The increase is due to the loan disbursement(s)).

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

The leverage effect for the risk capital operations as estimated by the EIB is 6,0 for the period 2007-2014 and 26,8 for 2014.278 EIB has calculated this estimated leverage on the basis of total amounts committed to equity funds, divided by amounts committed by EIB to these funds.

D - Strategic importance/relevance

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

The overall objective of FEMIP is to promote sustainable economic growth in the region through investments in infrastructure and especially in private sector development. With 33 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.

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[277] With reference to financial instruments classified as 'available for sale'. Such financial assets consist of venture capital fund + direct equity investment.

[278] 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.

The Union budget allocated a funding of EUR 32 million to the EIB each year from 2007 to 2013 (i.e. EUR 224 million in total). The annual budget has been consistently used, other than in 2011/12, when the political situation in the region led to approximately EUR 10,62 million not being used

E - Other key points and issues

- ***Main issues for the implementation:***
  - o 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.
  - o It is crucial to link TA operations with concrete investments to be financed as a result of the TA work.
  - o 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:***
  - o the transposition of the requirements relies on the Bank, which shall apply them irrespective of the size of the investment. Possible applicability of Commission requirements to small investments may appear more challenging. In the Financial Regulation, the selection of the FI's has been regulated and the capacity of the bank to select the FI has been assessed as required.
  - o As regard the overall performance, the European Court of Auditors carried out a Follow-up audit of the recommendations made in its Special Report No 1/2009 "Banking measures in the Mediterranean context of the MEDA programme and the previous protocols" in 2013 and further to this follow-up audit, the Court informed the Commission that all recommendations have been assessed as fully implemented. In particular, the Commission is currently working on the last reccomendation, i.e. the final evaluation of the Facility.
- ***General outlook:***
  - o 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.
  - o 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 EUR 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.

B - Description

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

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation[279];

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[280];

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)281;

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.

[279] (OJL 378/41, 27.12.2006)
[280] (OJ L 77, 15.3.2014, p. 44)
[281] (OJ L 77, 15.3.2014, p. 95)

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

Policy objectives and scope

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 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 "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 has been completed. This closing date was finally set to 29 May 2015.

C - <u>Implementation</u>

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

Aggregate Budgetary Commitments	as at 31/12/2016:	EUR	81 100 000
Aggregate Budgetary Payments	as at 31/12/2016:	EUR	79 500 000

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

As of the end of 2016, fourteen 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 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 10 million in Armstrong S.E. Asia Clean Energy LP, a new fund focussing on renewable energy investments in Southeast Asia.
- An investment of approximately EUR 10 million in the MGM Sustainable Energy Fund (MSEF)- a fund focusing primarily on energy efficiency projects in Central America and the Caribbean.
- An investment of EUR 12 million in Solar Arise ,an India-focused corporate vehicle targeting solar photovoltaic (PV) investments. This is GEEREF's first investment in a corporate vehicle.
- 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.
- 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 2011, GEEREF made a conditional commitment of the USD equivalent of EUR 12.5m to (converted into USD 18.1m) to Emerging Energy Latin America Fund II (formerly Cleantech Latin America Fund II), a private equity fund investing primarily in renewable energy infrastructure in Latin America and the Caribbean. Signature of

the conditional commitment was completed on 4 July 2011. The first closing of Emerging Energy Latin America Fund II ("EELAF II") was achieved end of January 2012. The fund has a size of USD 39.3m. The fund has made only one investment as of end of 2015. Given the unsatisfactory deployment for EELAF II during Q1 2016, GEEREF, together with the co-investors IFC and CAF, decided to end the investment period of EELAF II and liquidate it. The fund entered dissolution and liquidation by end of March 2016. It is foreseen, that its only asset will have been sold and the fund wound down by Q4 2016.

- In December 2015, GEEREF signed a conditional commitment of up to EUR 15m to the Renewable Energy Asia Fund II (REAF II). REAF II is the first follow-on fund from the existing GEEREF portfolio and successor to the Renewable Energy Asia Fund. REAF II invests in renewable energy projects in South and South East Asia, most notably India, the Philippines and Indonesia. The fund makes equity investments into development stage renewable energy projects and project developers, builds these projects into operation and generates returns through exits either on an individual basis or as portfolio of assets. As GEEREF was a cornerstone investor in REAF, a first close was achieved with FMO, IFC and Oikocredit in March 2016. The fund is now developing its first projects.
- On 8 July 2016, GEEREF signed a USD 16.6m commitment to the Catalyst MENA Clean Energy Fund ("CMCEF"), a USD 100m target size fund concentrating on renewable energy and energy efficiency investments in the Middle East and Northern Africa. The fund will mainly target Jordan but may also invest in Morocco, Tunisia and Egypt, and has a strong focus on solar PV projects. FMO and Finnfund also signed USD 13m and USD 5m commitments respectively on the day which, combined with the USD 2m from the general partner, enabled the fund to reach its first closing. DEG subsequently joined the fund with a USD 11.1m commitment on 02 September 2016.
- In late 2016 GEEREF signed a USD 21m conditional commitment to Evolution II, the sucessor fund to Evolution I. The fund, which has a target fund size of USD 250m, reached its minimum fund size of USD 75m, thereby fulfilling GEEREF's condition for investment in December 2016. Evolution II will invest in renewable energy and resource efficiency in South Africa and prioritised countries in Sub-Saharan Africa.
- In addition, as of the end of 2016, GEEREF Investment Committee approved one additional commitment that remained to be signed: an EUR 20m commitment to Frontier Energy II, the sucessor fund to DI Frontier Fund, that will invest in renewable energy in Sub-Saharan Africa.

One of the commitments approved by the GEEREF Investment Committee has not materialized. In December 2013, GEEREF committed EUR 9m to Small Hydropower Energy Fund focusing on investments in Ukraine. The fund did not reach the conditions precedent for its closing due to political and economic crisis in Ukraine and was abandoned in June 2015.

In total, GEEREF has committed to investments of EUR 148 million in regional private equity funds (Q4 2016 exchange rate EUR/USD). These funds have subsequently invested in 84 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 148 million invested in 10 regional private equity funds and one corporate vehicle.
Total amount of financing raised from investors by the final recipients, including GEEREF	Approx. EUR 919 million
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	Approx. three billion EUR in investments / projects with a contibution of EUR 526 million by the final recipients

(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 73 581 776***

	In EUR
Balance on the fiduciary account (current account)	1 235 919*
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)[282]	72 345 857*
Other assets (if applicable)	
= ***Total assets***	73 581 776*

**as per 31/12/2016 provisional accounts*

Impact of negative interest rates on GEEREF: no impact as at 31/12/2016.

(h) Revenues and repayments (Art.140.6);

N/A.

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

EUR 72 345 857

(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

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 2016, 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 148 million have been invested in ten 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 6,2. 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 renewable energy and energy efficiency projects. Regarding these projects the invested equity contributions achieved a leverage of almost 6 at investee/project level. Hence, the achieved leverage based on the partially invested GEEREF funds reached the targeted leverage of 36.

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

D - Strategic importance/relevance

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

As of end 2016, the total investment supported with Union contribution in GEEREF was approximately EUR 3 billion. At the Fund of Funds level, GEEREF targets a leverage rate of 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 2016, GEEREF's impact was, on a provisional basis, the following :

- Financial
  - EUR 222 Million commitment from private investors, EC, Germany and Norway
  - EUR 526 Million invested in equity by the final recipients in investments
  - Leverage >50x on public capital
- Energy
  - By end of 2016 projects with capacity of 692MW installed
  - Over lifetime of existing funds 1,5 GW installed
  - In 2016, 1 580 GWHS of electricity generated
  - Over lifetime generation of 124 GWHS generation
  - In 2016, 52 GWHS of electricity saved
- Environmental
  - 1,4 million tonnes of carbon emissions reduced in 2016
- Social
  - Improving access for people: over 300 000 households by end of 2016
  - The projects provide electricity to about 4,5 million households over the lifetime

E - Other key points and issues

- ***Main issues for the implementation:***
  - GEEREF's current portfolio contains 10 fund investments and one corporate vehicle investment. The pipeline of 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) is identified.
- ***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.
- GEEREF team has started the process to raise funds for a second Fund of Funds – GEEREF NeXt.

6.6. Thematic blending (ElectriFI, AgriFI, Climate Change)	
Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	AFD, FMO, KfW, PROPARCO
Initial Overall Budget Envelope:	74 851 742
Current Overall Budget:	270 311 212

A - <u>Summary</u>

- ElectriFI aims at bridging the gaps in structuring and financing of investments, addressing the lack of access to clean, reliable and affordable electricity and energy services all over the world.
- AgriFI main aim is to develop inclusive and sustainable agriculture based value chains.
- Climate Change actions aim at developing local climate strategies into action plans, budgets, and investment projects.

B - <u>Description</u>

(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[283];
- 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[284];
- The DCI is also the legal basis of the thematic programme 'Global Public Goods and Challenges' (GPGC). The GPGC programme seeks to foster economically, socially and environmentally sustainable development in an integrated and holistic way aiming of promoting good governance, political stability and security and the requirement for policy coherence in external action. The overall objective is to

[283] (OJL 378/41, 27.12.2006)
[284] (OJ L 77, 15.3.2014, p. 44)

support inclusive sustainable development: environment and climate change, sustainable energy, human development, food and nutrition security and sustainable agriculture, migration and asylum.

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

Policy objectives and scope

- ElectriFI: The aims of the financial instruments are to a) bridge the gaps in structuring and financing of investments addressing the lack of access to clean, reliable and affordable electricity and energy services all over the world with a view to attracting the development financing sector and, b) de-risk investments to attract the interest of a wider range of financial institutions, including commercial banks.
- AgriFI: The main objective is to develop inclusive, sustainable and climate-smart agriculture based value chains. For this, three priorities have been set: a) Produce knowledge and analyse experiences to help policy makers and investors to design strategies, policies and projects; b) Facilitate the establishment of public-private stakeholder alliances and strengthen capacities of various operators along the value chain (farmers and their organisations, micro, small and medium enterprises (MSMEs), market organisations etc.) to improve governance, to access existing and new markets (domestic and international), and to remain competitive; and c) Increase investments in the agriculture value chain to start 'rural transformations' through blending mechanisms.
- Climate Change: The action's objectives are as follows: a) Meeting the demand of low-carbon and climate change resilient infrastructure in sub-Saharan Africa; b) Systematically translating local climate strategies into concrete investments; c) Fully achieving/maximising climate co-benefits of urban projects; d) Building local governments' capacities to implement climate-friendly urban projects; e) Contributing to the dissemination of local climate strategies in sub-Saharan Africa, in complementarity with existing initiatives; f) Completing a low carbon cities mechanism in Africa, in connection with the deployment of the Covenant of Mayors to sub-Saharan Africa and other major initiatives; g) Ensuring the contribution of cities for countries to abide by their Intended National Determined Contributions (INDCs), which is central for the implementation of the Paris Agreement on Climate Change.

Geographical coverage and final recipients

- Thematic initiatives are not attributed a priori to a specific geographical region under the corresponding financing instrument. Targeted countries are countries eligible under the DCI financing instrument.

Implementation arrangements

- Implementation arrangements at Blending framework level: In order to improve the effectiveness of blending operations (including the ones for thematic blending) 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 Platform for Blending in External Cooperation (EUBEC) to organise four blending "frameworks" according to the financing instruments (EDF – ENI – DCI – IPA[285]). So far, thematic projects have been managed in the context of DCI blending framework.

- Implementation arrangements at individual project level: Individual projects 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. So far, lead financing institutions in the context of thematic blending (contracts singed up to December 2016) are: FMO, PROPARCO and AFD. Another project under the leadership of KfW has been approved by the DCI Blending Board but the contract has not been signed yet.

Added value/Expected results

- ElectriFI: The main expected results would be: a) mobilisation of private sector investments increasing access to modern, affordable and sustainable energy services and/or improving access to save reliable, affordable and sustainable energy for populations living principally in rural and underserved areas, as well as areas affected by unreliable power supply; b) increase of operations in the field of renewable energy with emphasis on decentralised energy solutions, not excluding grid extension programs; and c) leverage of additional financing for such investments, including from global partners and the local banking sector.
- AgriFI: The main expected results would be: a) making available valuable knowledge for accountability, enhanced project management and policy decision making on value chains operations; b) improving the value chains governance; c) enhancing, through adoption of technological innovation, value chains productive capacity and access to markets of small scale farmers and agribusinesses; d) increasing responsible investment on agriculture based value chains.
- Climate Change: The projects financed will reinforce the capacities of the municipalities and improve the quality of life of their inhabitants. Greenhouse effect gases reduction impacts or vulnerability reduction impact will be followed for each project. The technical assistance will contribute to accompany local governments on the long-term in the definition of low-carbon and climate-resilient urban strategy and in the implementation of these strategies into concrete investments, in order to reduce their vulnerability to climate change impacts (which carry higher risks for the more vulnerable populations), and to reduce their greenhouse effect gases emissions. This will entail know-how and methodology transfer to African States and local authorities in terms of climate issues management in an urban context.

(c) The financial institutions involved in implementation;

- In accordance with Article 4.1(e) of the Regulation (EU) No 236/2014, this contribution may be implemented through indirect management whenever possible under the lead of the European Investment Bank (EIB) in line with its external

[285] EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

mandate under Decision No 1080/2011/EU, a multilateral European Financial Institution (FI) such as the European Bank for Reconstruction and Development (EBRD), or a bilateral European FI, e.g. bilateral development banks.

- The Commission entrusts budget implementation tasks to Lead FIs which have been assessed through the pillar assessment pursuant to article 60 of Regulation (EU, Euratom) No 966/2012, and have transparent, non-discriminatory, efficient and effective review procedures in place.
- Once the Lead FI is known, a complementary financing decision needs to be adopted in order to fulfil the requirements of Article 84.3 of Regulation (EU, Euratom) No 966/2012. The Lead FI is contracted for an individual operation based on its operational and financial capacity.
- The Lead FIs of thematic blending projects to be implemented until the end of 2016 have been: Agence Française de Développement (AFD), PROPARCO (a subsidiary of AFD devoted to private sector funding) and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO).

C - Implementation

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

Aggregate Budgetary Commitments	as at 31/12/2016:	EUR	270 311 212
Aggregate Budgetary Payments	as at 31/12/2016:	EUR	34 889 381

(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;	NA
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , and expected number of eligible final recipients;	NA
Total investment expected to be provided	EUR 1,9 billion
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	0
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	0

- ElectriFI: The first deal under the delegation agreement with FMO (EDFI ElectriFI) has been closed upon receiving final clearance in December 2016. This is a USD 2.5mln investment (convertible notes) in Sigora (Haiti), a start-up company that meets innovation, impact and major footprint criteria while providing attractive return potential and downside protection. Sigora is incorporated as a for-profit Haitian corporation, acting as a micro utility company providing clean, reliable and

affordable electricity in Haiti. Sigora builds, owns, and operates the North-West micro-grid, provides service 24/7 and collects revenue from residential and commercial customers using its proprietary prepaid metering technology. The first disbursement to Sigora is expected in the first quarter of 2017.

- AgriFI: No investments realized so far, as no delegation agreement has been signed by December 2016.

(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 30 289 382

ElectriFI	*In EUR*
Balance on the fiduciary account (current account)	30 289 382
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)	
Other assets **(if applicable)**	
= Total assets	30 289 382

(h) Revenues and repayments (Art.140.6);

Neither revenues nor repayments have been made by December 2016.

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

NA

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

Neither impairments nor called guarantees have occurred by December 2016.

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

- ElectriFI: Total project cost (circa EUR 968 million) / ElectriFI contribution (EUR 131 million) = 7,4 (refers to projects approved through a Commission decision following positive opinion of the Board of the DCI Blending Framework by December 2016).
- AgriFI: Total project cost (circa EUR 234 million) / EU contribution (EUR 30 million) = 7,8 (refers to projects approved through a Commission decision following positive opinion of the Board of the DCI Blending Framework by December 2016)

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;

- ElectriFI: under the delegation agreement with FMO (EDFI ElectriFI), at the end of 2016, 6 applications were at preparation stage for pre-approval, 7 have been pre-approved and 1 has received final approval. The potential investment is EUR 26.6 million, which would imply the following impact:
  - Installed capacity of 38.3 MW,
  - Average cost of EUR 4.1 mln per MW,
  - Leverage of 5.9
  - 1.1 million new connections created.

E - Other key points and issues

- ***Main issues for the implementation:***
  - ElectriFI: some of the selected applicants indicated that they had expected ElectriFI to provide low-cost capital or grants. The observation that ElectriFI seeks to be additional to, but not competing with other investors resulting in market-based pricing of financial products led some applicants to conclude that ElectriFI funding was not as much needed by them as initially indicated (i.e. they were actually loking for cheap concessional funding). The next Call for Proposals will more explicitly state and explain the positioning and pricing methodology of ElectriFI funding, clearly indicating that low-cost capital and grants are not provided.
  - A few applicants indicated in their initial application that they were in a more advanced stage than they actually turned out to be (e.g. no pre-feasibility studies or pilots undertaken yet). In the next Call for Proposals a more thorough check will be done to ensure only proposals for advanced ventures are received and selected.

- ***Main risks:***

  NA
- ***General outlook:***
  - ElectriFI.
    - As in 2016 a significant amount of time has been dedicated to setting up the EDFI ElectriFI organisation and as the majority of the organisational processes is now in place, it is foreseen that relatively more time can be spent on project investments accelerating access to electricity and on promoting ElectriFI.
    - EDFI ElectriFI will continue to actively engage with clients, undertake due diligence trips, visit project sites, negotiate term sheets and present projects to the Inves,ent Committee. A second Call for Proposals (Round 2) will be announced early 2017.

IV. ANNEX A - General Context

1. **The EU Economy in 2016**

In order to outline the macroeconomic background against which EU financial instruments operated in 2016, the fundamental evolution of key macro-financial variables is sketched out below in this section.

Real GDP

In 2016, the European economy entered its fourth year of recovery, which however has been atypical as the investment gap persisted, the current account surplus remained high, and inflation stayed subdued. In 2016, economic growth in the EU benefitted from favourable factors like low oil prices, a still low euro exchange rate, supportive accommodative monetary policy and broadly neutral fiscal stance. To some extent, public consumption was boosted by refugee-related expenditures. The drop in oil prices has pushed the purchasing power of households but also weighed negatively on the rebound of inflation from its very low level.

Private consumption, the largest contributor to GDP growth, benefitted from the increase in real disposable income of households as the headline inflation fell and the situation on labour market improved. Investment continued to expand, but the pace of expansion remained rather limited despite the low funding costs and an improved access to funding for non-financial companies.

elevated policy uncertainty. Growth of potential output was also held back by the legacies from the crisis and the output gap continued to close only slowly in 2016 (from -1.7% in 2015 to -1.1% of potential GDP in the euro area).

In 2016, *real GDP* grew by 1,9% in the EU (Figure 1) and by 1,8% in the Euro Area, almost entirely driven by domestic demand whereas the contribution of net exports of goods and services turned neutral. Indeed, growth of global GDP and trade was weak in 2016. Looking ahead, economic activity is forecast to remain constant at 1.9% in the EU, whereas real GDP growth is expected to slightly moderate in the euro area to 1,7% in 2017 and to increase marginally to 1,8% in 2018.

Figure 1: Real GDP, EA

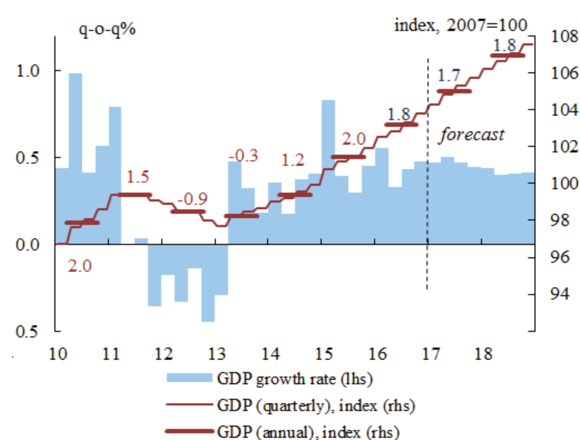
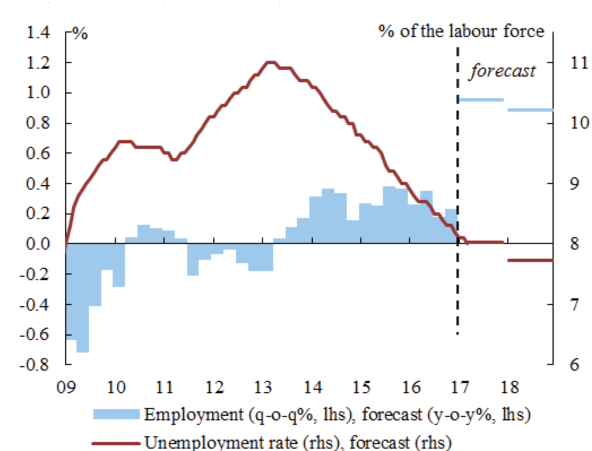


Figure 2: Labour market, EU



Note: Figures above horizontal bars are annual growth rates.
Source: *European Commission (2017)*

Labour market

Since the start of the economic recovery in 2013, *employment* growth has been relatively robust, benefiting from the ongoing economic expansion, modest wage growth, structural reforms and specific policy measures in some Member States. Unemployment rates continued following a moderate downward trend throughout 2016 (Figure 2). In the Euro area the unemployment rate is expected to further fall to 9.4% in 2017 and 8.9% in 2018, its lowest level since the start of 2009. However, the recovery of labour market remains incomplete as employment and the unemployment rate are not expected to reach pre-crisis levels by 2018 and youth unemployment and long term unemployment are still very high, especially in certain Member States.[286] Nevertheless there is a continued reduction in the dispersion of unemployment rates across EU countries, with unemployment projected to fall in almost all euro-area countries over the forecast horizon but to remain elevated in the former 'stressed countries'.

Public finance

Public finance continued improving as the general government deficit further declined from 2.4% of GDP in 2015 to 1.7% in 2016 in the EU and from 2.1% of GDP in 2015 to 1.5% in

[286] 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.

2016 in the euro area. Government debt fell from 86.5% of GDP in 2015 to 85.1% in 2016 in the EU and from 92.5% to 91.3% in the euro area.[287]

Inflation and the exchange rate

HICP Headline inflation in the EU and the euro area stood at 0.2% in 2016, after a fall in 2015. It has picked up in late 2016 and early 2017, driven by temporary factors like energy base-effect and the recovery of oil prices.. However, core inflation has not yet shown any meaningful acceleration. Besides the impact of low energy prices, the persistence of low inflation can also be associated with the remaining slack in the economy.

The narrowing of the output gapThe Euro's nominal effective exchange rate rose by 2.3% from the end of 2015 to the end of 2016.

Financial markets

On the financial side, 2016 was kick-started with the announcement by the ECB of an extension of the quantitative easing programme in December 2015, which boosted investor sentiment. Nevertheless, intermittant bouts of volatility 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 2016, 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 2016 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 2016, 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.

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 2016 stem from “legacy” issues from the global financial crisis. Despite levels of non-performing loans (NPLs) stabilising and the

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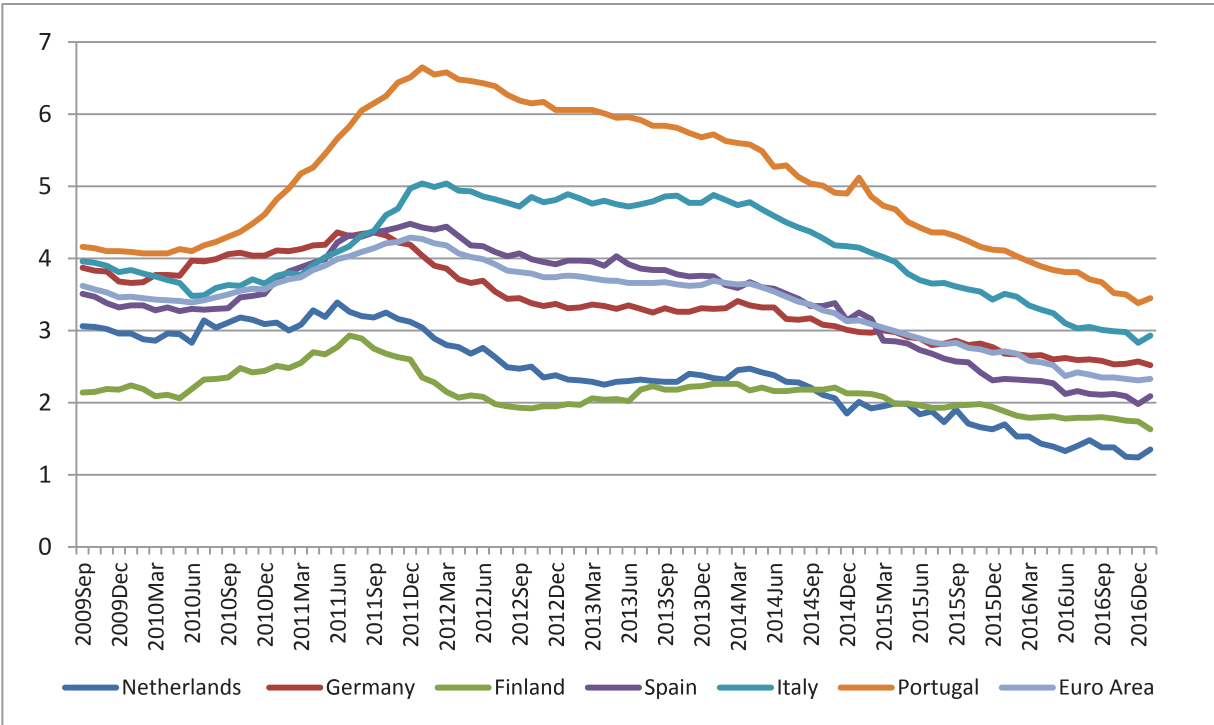
[287] EC (2017) [Spring Economic Forecast]

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 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 2016 (figure 3) reflected ECB monetary policy actions implemented during 2016. The easing of credit standards on loans to corporations of all sizes[288] 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, though

[288] ECB (2016).

somewhat accelerating, economic activity and very low interest rates, which inevitably impact on the final recipients' demand 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 fiduciary accounts for the financial instruments.[289]

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.

The following sections analyse in more detail the economic and financial situation of target groups that are of particular interest for EU policy-making.

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[290]

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.

Among the external sources of financing in 2016, debt was the most relevant for EU SMEs, with bank loans declining in importance but still being considered by half of them. As for equity, 13% of EU SMEs deemed it relevant.[291]

[289] To soothe the impact of negative interest rates, certain mitigating actions have been put in place for the financial instruments.

[290] 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).

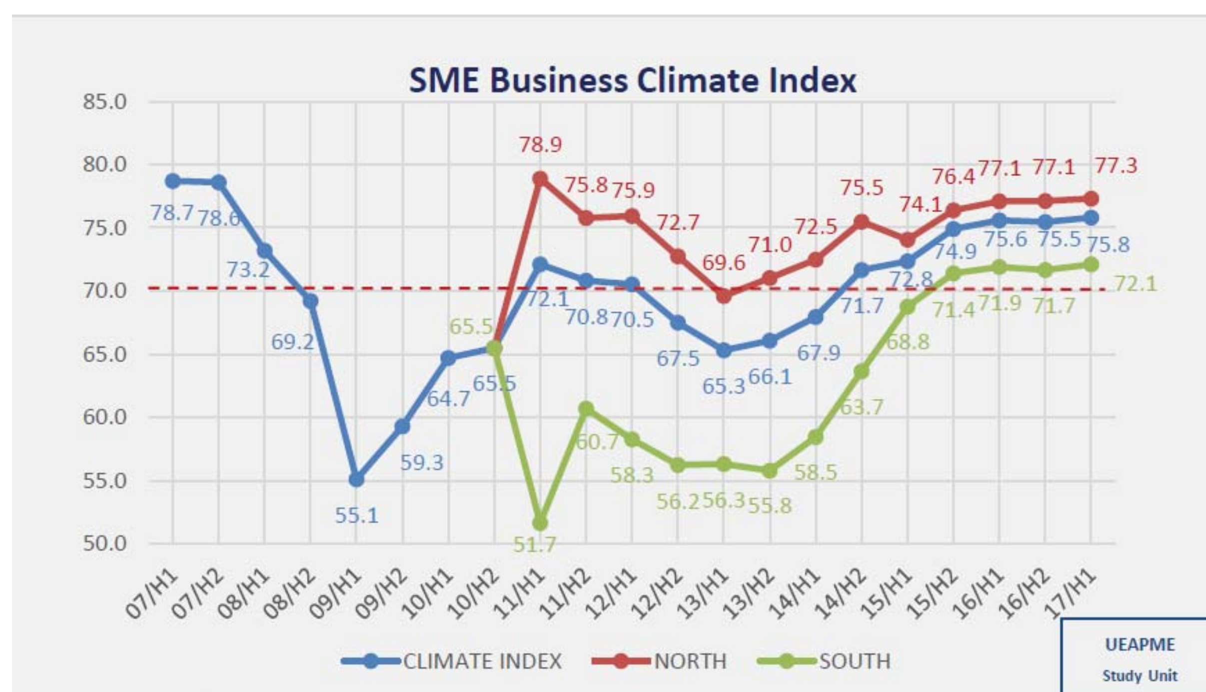
[291] ECB and EC (2016).

2.1.1. SME Loan Market

2.1.1.1. Demand for SME loan finance

According to the UEAPME (2017), the overall business environment for European SMEs remains stable, exhibiting moderate but steady growth.

Considering the geographical dimension, the situation is quite similar and stable for both the North & Centre and the South & Periphery areas. In the former area (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 – the Climate index has reached 77,3 percentage points (i.e., +0,2 compared to last semester), whereas in the latter area (Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain) – "South" in the graph – it has increased by 0,4 points, recording 72,1 points, indicating a homogenous growth path. As noted in UEAPME (2017), a gap between the North and the South persists, showing some lingering heterogeneity across the EU economies. In addition, while the between-group growth path may have stabilised, within-group differences are sharpening.



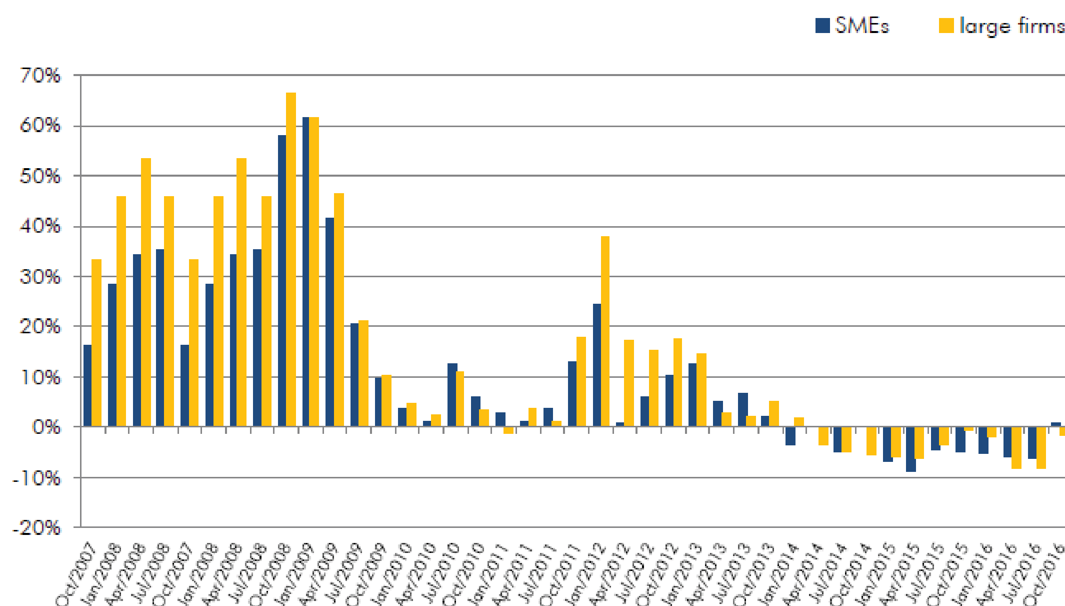
Source: *UEAPME (2017).*
Note: The UEAPME SME Business Climate Index is calculated as the average of the current situation and the expectations for the next period, resulting from the sum of positive and neutral (meaning: no change) answers pertaining to the overall situation for the business. For example, 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 (2017).

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, the net easing of SME credit standards experienced uneven improvements: after a backlash in May 2015, it continuously reprised at a moderate pace until the end of 2016 while remaining slightly better than that for large enterprises.

Across the different firm sizes, credit standards were again eased more strongly on loans to 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).

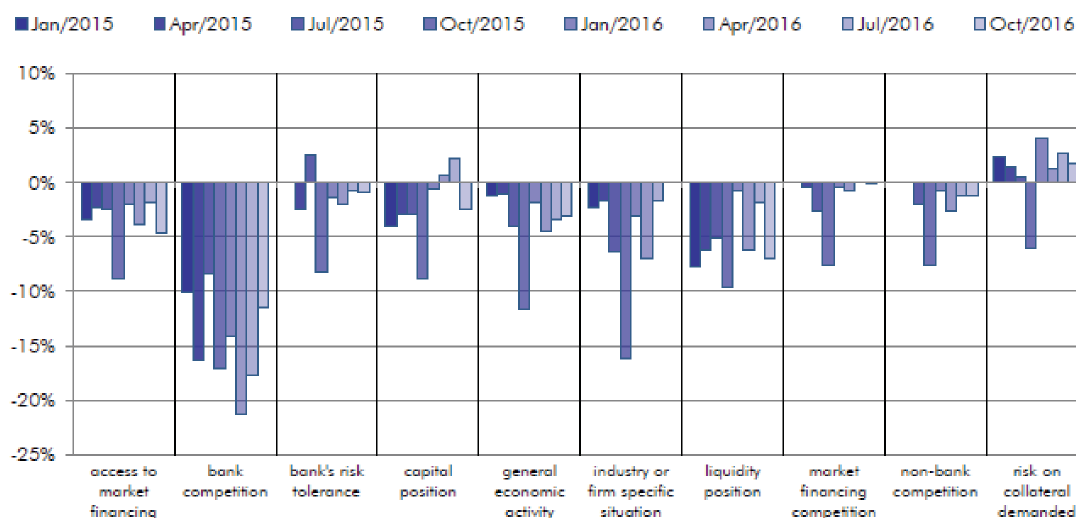
Figure 6: *Changes in credit standards applied to the approval of loans or credit lines to enterprises (SMEs versus large enterprises)*



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 2016, several factors contributed in net terms to the easing of credit standards for SMEs (Figure 7), most notably bank competition, industry or firm specific situations, liquidity position and access to market financing.

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, 2016b)

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.

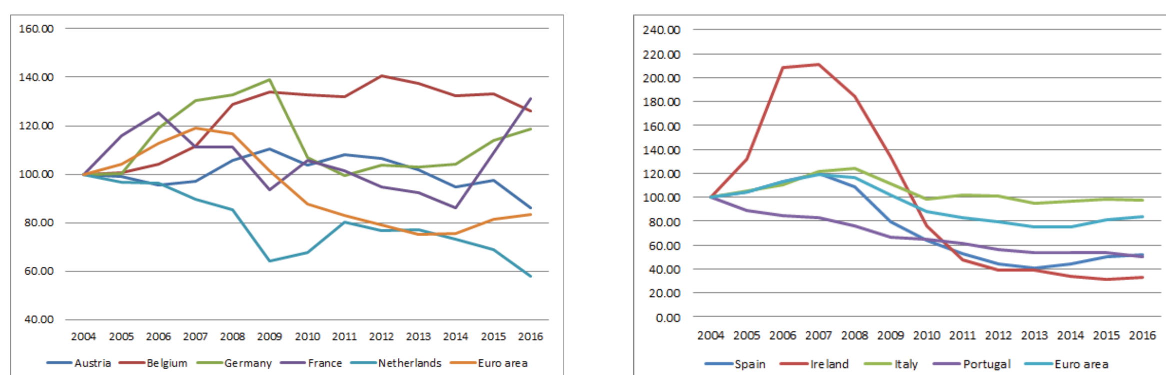
2.1.1.3. Market loan volumes and interest rates

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, ECB data on bank loans to non-financial corporations show that new volumes within the Euro Area decreased continuously by 56.9% from their peak in July 2007 until August 2014, and although they increased thereafter, by the end of 2016 the annual amount of loans up to EUR 1 million was still 16,6% *below* its 2004 level. In comparison, large loans reached a volume of only 8,5 % *below* their 2004 level.

Across the Euro Area countries, new bank lending to SMEs seemed to pick up slightly from the decline during the crisis through 2016 (Figure 8). Among "periphery" countries, there was a slight increase in Spain and in Ireland from 2015, where economic recovery is taking hold, and also in Greece and Cyprus, where liquidity pressures and credit quality deterioration had contributed to a sharp decline in new lending to SMEs through 2014. In "core" countries, lending volumes slightly decreased in 2014 across the board, except for Germany. While during the height of the financial crisis the volatility in SME loan volumes has been higher in periphery countries than in core countries, in the latest years this phenomenon has reverted course, with periphery countries enjoying a greater loan stability than core countries.

Figure 8*: Loan Volumes:Millions of Euro (New Business)*

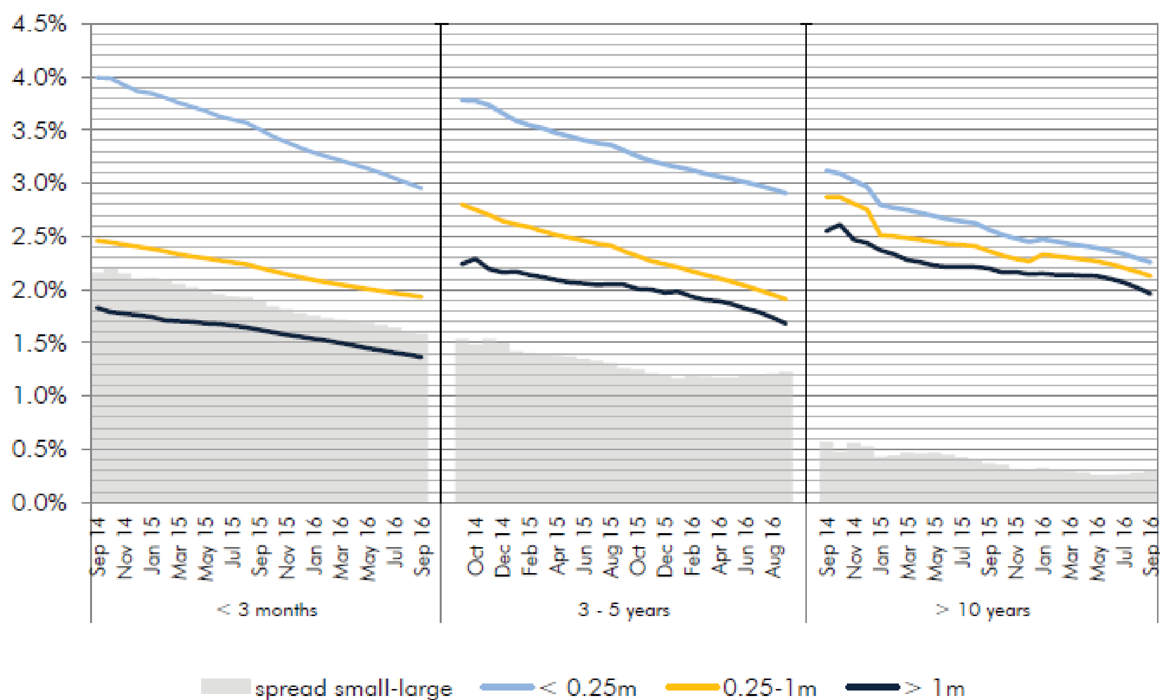


Note: Loans up to and including EUR 1 million.
Source: *ECB Data Warehouse*

Interest rates on SME loans

Figure 9 illustrates the evolution of interest rate levels for different loan sizes by maturity over the past two years. The graph suggests that the ECB's quantitative easing efforts have continued to trickle down, resulting in declining interest rates for loans to non-financial corporations, over all size-classes and all maturities. Overall, interest rates for all the amounts and maturities during 2016 did not exceed 3,5%. In addition, regardless of maturity, but especially in the short-run, small loans continue to be burdened with higher interest rates.

***Figure 9**: Interest rates by loan size and maturity, and the interest rate size spread. Sep 2014 to Sep 2016.*



*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: ECB Data Warehouse, authors' calculations

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 spreads 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.[292] 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).

[292] OECD (2016).

Figure 10: *Interest Rates on New Loans to SMEs. Comparison EU South and Periphery vs EU North and Centre. (Loans up to and including EUR 1million)*

Figure 10a: *EU "South"*

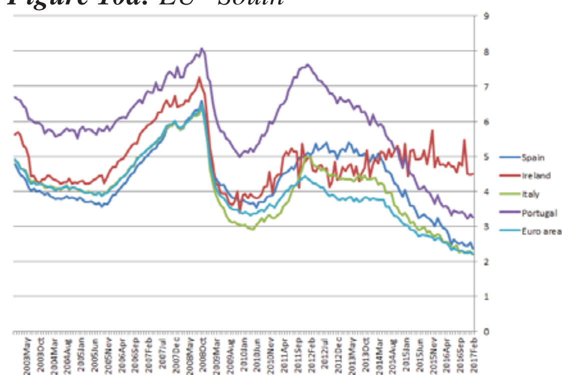
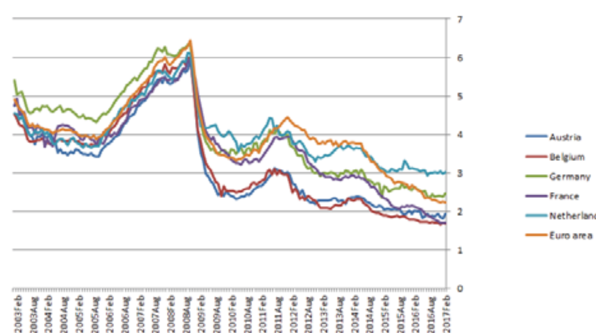


Figure 10b: *EU "North"*



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.[293]

Although EU SMEs are optimistic about their growth prospects, many are still concerned about the lack of access to finance: 9% of survey respondents still regard access to finance as the most important problem for their companies. However, in the last round of the survey, EU SMEs considered access to finance the least important problem that they faced (9%, down from 10% in the previous round), although results differ across countries.

In 2016, 27% of SMEs in the 28 EU Member States applied for a bank loan, a proportion similar to 2015. Most of them were successful: 70% (67% in 2015) of all applications were granted in full. In 2016, the rejection rate for bank loan applications was 7% compared to 8% in 2015.

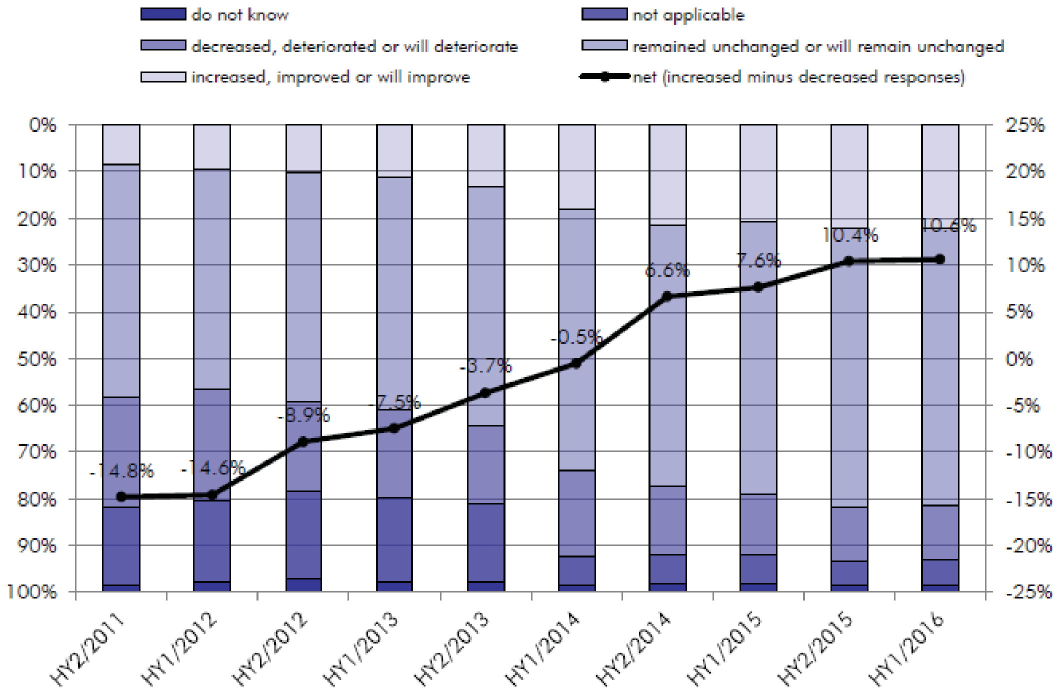
However, there are large differences between countries regarding the proportion of SMEs applying for bank loans. In France, Spain, Italy, Belgium, Portugal and Slovenia the proportion was equal or higher than the EU28 average of 27%. In Ireland, the United Kingdom, Estonia, Denmark, Cyprus, Romania, Slovakia, Sweden and Cyprus the proportion of SMEs applying for bank loans was less than 20%. It should be noted that in Greece, many SMEs (26%) did not apply for bank loans because of fear of rejection but this is an improvement compared to 37% of 2015; to a lesser extent, the same holds for Cyprus (12%).

[293] EC and ECB (2016).

The survey also shows that SMEs continued to be confronted with higher rejection rates compared to larger corporations. Indeed, the highest rejection rate was among micro companies employing fewer than 10 people (9%) and the lowest applied to large companies employing more than 250 people (1%).

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)*



Source: ECB SAFE (ECB, 2016a)

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 EC and ECB (2016) SAFE data, it can be estimated that up to 3,5% of EU SMEs have had difficulty in accessing loan finance[294] despite being in fact financially viable, in the sense of having exhibited 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.

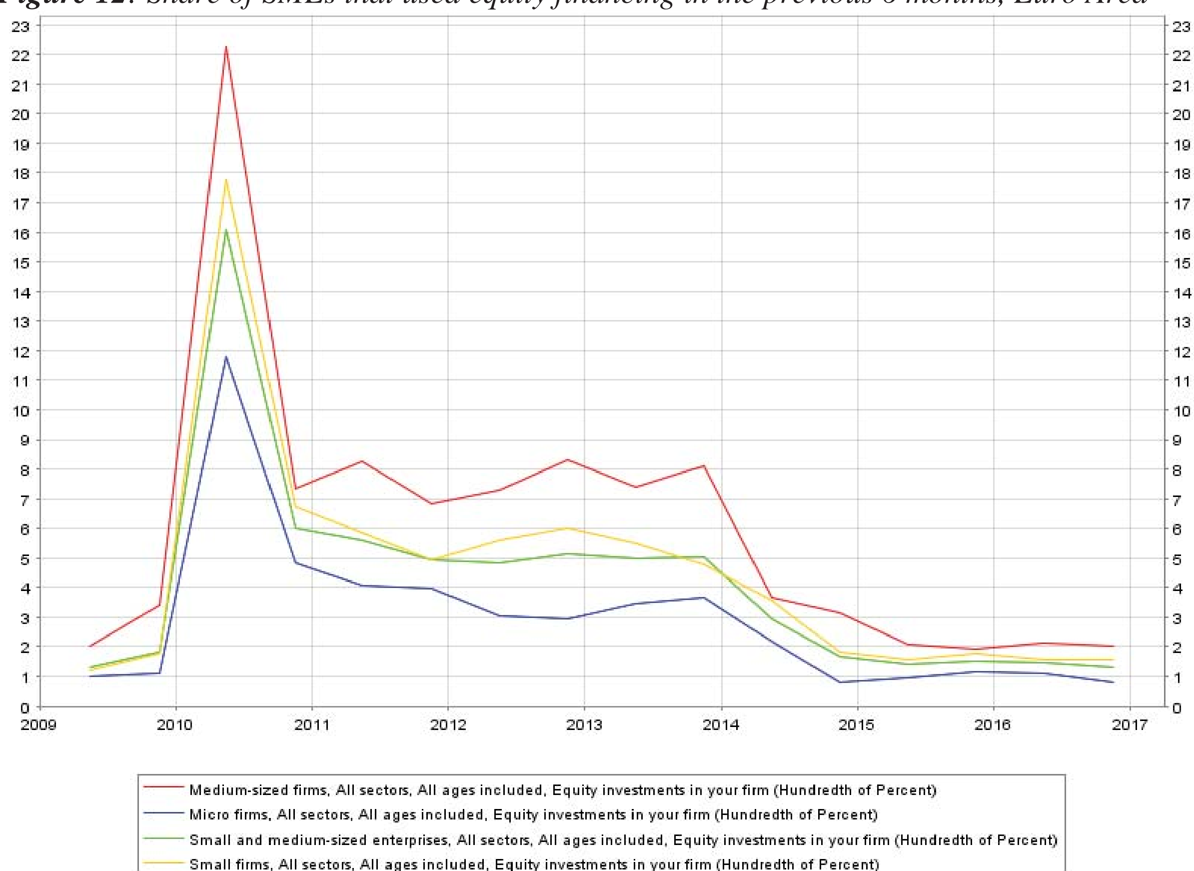
[294] Note: SMEs that have had difficulty in accessing loan finance are defined as those which: i) have been refused a bank loan; ii) have turned down a bank loan, due to the credit conditions; iii) have been discouraged from even applying for a bank loan.

2.1.2. SMEs and the European Equity Market

2.1.2.1. SME Demand for Equity

In 2016, only 22% of SMEs felt confident to discuss financing and obtain the desired results with equity investors and venture capital enterprises, compared to 67% feeling confident to discuss financing with banks. Smaller firms, regardless of their innovation profile, are less confident in their financial competences; in fact, 17% of EU SMEs considers equity financing not relevant to their enterprise (an improvement in comparison with the previous year's result of 18%). As a consequence, only 2% of Euro area SMEs used equity financing in 2016, a percentage which remains unchanged with regards to 2015, (Figure 12). Overall debt financing continues to be preferred to equity financing by EU SMEs: indeed, 18% of them used bank loans, while only 2% used equity financing.

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



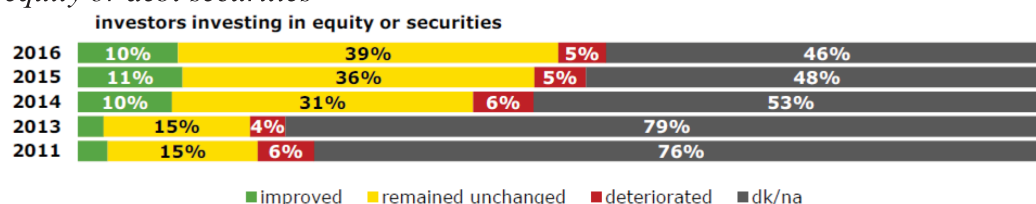
Access to equity financing is slightly more common among larger businesses in the EU (4% of those with 250+ employees), reflecting diffuse difficulties in accessing this specific financial instrument.[295]

[295] EC and ECB (2016).

2.1.2.2. Supply of Equity for SMEs

In 2016, most categories of enterprises reported a slight decrease (minus one percentage point with respect to 2015) in the willingness of investors to invest in equity or debt (Figure 13). Among the 54% of EU SMEs expressing an opinion about the willingness of investors to invest in equity in the past 6 months, most reported no change (39%), 10% 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 EC (2016)*

The findings in the aforementioned SAFE study show that 14% of SMEs report an improvement in the availability of equity as a way of financing. However, the lack of equity finance in Europe is increasingly being recognised as a key bottleneck to the provision of further overall SME funding.[296]

Among the different opportunities of equity financing for SMEs, a crucial role is played by Venture Capital financing, a segment of private equity mostly focusing on start-up firms and small businesses. Spanning from the seed to the growth phase of companies' development, Venture Capital investments serve 86% of European SMEs seeking equity financing, and 83% in terms of total amounts invested in SMEs.[297]

[296] Also for these reasons, on 30 November 2015, the European Commission proposed an overhaul of the EU Prospectus Directive (2003/71/EC) that allows 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.

[297] Invest Europe (2017). Note that Invest Europe identifies SMEs as enterprises having less than 250 employees, without any considerations concerning turnover and/or total assets.

2.1.2.3. Access to Venture Capital of EU SMEs

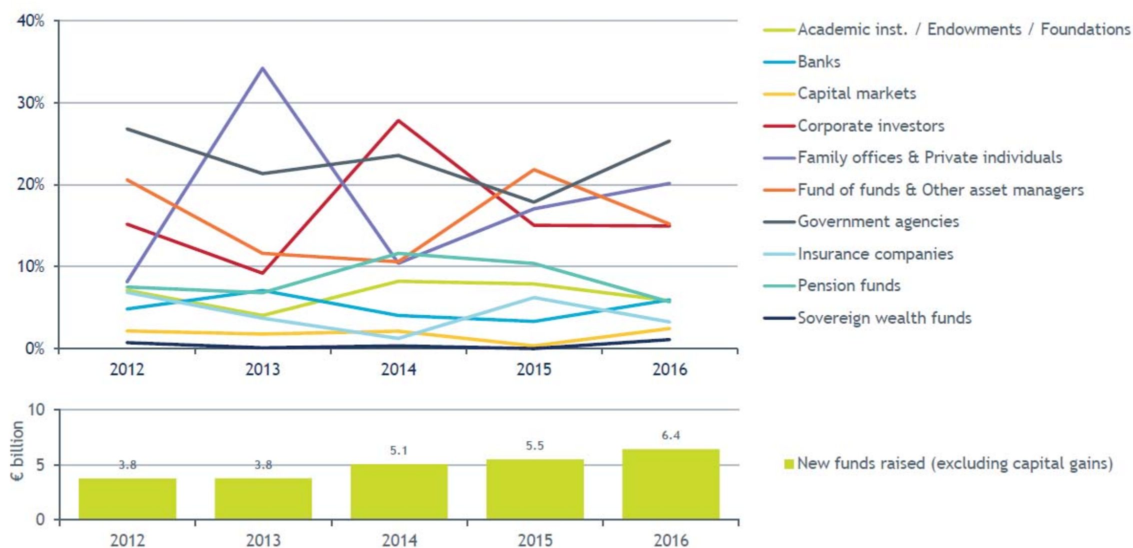
From a broad supply perspective, the structural challenges in the European Venture Capital market, the difficult fundraising environment, and the still somewhat risk-averse market sentiment, are all sources of significant problems for fund managers in the access to funding in general, and for new funds 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.

The latest available figures from Invest Europe (2017) – formerly EVCA - point to the following trends in the European Venture Capital sector:

a) Fundraising

- Venture Capital fundraising in Europe totalled EUR 6,4 billion in 2016 which represents an increase of 37% compared to 5,3 billion in 2015; it exceeds the previous highest amount of 2013 (Figure 14) and reaches the highest level since 2008. Government agencies remained the most prominent provider of funding, representing more than 25 % of the total funds raised (compared to 14% in 2007).

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



Note: Incremental amount raised during the year - % of total
Source: *Invest Europe (2017)*

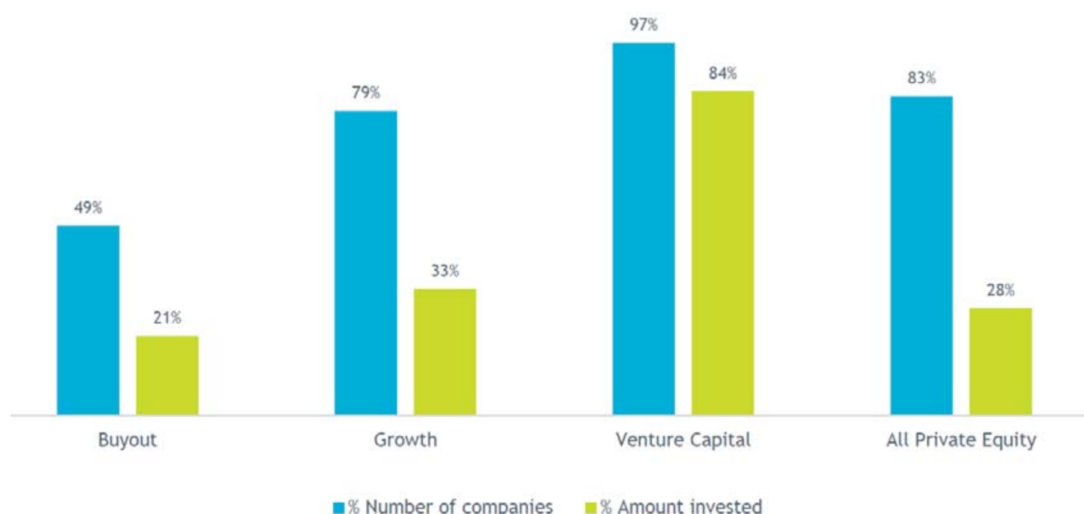
- As regards the geographic breakdown, 39,9% of the funding came from France and the Benelux region, followed by 12,3% from the DACH region (Germany, Austria and Switzerland), 10,8% from Southern Europe (Spain, Portugal, Italy and Greece), and

9,9% from the UK and Ireland, a significant drop compared to 19,3% in 2015; 9,2% came from North America.

b) Investments

- The total amount of Venture Capital invested in 2016 reached EUR 4,4 billion, up 4% from 2015. This figure is in the same order of magnitude as the volumes recorded each year since 2009 and significantly lower than pre-crisis levels.
- Over 3000 companies received investments backed by VC funds in 2016 (a reduction of 7% compared to 2015) which indicates a trend towards larger financing rounds. Start-up companies were at the centre of Venture Capital funds' attention, as they received almost half of the amounts invested.
- As regards sectors, ICT, bio-tech and healthcare, consumer goods and services accounted for over 80% of all Venture Capital investments.
- In terms of geographic breakdown by equity amount invested in 2016, most of the Venture Capital funds' investment occurred within Europe, either domestically (EUR 2,7 billion) or cross-border (EUR 1,3 billion), with inflows and outflows outside Europe almost netting out (EUR 425 million vs EUR 499 million).
- While Venture Capital funds invested 84% of their capital in SMEs (representing 97% of their target group, Figure 15),[298] Private Equity funds only invested 28% of their capital in SMEs (which still constitute 83% of their target group).

Figure 15: *Venture Capital – Investment in SMEs (2016)*



Source: *Invest Europe (2017)*

c) Divestments

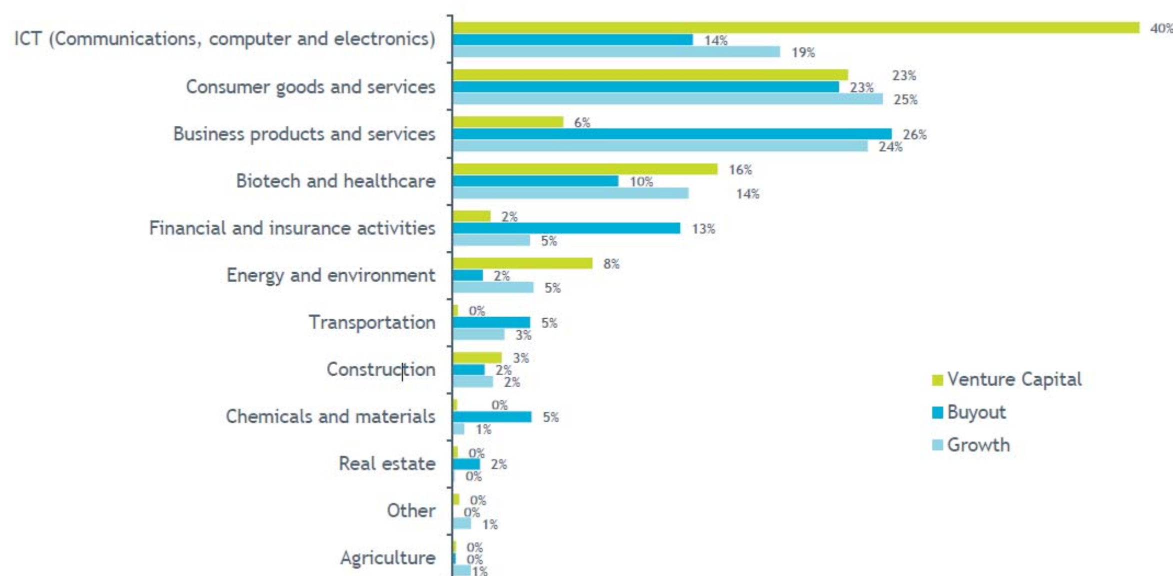
- Venture Capital divestments increased to EUR 2,5 billion in 2016, up from EUR 2,2 billion in 2015 (+14%), lying within the range of EUR 1,9 to 2,5 billion recorded since

[298] Invest Europe (2017).

2008. Trade sale to another private equity firm was the most common exit route, representing 27% of all divestments.

- The number of exited Venture Capital financed companies stood close to 1300.
- The highest financial volumes earned in exits were realised in ICT and consumer goods and services (Figure 16). The volumes earned in exits in financial services decreased from 18,3% in 2013 to 2% in 2016.

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



Source: *Invest Europe (2017)*

As shown above, in 2016, around 25% of funding for Venture Capital came from government agencies, and the total amount raised from such agencies for Venture Capital funds in Europe was around EUR 1,6 billion with government agencies significantly stepping up investments starting in 2009. 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.[299]

[299] European Commission (2013a).

2.1.2.4. Equity Financing Gap for Innovative SMEs

A study commissioned by the European Parliament's Committee on Industry, Research and Energy (ITRE)[300] 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 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 worth 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,[301] 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

[300] European Parliament (2012). This study (Potential of Venture Capital in the European Union) draws on data from EVCA, NVCA, ECB, EC, EIF, IMF and the VICO project's database (http://www.vicoproject.org).

[301] Economisti Associati (2011).

five years, requiring, so the authors estimate, a progressively gap-filling increment of about EUR 800 million per year.

2.2. EU Small and Innovative Midcaps [302]

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 aftermath of the financial crisis, small mid-caps play a key role in economic recovery, growth and employment in Europe.

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 gain 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, an EIB-commissioned study (PricewaterhouseCoopers 2012) gauged the number of mid-caps at around 39 000, with about half of them being innovative midcaps. A great part of them has relied on debt finance as their main source of external finance in the recent past.

2.3. EU Micro-enterprises[303]

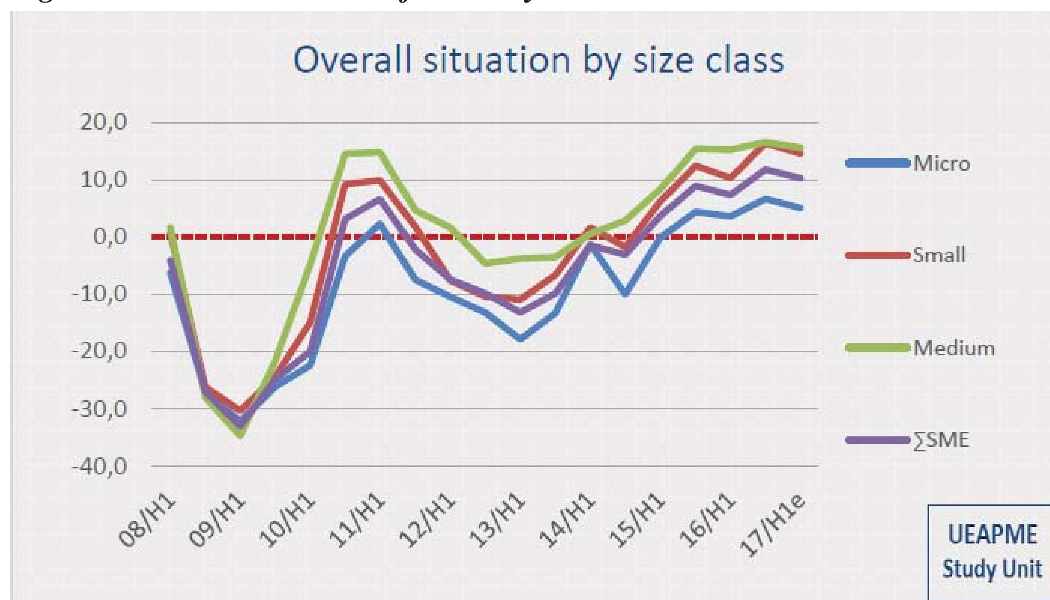
While SMEs represent 99,8% of EU companies, micro-enterprises constitute 92,8% of them;[304] they are thus decisive for boosting jobs, growth and investment in Europe. In addition, they play an even more important role when it comes to the impact on job creation for vulnerable groups and a resulting positive social inclusion effect.

Micro-enterprises share the same difficulties as other SMEs, yet typically to a higher degree; this is shown in figure 16, which illustrates how micro-enterprises' overall situation[305] – while

[302] 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).

following the general SME favourable evolution in 2016 – continues to rank systematically below all other SME size classes.

Figure 16: Overall situation of SMEs by size class



Source: UEAPME (2017)

A similar argument can be made in relation to access to finance. Data from the latest Survey on the Access to Finance of Enterprises[306] (SAFE) show that micro-enterprises in the Euro area reported "access to finance" as their least pressing problem, in line with all the other firms' class sizes; compared to the previous survey wave, the percentage of companies listing access to finance as their most pressing problem has in fact decreased for all enterprise sizes, including micro-enterprises (from 10% to 9%).

However, analysing the responses from the SAFE regarding interest rates, micro-enterprises rank highest when considering bank loans as not relevant for their activity because interest rates or price are too high (10% vs 7% and 4%, respectively for small and medium-large enterprises). Additionally, this category is characterised by the lowest percentage regarding the decline in the interest rates: only 27% responded that interest rates decreased in the last six months, compared to 38% for small enterprises and 45% for medium-large ones.

[303] 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)

[304] European Commission (2016c).

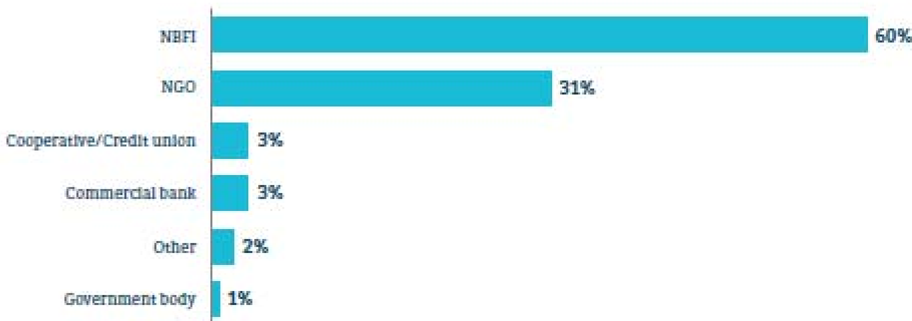
[305] The overall situation, according to UEAPME, is measured by a composite index which includes turnover, employment, prices, investment, and orders.

[306] ECB and European Commission (2016).

Again based on 2016 SAFE data, approximately 15% of micro-enterprises which demanded a loan were denied access to finance.

Considering the supply side, the main channel of financing of micro-enterprises is the micro-finance market, which provides micro-loans of up to EUR 25,000.[307] 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 micro-enterprise promotion and underlying policy directions. The main institutional forms of Micro-Finance Institutions (MFIs) are Non-Bank Financial Institutions (NBFIs), Non-Governmental Organisations (NGOs)[308], Credit Unions and Cooperatives, and Banks (Figure 19). The decrease of MFIs surveyed structured as NGOs and corresponding rise of NBFIs[309] might be explained by a maturing of the European micro-finance sector: existing NGOs may be scaling down their business and consequently changing their legal status to NBFIs, 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 (2016a)*

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

Moreover, due to its social sustainability, the micro-finance sector presents important complementarities with social entrepreneurship. Micro-finance providers contribute to job creation and facilitate social inclusion supporting new entrepreneurs, some of whom might become social entrepreneurs. Furthermore, micro-finance providers are often social enterprises themselves. Nonetheless, micro-finance providers generally have less capacity to finance social enterprises, especially when the latter have already reached a certain size, as

[307] 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).

[308] For the purpose of EMN-MFC Survey 2014-2015, Non-Government Organisation (NGO) refers to association, foundation, religious institution.

[309] See European Commission (2016d).

they are structured to specifically satisfy individuals' and micro-enterprises' financial needs; the most important funding gap for social enterprises is between EUR 100 000 and EUR 250 000.[310]

Based on the most recent European Microfinance Network Overview Survey,[311] the average business micro-loan was reported to have featured an interest rate around 10%[312] with large variations across countries.

In 2015, all MFIs covered by the EMN Survey disbursed 220 305 business micro-loans amounting to a total volume of around EUR 917 million. Combined with the results of past EMN surveys, this indicates a steady growth of the observed business micro-lending activities among the MFIs surveyed in Europe since 2009. Compared to 2014, the number of business loans disbursed increased by 8%, and the reported total loan volume increased by 6% since 2009, with a reduction of the average loan size.[313]

Overall, at the level of general supply of micro-finance in Europe, the overall distribution of micro-loans is shifting towards personal microloans (between 2014-2015, the personal microloan portfolio grew by 35% compared to +9% for the business portfolio). Commercial banks – which represent a large component of supply – 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 access to finance for micro-borrowers may be expected to further deteriorate.

Over the past years, support for microThe provision of microloans is regarded as particularly suitable for addressing a variety of different social and economic problems. Apart from mitigating financial exclusion and the persistent high unemployment rates in Europe, the microfinance sector has more recently developed to offer green microloans for renewables, energy efficiency and environmentally-friendly activities. Although the trend is still subdued,[314] the EMN survey (2016) suggests that the promotion of green microloans is carried out or planned by nearly one-third of respondents, thus ensuring potential for a future growth in the segment.

HoweverThe development of stable funding patterns remains a challenge. The general public support for micro-finance provision is expected to decline in the coming years, due to budget restrictions and high deficits at national and regional levels. Therefore, the availability of affordable funding is more and more limited and prone to external influences. Consequently,

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[310] According to the EMN (2014b).

[311] EMN (2016).

[312] Business micro-loans are reported to have an average interest rate of 10.7% while personal micro-loans an average interest rate of 19%.

[313] 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.

[314] According to EMN (2016), around 20% of the responding MFIs stated that they offer specific green micro-loans to finance renewable energy, energy efficiency and environmentally friendly activities. In addition, another 36% mentioned that they cover such activities with their normal micro-credit programmes.

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 micro-enterprises' 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.

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.[315]

3.1. Research and Innovation

The financial crisis had a significant negative impact on innovation. Since 2015, the percentage of firms that managed to bring new or improved products to the market has declined across all industries in the EU-28.[316] 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).

[315] 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.
[316] European Commission (2016e).

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 2015/2016, 590 EU companies among the top world 2500 R&D investors increased R&D by 7.5%, while decreasing net sales (-3.6%).[317]

The bulk of positive externalities derived from improvements in Research and Innovation renders this sector one of the main drivers of European economic and social growth. On this basis, the declining trend of innovation among European firms has to be addressed.

Furthermore, 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.[318]

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

[317] European Commission (2016e, 2015).
[318] European Commission (2015a).

circa 74 300 km are motorways), over 220 000 km of rail lines (of which more than 115 200 km electrified), and nearly 42 000 km of navigable inland waterways.[319]

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

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

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

In October 2016, the Commission launched four calls for proposals for co-financing projects with EUR 1.94 billion of EU funding to improve European transport connections (around EUR 1.1 billion to be allocated under the Cohesion envelope, while the remaining EUR 0.84 billion awarded to the General envelope call).[321] Both the multi-annual Cohesion and General envelope have registered a considerable oversubscription rate, providing evidence of the need for expansion of financial instruments dedicated to transport facility investments.

3.3. Energy Infrastructure and Energy Efficiency

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

For the next years to come the EU is projected to invest <u>annually</u> at least some EUR 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

[319] European Commission (2016a).
[320] 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.

[321] European Commission (2016b)

priorities for 2020 and beyond, adopted on 17 November 2010,[322] 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[323] 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)[324] in addition to the normal replacement of assets, estimated at EUR 76 billion until 2035.[325] 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).[326]

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[327] 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. More recently, the Commisison has put forward the European Gigabit Society

[322] European Commission (2010a).

[323] Regulation (EU) 347/2013.

[324] ENTSOE (2012).

[325] IEA (2011).

[326] 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.

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

strategy[328] that sets three strategic objectives to be reached by 2025: (i) gigabit connectivity for all main socio-economic drivers such as schools, transport hubs and main providers of public services as well as digitally intensive enterprises; (ii) high performance 5G connectivity: by 2020 a fully-fledged commercial service in at least one major city in each of the 28 Member States and by 2025 uninterrupted 5G coverage of all urban areas and major terrestrial transport paths; and (iii) all European households, rural or urban, to have access to Internet connectivity offering download speed of at least 100 Mbps, upgradable to Gigabit speed.

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 300 billion[329]. 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.

The European Gigabit Society strategy identified a clear investment gap to reach the 2025 strategic objectives. In addition to the improved regulatory environment that the proposed Electronic Communications Code would bring about, a significant investment gap is expected to persist after 2020. Out of the estimated investment need of € 500 billion to reach the EU's objectives, "*an additional € 155 billion [is required] over and above a simple continuation of the trend of current network investment and modernisation efforts of the connectivity providers*"[330].

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 nor the Gigabit Society strategic objectives, especially as far as rural areas are concerned. All in all, the current pace of broadband roll-out is likely to leave a sizeable investment gap in the years to 2020 and beyond.

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[328] Commission Communication "*Connectivity for a Competitive Digital Single Market - Towards a European Gigabit Society*" (COM(2016) 587; 14.09.2016).

[329] Communication from the Commission (2013/C 25/01), *EU Guidelines for the application of State aid rules in relation to the rapid deployment of broadband networks.*

[330] *Ibidem.*

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[331].

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

Equally, there is often a mismatch between the risk-return profile of projects and the type of investments targeted by investors providing the bulk of financing. On the debt side, long payback cycles combined with high levels of construction and demand risk (at least in the early stages of operation) mean that broadband 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 broadband investments is that they do not fit the definition of common asset classes: broadband 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

[331] 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.

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 broadband 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.

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.[332] 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 employs 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 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) between social capital and economic growth.[333] 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

[332] EaSI Regulation (EU) No 1296/2013 (OJ L 347/238, 20.12.2013).
[333] See for example Beugelsdijk and van Schaik (2005) or Peiró-Palomino (2016).

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 social enterprises 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.[334] 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 29 social and ethical banks and financial institutions exist in the EU with 11 of them located in 3 MS.[335] 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,[336] 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[337] as well as by a number of national studies.

A recent study,[338] 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.

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 social enterprise is the lack of specialist business development services and support[339] such as incubators, mentoring and

[334] 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.

[335] See FEBEA (http://www.febea.org/en/content/home).

[336] EC (2011d).

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

[338] EC (2014d).

[339] EC (2014d).

training schemes, investment readiness support etc. Most social enterprise support needs are similar to those of mainstream businesses, but at the same time social enterprises 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[340] 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 social enterprises, 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).

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

There is a positive and statistically significant relationship between the level of cognitive skills in a population, productivity and economic growth. For example, an average increase of 25 points in PISA performance across the EU countries could lead to a 3% gain in GDP per capita. The increase in average educational attainments by emerging countries makes the human capital accumulation for EU an even more important challenge in light of international competition for growth. The benefits of learning mobility are clear with significant benefits to graduate employability as well as personal development.[342] 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:

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[340] 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.

[341] European Commission (2010c).

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

- 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 cultural and creative sectors (CCS) have been recognised as important contributors to societal development. With almost EUR 535,9 billions coming from the 11 creative and cultural industry sectors (2012), the CCS represent nearly 4,2% of the EU's GDP. The sector employs over 7.06[343] 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.[344]

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: [345]

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

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[343] "Creating growth. Measuring cultural and creative markets in the EU", EY report, December 2014.
[344] Working Group of EU Member States Experts (Open Method of Coordination) on Culture and Creative Industries (2012),
[345] IDEA (2013)

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,[346] 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,[347] 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,[348] one applicant which has put the accession negotiations on hold[349] and two potential candidates.[350]

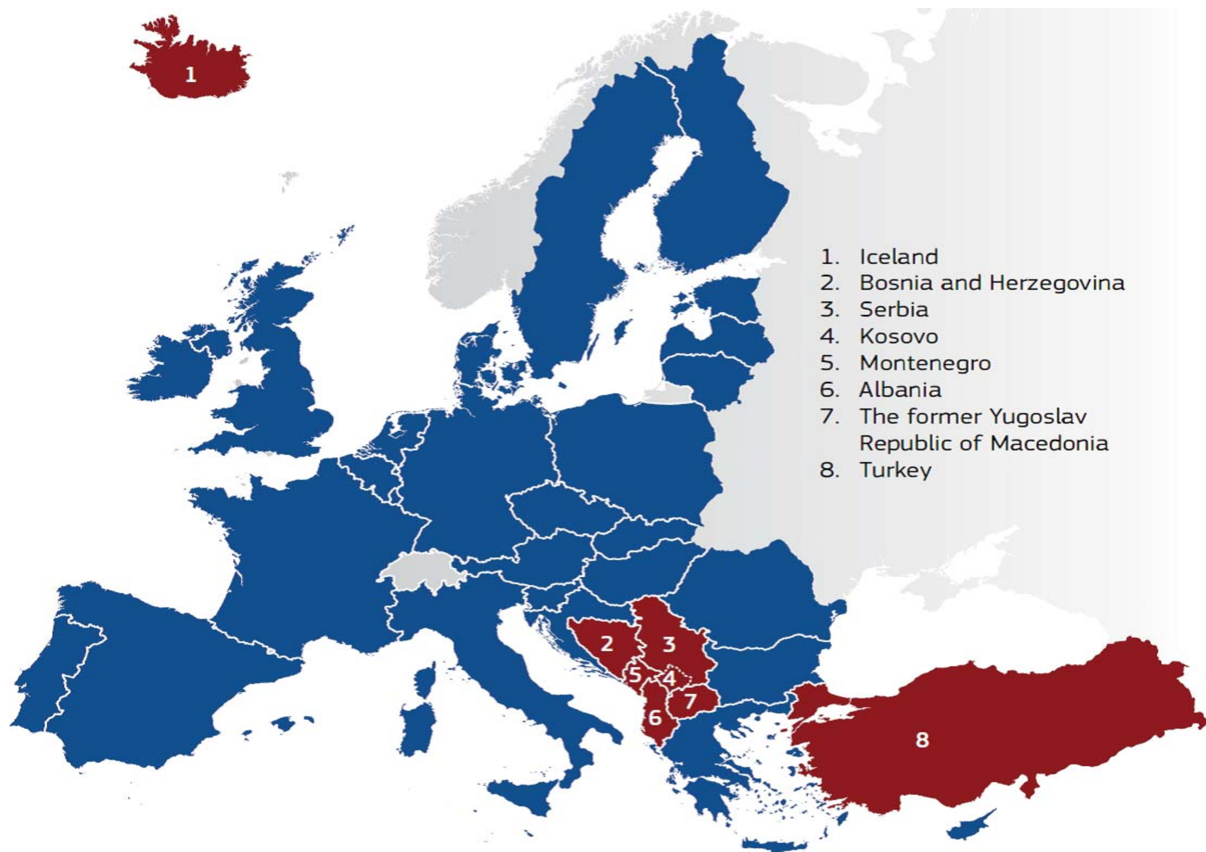
[346] Ibid

[347] Ibid.

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

[349] 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.

[350] 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[351] 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.[352]

. 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 have been the bilateral Action Plans or Association Agendas between the EU and each ENP partner (12 of them were agreed[353]). These were designed to set out an agenda of political and economic reforms with short and medium-term priorities of 3 to 5 years. With the ENP Review, the aim has been to have the Action Plans replaced by Partnership Priorities (or similar documents to highlight jointly agreed political priorities for cooperation) and to have the Association Agendas updated. Partnership Priorities (including Compacts) with Lebanon and Jordan were adopted at the end of 2016. Partnership Priorities with Algeria [and, respectively, Egypt] were adopted in 2017. With Armenia, Azerbaijan and Belarus consultations on such joint political documents have advanced. It is also envisaged to launch similar consultations with Israel and Palestine. With Tunisia, it has recently been agreed that a new framework, to replace the current Action Plan, was needed to reflect the complexity of the future bilateral partnership. Reaching out to Morocco will depend on developments at bilateral level. In some cases where, for the moment, it is not possible to discuss Partnership Priorities (Syria, Libya), bilateral cooperation will be discussed in the framework of specific political/security dialogues. The process of updating the Association Agendas with Georgia and Moldova has advanced. As regards Ukraine, the current Association Agenda was updated in March 2015 and a further update may be envisaged for 2018 or 2019.

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

[352] 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. See JOIN(2015) 50 final of 18 Nobember 2015

[353] Algeria negotiated an ENP action plan while Belarus, Libya and Syria continue to remain outside most of the structures of ENP.

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/ Partnership Priorities, respectively updated 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 situation in Egypt and the significantly worsening state of internal affairs and security situation in Libya also underline the need for effective partnerships and have been taken into account in the review of the European Neighbourhood Policy, launched by the European Commission and the External Action Service in November 2015.

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

Investment needs in EU partner countries are immense.[354] 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 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.

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, leverages additional resources, increasing the impact of EU aid and driving sustainable growth as a basis for poverty reduction.

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

5. Additional Information on the European Equity Market

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.

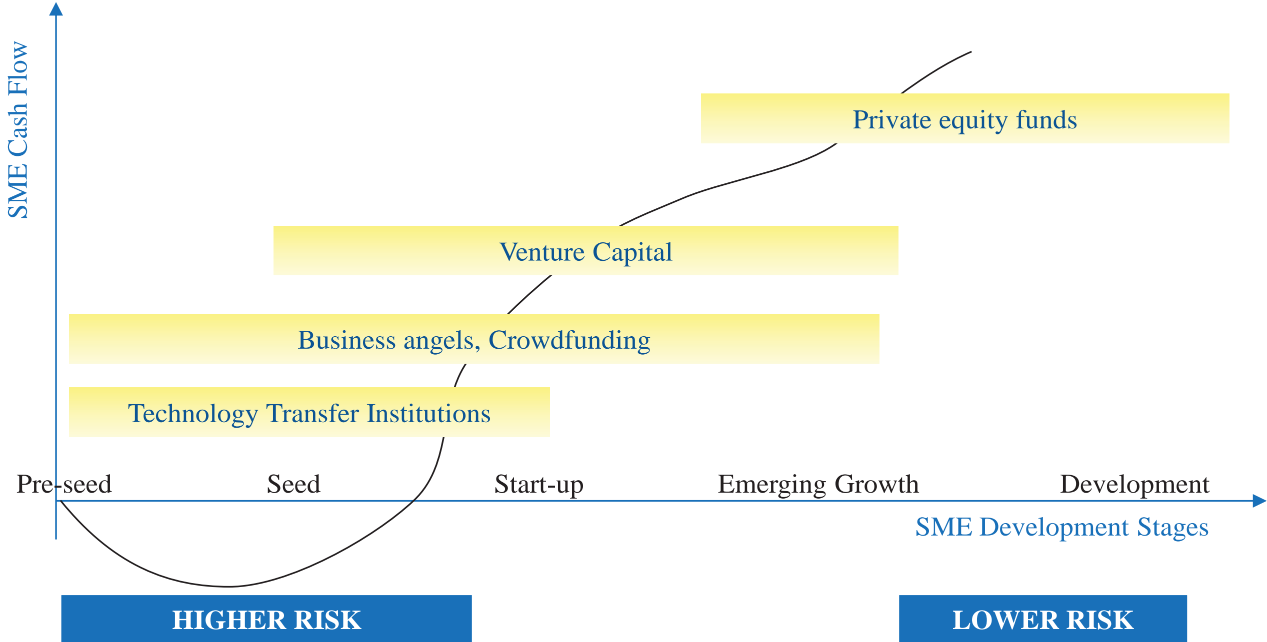
2. Start-up and Early Stage: this phase includes the planning and preparation of production. Targeted project management is important in order to keep control of the market entry schedule as well as the cost of R&D projects.

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[355] 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.

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. Cross-border fundraising and investing, while possible, is complex and costly.

In this context:

- The European Venture Capital Funds Regulation[356] (EUVeCa) created 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). EUVeCa introduced the protected designation of "European Venture Capital Fund" (EUVeCa).

[355] European Commission (2004).

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

- After a domestic registration process, a fund manager can market EUVeCa-qualified funds[357] in all Member States without further national registration or approval by national regulators. The aim is that the implementation of EUVeCa 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 ultimately to SMEs having greater access to equity finance.
- As regards tax aspects, tax incentives have become an increasingly important part of the investment and innovation policy mix in the EU and beyond. A 2017 study [358] investigates the part that tax incentives for venture capital and business angels can play in fostering investment, with the intention of promoting the diffusion of best practice across Member States. The study is an action of the Capital Markets Union project that aims to strengthen the single market by deepening the integration of investment across the European Union. Improved access to finance is a key component of this project, in particular for start-ups, SMEs, and young companies with innovative growth plans.
- 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 guidelines[359] 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.

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

[358] http://ec.europa.eu/taxation_customs/publications/studies-made-commission_en

[359] OJ C19, 22.01.2014.

V. ANNEX B – Strategic Targets

1. Strategic target groups: SMEs

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

To address market failures linked to asymmetric information, several guarantee facilities have been set up to extend greater loan volumes at better conditions to a riskier set of enterprises. Those facilities aim to foster the development of a pan-European SME finance market and to address market failures that are more appropriately tackled at EU level given their widespread nature. As such, they are capable of achieving economies of scale and diffusing best practices:

1. The *SME Guarantee Facility (SMEG07) under the Competitiveness and Innovation Framework Programme (CIP)* has enhanced SMEs' access to debt finance. As of 30 December 2016, a total of over 385 000 SMEs had benefited from over EUR 21 billion in guaranteed loans over 2007-2016, surpassing the target of 315 000;
2. The *COSME Loan Guarantee Facility*, the successor to SMEG07, provides SMEs with capped guarantees for debt financing via loans or leasing, in order to reduce the particular difficulties that viable SMEs face in accessing finance due to their perceived high risk or lack of sufficient available collateral. By the end of 2016, in combination with EFSI, the facility had already supported more than EUR 5,5 billion financing, reaching over 143 000 final recipients, and the European Investment Fund (EIF) had concluded due diligence and signed guarantee agreements with 61 financial intermediaries for a total of almost EUR 19 billion for over 290 000 SMEs. This performance is already within the target cumulative total financing to be mobilised for 2014-2020, which ranges from EUR 14,3 to 21,5 billion, and the target number of final beneficiaries, lying between 220 000 and 330 000 SMEs;
3. The *EU SME Initiative,* designed as a crisis-response instrument, provides uncapped guarantee and/or securitisation to improve access to finance for SMEs, including innovative and high-risk SMEs. It is a joint instrument, combining COSME and Horizon 2020 funds with the Member States' ERDF-EAFRD resources in cooperation with the EIB/EIF in order to generate additional lending to SMEs. A first SME Initiative guarantee instrument was set up with Spain. With a commitment of EUR 823 million from the ERDF and Horizon 2020, the volume of new SME loans supported in Spain is targeted to reach EUR 5 723 million for all Spanish regions. Malta was the second EU Member State to opt-in for the uncapped guarantee instrument under the SMEI. Malta's ERDF contribution of EUR 15 million will support more than EUR 60 million of financing to SMEs.

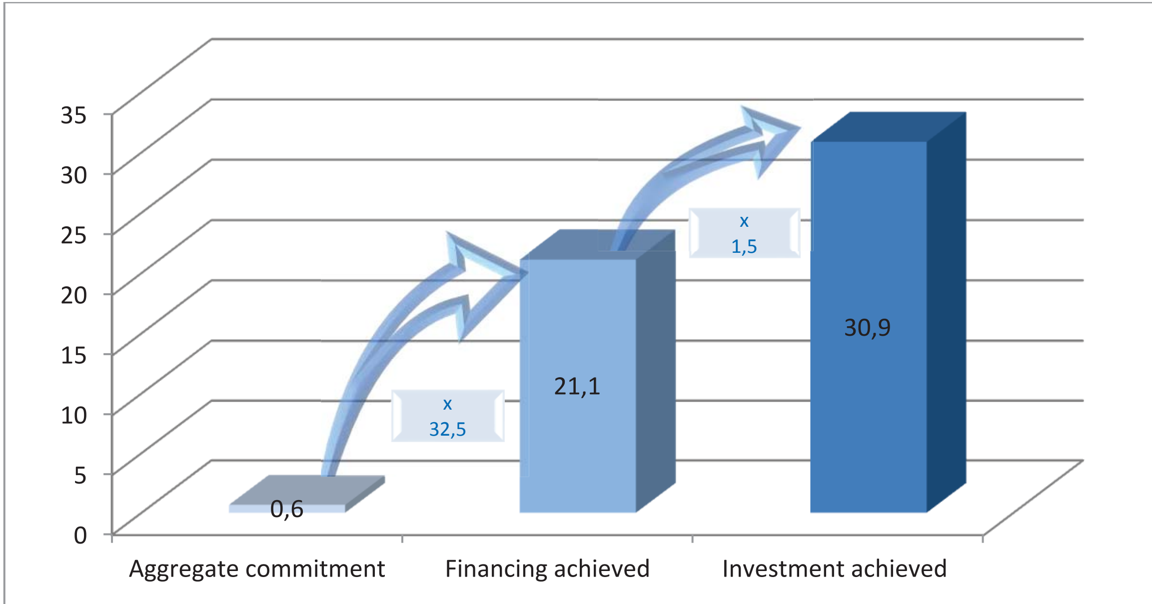
SMEs also face particular challenges in raising equity capital, with European venture capital suffering a slow-down in private equity activity since the beginning of the financial crisis in terms of fund-raising, investment levels and divestment conditions that has been recovered

only in the last year, and remaining fragmented across countries and all the more dependent on a lifeline from public investors.

Support via EU-level financial instruments is key to addressing that fragmentation. Several equity finance facilities have been set up to strengthen the internal market for venture capital by tackling the market failures encountered (especially by early-stage and expansion-stage SMEs that have the potential to achieve high growth), bring innovation to the market and create high added-value jobs:

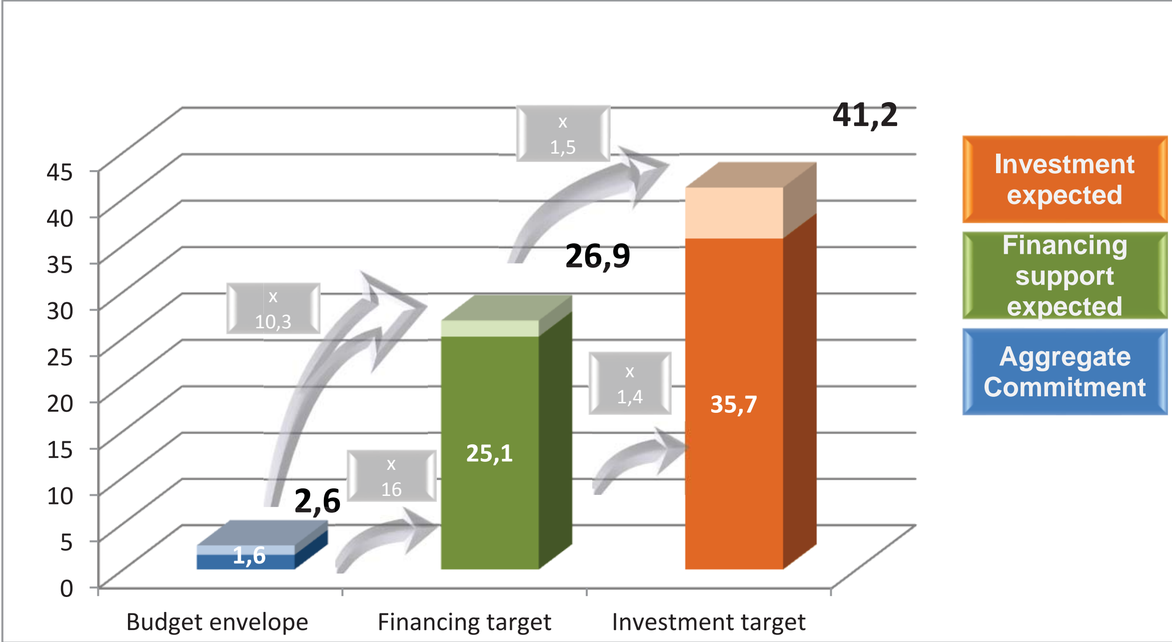
4. The *Equity Facility for Growth (EFG)* under COSME, the successor of GIF2, aims to stimulate the take-up and supply of equity finance for SMEs in their expansion and growth phase. For 2014-2020, it is expected that an indicative commitment of EUR 490 million will support venture capital investments in the range of EUR 2,6 to 3,9 billion, reaching some 360 to 540 SMEs.

Graph A: 2007-2013 financial instruments for SMEs as of 31 December 2016 (EUR billion)



Instruments considered: SMEG 07.

Graph B: 2014-2020 financial instruments for SMEs as of 31 December 2016 (EUR billion)



Instruments considered: COSME LGF, EU SME Initiative, COSME EFG.

Including updates of initial budget envelope and corresponding financing and investment amounts

2. Strategic target sectors: Tangible and intangible infrastructure

Strategic sectors include infrastructure sectors in a broad sense, comprising both tangible and intangible infrastructure such as research and innovation.

2.1. Research and innovation (R&I)

Evidence that larger, established R&I-intensive firms have problems in accessing debt finance to fund innovation projects is mixed and harder, methodologically, to establish. However, a recent econometric study,[360] as well as empirical experience, suggest that demand for R&I debt financing far exceeds current supply. A similar excess demand from R&I firms plagues the fragile EU private equity market.

To address R&I debt financing needs, the Risk-Sharing Finance Facility, the Risk-Sharing Instrument (RSI) (2007-2013) and, under Horizon 2020, the InnovFin Large Projects, *InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee,* and the *InnovFin SME Guarantee* (2014-2020) were set up:

1. The *Risk-Sharing Finance Facility (2007-2013)* offers loans and hybrid or mezzanine finance to improve access to risk finance for R&I projects. The Union's 2007-2016 RSFF contribution of EUR 961 million supported financing amounts for over EUR 10 billion and investment activity worth twice as much;

[360] European Commission, *Ex-ante evaluation of the Horizon2020 programme*, 2013.

2. The *Horizon 2020 Loans Service for R&I (2014-2020),* the successor to RSFF, also offers loans and hybrid or mezzanine finance to improve access to risk finance for R&I projects. As of end 2016, a commitment of under EUR 800 million has supported financing of EUR 3,5 billion and is expected to generate EUR 5,9 billion shortly. For the entire 2014-2020 period, the EU contribution of EUR 1 060 million is targeted to mobilise financing of over EUR 13 billion for the final recipients;

3. The *Risk-Sharing Instrument (RSI)* under the 7th Framework Programme is a dedicated guarantee facility for loan and lease finance addressing the finance gap for innovative SMEs and small midcaps (enterprises with up to 499 employees). It has so far provided EUR 2,33 billion in guarantees and counter-guarantees to 35 banks and guarantee societies, which will enable them to support over 4 000 innovative SMEs and small midcaps;

4. The *InnovFin SME Guarantee* under Horizon 2020, the successor facility for innovative SMEs and small midcaps for 2014-2020, is expected to mobilise a total loan volume of around EUR 9,5 billion, with a Union contribution of around EUR 1 060 million. By 2016, the overall value of financing supported by the Union commitments is expected to be around EUR 8,6 billion, while about EUR 2 billion has already been provided.

To address R&I equity financing needs, the *High Growth and Innovative SME Facility (GIF)* under the CIP (2007-2013) and the *InnovFin SME Venture Capital* under Horizon 2020 (2014-2020) were set up:

5. The *High Growth and Innovative SME Facility (GIF)* under the CIP aims to increase the supply of equity for innovative SMEs in their early stage (GIF1) and in the expansion phase (GIF2). By the end of 2016, a total of EUR 600,2 million in net commitments from the Union budget supported 43 venture capital funds and 570 final recipients, catalysing over EUR 1,4 billion in equity finance and expected to mobilise EUR 3,08 billion for 516 eligible SMEs;

6. The *InnovFin SME Venture Capital* under Horizon 2020, the successor of GIF1, is designed to improve early-stage R&I-driven SMEs' and small midcaps' access to risk finance. An envelope of EUR 495 million indicatively planned for 2014-2020 is expected to support nearly EUR 3 billion of equity financing.

2.2. Infrastructure, climate action, environment and energy efficiency

Transport, telecommunications and energy infrastructures play a crucial role in development and sustainable growth in contexts where private enterprises of all sizes and public entities interact to provide the necessary output. Infrastructure improves the productivity of the economy, enabling growth, and facilitates the interconnection of the internal market.

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

The goal of EU financial intervention in those sectors is to contribute to overcoming the deficiencies of European capital markets. EU financial instrument programmes for various sub-sectors (transport and energy infrastructure, energy efficiency, including environment and climate action, and ICT) include:

1. The *Connecting Europe Facility (CEF)* consisting of:
   a. the *Risk-sharing Debt Instrument (CEF-DI)* will target projects of common interest in the transport, broadband and energy networks sectors. Started in 2015, the instrument built on the existing Project Bond Initiative and the Loan Guarantee for TEN-Transport. Assuming the full budgetary allocation of EUR 2,5 billion is made available to the instrument, total funding of EUR 14,4 to 36 billion could be attracted thanks to the Union contribution;
   b. the *Equity Instrument (CEF-Equity)* aims to support funding for broadband investment through the establishment of the Connecting Europe Broadband Fund. The Commission has committed EUR 100 million planned for 2014-2020, with the aim of generating EUR 1-1,7 billion investment;
2. The *Private Finance for Energy Efficiency Instruments (PF4EE),* a pilot instrument financed under the LIFE programme, which provides *inter alia* a risk-sharing facility designed to reduce the credit risk faced by financial intermediaries when lending to the energy efficiency sector, combined with technical assistance to financial intermediaries for building a new market segment. The Union contribution of EUR 80 million was expected to support total investment up to about EUR 540 million for 2014-2017. However, on the basis of the 4 deals expected to be signed in 2017 (Croatia, UK, Greece and Cyprus) and the 6 operations signed by the end of 2016 (in the Czech Republic, Spain, France, Portugal, Belgium and Italy), the EIB targets to achieve EUR 1 billion of new investments in energy efficiency by the end of 2017. Given the interest of the market, the European Commission is working to continue the PF4EE pilot phase over the 2018–2020 period;
3. The *2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite)*, a pan-European equity fund which supports infrastructure investment in the transport (TEN-T), energy (TEN-E) and renewables sectors in Member States. The Union contribution of EUR 80 million has supported by end 2016 12 projects with funding volumes of EUR 5,4 billion, more than halfway through the final target of EUR 10 billion;
4. The *European Energy Efficiency Fund (EEEF),* a spin-off of the European Energy Programme for Recovery (EEPR), which invests in energy efficiency, renewable energy projects and clean urban transport. By the end of December 2016, EUR 128 million have been allocated to 12 projects that have generated some EUR 231 million of total investments. EEEF technical assistance support has proved to be useful in helping public authorities prepare projects that will subsequently be financed.
5. The *Natural Capital Financing Facility (NCFF)*, which in 2014-2020 will finance revenue-generating or cost-saving pilot projects promoting the conservation, restoration, management and enhancement of natural capital in order to contribute to Union objectives in the areas of nature and biodiversity, and climate-change

adaptation. The planned Union contribution for the pilot phase is EUR 60 million (most of which has already been committed) for a target financing of EUR 120-240 million.

2.3. Social and micro enterprises

Among the businesses suffering from credit access difficulties, social enterprises deserve particular attention due to the correlation between social capital and economic growth. Their primary objective is the achievement of measurable and positive social impact.

However, the fact that social enterprises do not primarily seek to maximise profit exposes them to more acute difficulties in accessing finance, as traditional bankers are reluctant to assess their business plans and find it difficult to do so.

Most social enterprises are of a small or very small size, and look at the microfinance market to finance their undertakings. The European micro-finance sector is characterised by a steady increase in lending (but a gradual withdrawal of commercial banks), national governments' limited capacity to support micro-finance and strong demand for it on the market.

More specifically, studies carried out for the Commission show that 'in several EU Member States high levels of youth unemployment call for ongoing support of inclusive entrepreneurship as an option to (re-)enter the labour market. Micro-loan provision is an important tool for this'.[361] Specific micro-finance and social facilities have been set up, aiming at easing loan access for social and micro enterprises, which play an important role in creating jobs but continue to face even more difficulties than other SMEs:

1. The *European Progress Micro-finance Facility (EPMF)* which consists of:
   a. *EPMF-G*, a guarantee facility, which provides up to 20% capped guarantees on portfolios of micro-loans granted by intermediaries to micro–enterprises and self-employed. As of end 2016 the EUR 23,60 million EU commitment had provided a tenfold amount of financing for almost 20 000 micro-borrowers and vulnerable persons, supporting over 37 000 jobs; and
   b. *EPMF - FCP-FIS*, the *Fonds commun de placement – Fonds d'investissement spécialisé*, a specialised investment fund aimed at increasing access to micro-finance for micro–enterprises and self-employed through a range of financial products (notably loans). As of end 2016 the EUR 80 million EU commitment had generated EUR 236 million in financing for over 32 000 recipients, and an amount of financing expected to exceed EUR 400 million.

Overall, the EPMF Facility has already surpassed the initial target of 46 000 microloans, and new loans will also be included between now and 2018;

[361] Evers & Jung: Study on imperfections in the area of microfinance and options how to address them through an EU financial instrument (2014). http://ec.europa.eu/social/BlobServlet?docId=12485&langId=en.

2. *Programme for Employment and Social Innovation (EaSI),* the successor to the above instrument, which consists of:

a. *EaSI–Micro-finance and Social Entrepreneurship,* aimed at increasing access to micro-finance for vulnerable groups and micro-enterprises by providing support to micro-credit providers, and at supporting the development of social enterprises. By the end of 2016, the total EU commitment of EUR 68,79 million had supported almost EUR 158 million of new micro-loans and loans to social entrerprises, benefitting 63 Social Enterprises and 12 741 Microenterprises. Based on the signed guarantee agreements, the expected volumes of loans to final recipients are estimated at EUR 754 million.

b. *EaSI – Capacity Building Investments*, aiming at supporting Financial Intermediaries in the Micro-finance and Social Entrepreneurship sectors with a Union contribution of EUR 16 million, targeted to support twice as much in financing, benefitting 8-10 Financial Intermediaries and Sub-Intermediaries for the purpose of capacity building.

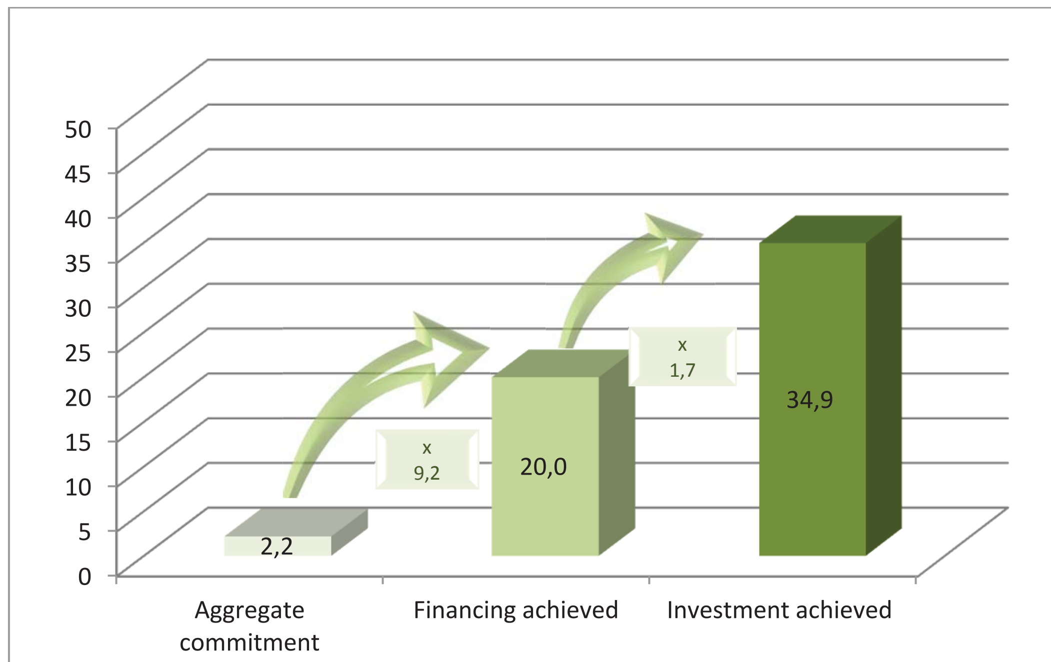
2.4. The Education and the Cultural and Creative Sectors

As a form of human capital accumulation, education is a primary source of economic growth, but to the extent it can be accessed by students of different social and economic backgrounds, it also contributes to social equity and cohesion. Moreover, student mobility has been proven significantly to affect social and economic development.

The *Student Loan Guarantee Facility* under the Erasmus+ programme aims to support mobility, equity and study excellence via guarantees to financial institutions that agree to provide Erasmus+ Master Loans to students for Master's studies in another country. In 2015 the scheme kicked off and the first banks signed up to the guarantee facility, providing up to EUR 160 million in Master loans. The first Erasmus+-guaranteed Master loans were disbursed in 2015.

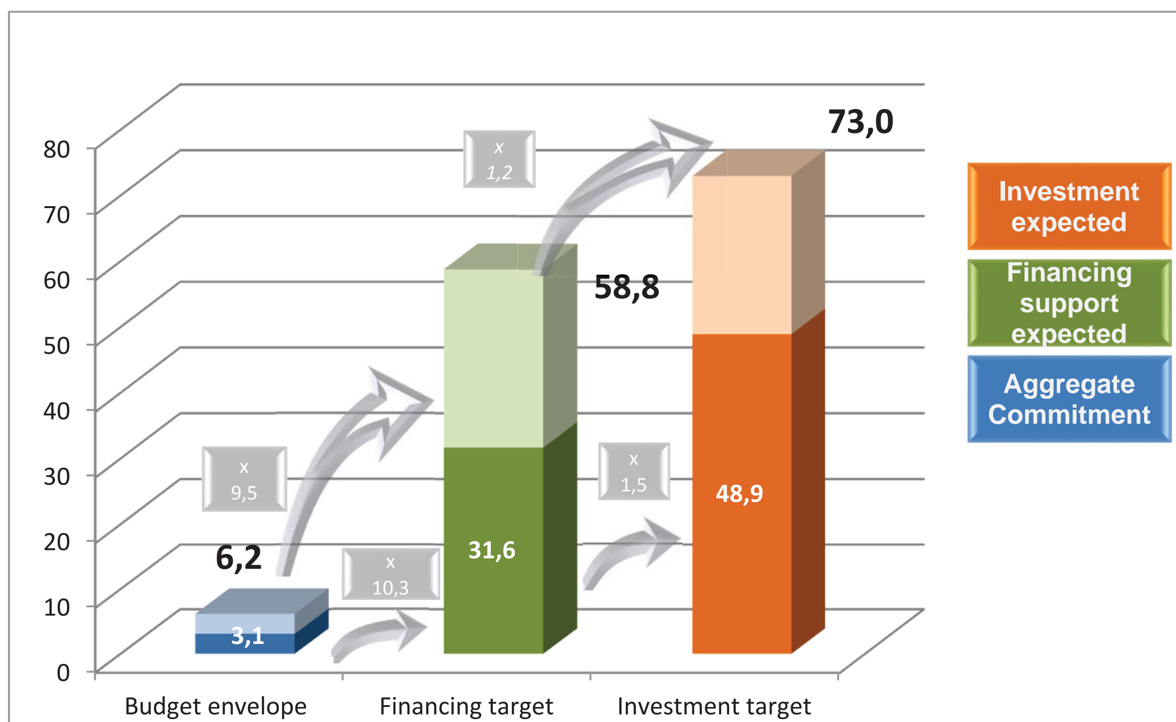
The *Cultural and Creative Sectors Guarantee Facility* under the Creative Europe programme will provide guarantees to banks dealing with cultural and creative SMEs, thereby strengthening financial capacity in those sectors. The scheme has begun in 2016 and the overall amount of additional loans in the sectors supported by the Union contribution of EUR 123 million is estimated at around EUR 700 million.

Graph C: 2007-2013 financial instruments for strategic sectors as of 31 December 2016 (EUR billion)



Instruments considered: EPMF-G, RSI, RSFF, LGTT, PBI, FCP-FIS, GIF, Marguerite, EEEF.

Graph D: 2014-2020 financial instruments for strategic sectors as of 31 December 2016 (EUR billion)



Instruments considered: EaSI, InnovFin SME Guarantee, CCS Guarantee Facility, SLGF, PF4EE, InnovFin L-M Guarantee, RSDI, CEF Equity, InnovFin SME VC, NCFF

Including updates of initial budget envelope and corresponding financing and investment amounts

3. Strategic target: non-EU regions

3.1. Enlargement countries[362]

Access to loan finance remains one of the biggest difficulties for SMEs in the Western Balkans, in spite of SMEs becoming the most efficient segment in their economies' transition and a pillar of growth and employment. Due to their lack of financial history, early-stage SMEs find it almost impossible to access bank financing. Access to finance in the energy sector appears generally vulnerable. Those issues are being addressed through the following:

1. The *Guarantee Facility* under the *Western Balkans Enterprise Development and Innovation Facility (EDIF GF1)* aims to enhance socio-economic growth by promoting preconditions for the emergence and growth of innovative and high-potential SMEs. The Union's EDIF GF1 contribution of EUR 21,90 million has supported total financing of almost EUR 118 million;

2. The *Guarantee Facility II* under the *Western Balkans Enterprise Development and Innovation Facility (EDIF GF2),* the successor of *EDIF GF1,* also aims to enhance socio-economic growth by promoting preconditions for the emergence and growth of innovative and high-potential SMEs. The Union's EDIF GF2 contribution of EUR 17,5 million is estimated to support total financing of EUR 107 million;

3. The *Enterprise Expansion Fund (ENEF)* under the EDIF aims to enhance socio-economic growth in the region by creating the conditions for the emergence and growth of innovative and high-potential SMEs *in the expansion and development stages*. The EU financial contribution of EUR 11 million is expected to leverage a total financing/investment of about EUR 100 million (including the contribution from the additional co-financing facility of the European Bank for Reconstruction and Development (EBRD)) after the second closing;

4. The *Enterprise Innovation Fund (ENIF)* under the EDIF supports socio-economic growth in the Western Balkans by creating the conditions for the emergence and growth of *early-stage* innovative SMEs. The Union contribution of EUR 21,2 million is expected to support financing up to approximately EUR 50 million in 2014-2020;

5. The *European Fund for Southeast Europe (EFSE)* is a form of public-private partnership aimed at attracting capital from the private sector for on-lending to micro and small enterprises and households. The Union contribution of nearly EUR 88

[362] The former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Albania. Moreover, Bosnia and Herzegovina and Kosovo as two potential candidates. In addition, Iceland has put its accession negotiations on hold and no longer wishes to be considered a candidate.

million has so far leveraged total financing of EUR 4,3 billion, benefitting over 700 000 final recipients in the enlargement region;

6. The *Green for Growth Fund (GGF)* provides dedicated financing for energy efficiency and renewable energy projects to help the target countries reduce CO_2 emissions and energy consumption. The Union contribution of EUR 38,6 million should support nearly EUR 490 million expected financing for final recipients. So far, the facility has provided EUR 430 million financing to nearly 17 000 final recipients, via 39 partner institutions in 19 partner countries. The Fund continued achieving much more than the required 20% energy savings and/or 20% CO2 savings across the energy efficiency and renewable energy portfolio.

7. The *SME Recovery Support Loan for Turkey* aims to mitigate the impact of the crisis on SMEs, contribute to the development of the Turkish economy and boost employment. The Union contribution of EUR 30 million has so far mobilised a total financing amount of nearly EUR 300 million for 265 final recipients.

3.2. Neighbourhood countries[363]

EU-funded programmes aim to foster, amongst others, sustainable, inclusive growth and a favourable investment climate in the European Neighbourhood Policy (ENP) partner countries. The EU pursues the related strategic objectives of its neighbourhood policies — establishing better energy and transport infrastructure interconnections between the EU and neighbouring countries, addressing threats to our common environment and promoting smart growth through support for SMEs — through the following programmes:

1. The *Neighbourhood Investment Facility (NIF)*, which aims at 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. In 2008-2016, the Union contribution of nearly EUR 1,7 billion leveraged an almost tenfold total financing (including EUR 15,3 billion in loans from European financial institutions), with total costs of the 123 projects estimated at EUR 29 billion;

2. Support for the *Facility for Euro-Mediterranean Investment Partnership (FEMIP)* provides capital to the private sector in Mediterranean partner countries *pari passu* with other commercial investors in the region for the creation, restructuring or

[363] Armenia, Azerbaijan, Egypt, Georgia, Israel, Jordan, Lebanon, Moldova, Morocco, Palestine, Tunisia, Ukraine (fully participating ENP members), Algeria (currently negotiating access to the ENP), Belarus, Libya, Syria (outside most ENP structures); see also http://eeas.europa.eu/enp/index_en.htm.

growth of enterprises. The Union's current overall contribution is EUR 224 million, with a supported financing of over EUR 6,7 billion.

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

In some non-EU countries, the lack of a well-established institutional framework to safeguard property rights, address market failures and provide incentives for private initiatives is often at the root of SME-sector underdevelopment, infrastructure shortages and deficient overall investment in health, education and environmental protection. Addressing those problems by financing-worthy SMEs, infrastructure and productive investments is the main challenge for the EU in its external policy; it does so via the following instruments:

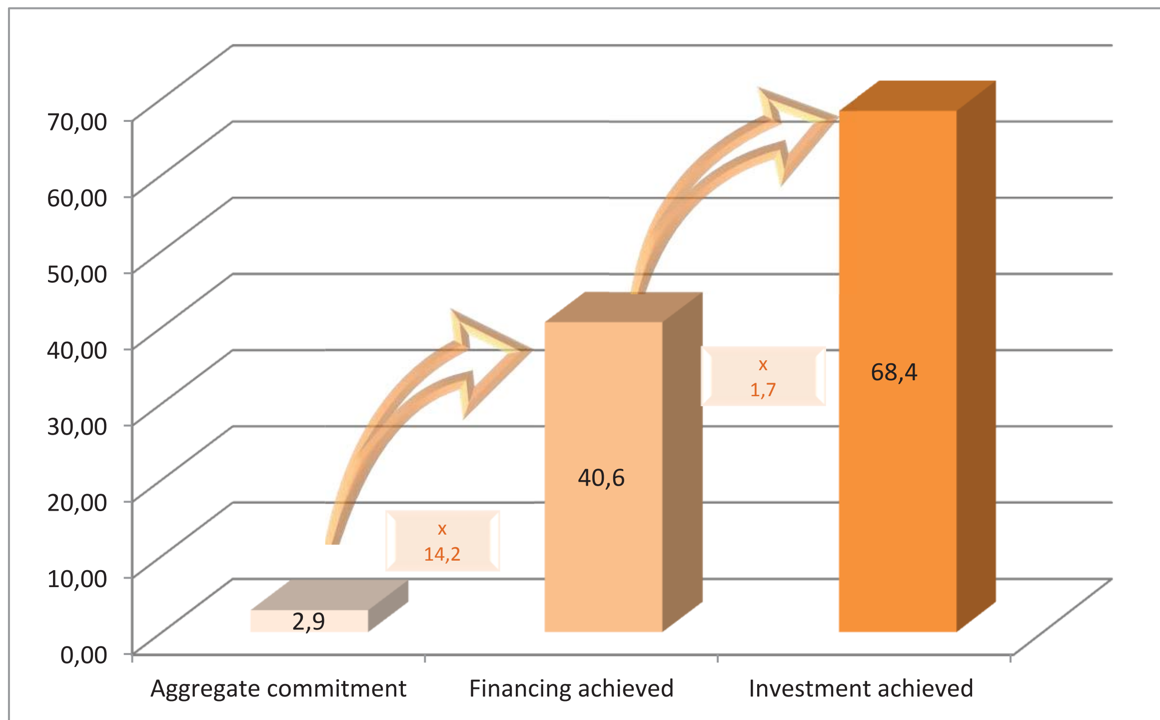
1. The *Investment Facility for Central Asia (IFCA)* and the *Asian Investment Facility (AIF)* aim to promote investments and key infrastructures with a focus on better energy infrastructure, increased protection of the environment and SME growth. The current overall commitment amounts to almost EUR 349 million. To date, IFCA contributions of EUR 143 million have leveraged approximately EUR 970 million of investments whereas the AIF contributions of EUR 142 million have leveraged approximately EUR 3,15 billion of investments;;

2. The *Latin America Investment Facility (LAIF)* aims to promote investments and infrastructures in key sectors such as transport, energy and environment and to support social- and private-sector development in Latin American countries. In 2010-2016,(LAIF was recreated in 2014 for the Multiannual Financial Framework 2014-2020), the overall commitments amounts to almost EUR 323 million. Projects approved through a Commission decision accounted for a total investment volume of approximately 7,5 billion;

3. The *Global Energy Efficiency and Renewable Energy Fund (GEEREF)* aims to promote energy efficiency and renewable energy in developing countries and economies in transition. As of end 2016, the total investment supported with the Union's contribution of EUR 81 million was about EUR 3 billion.

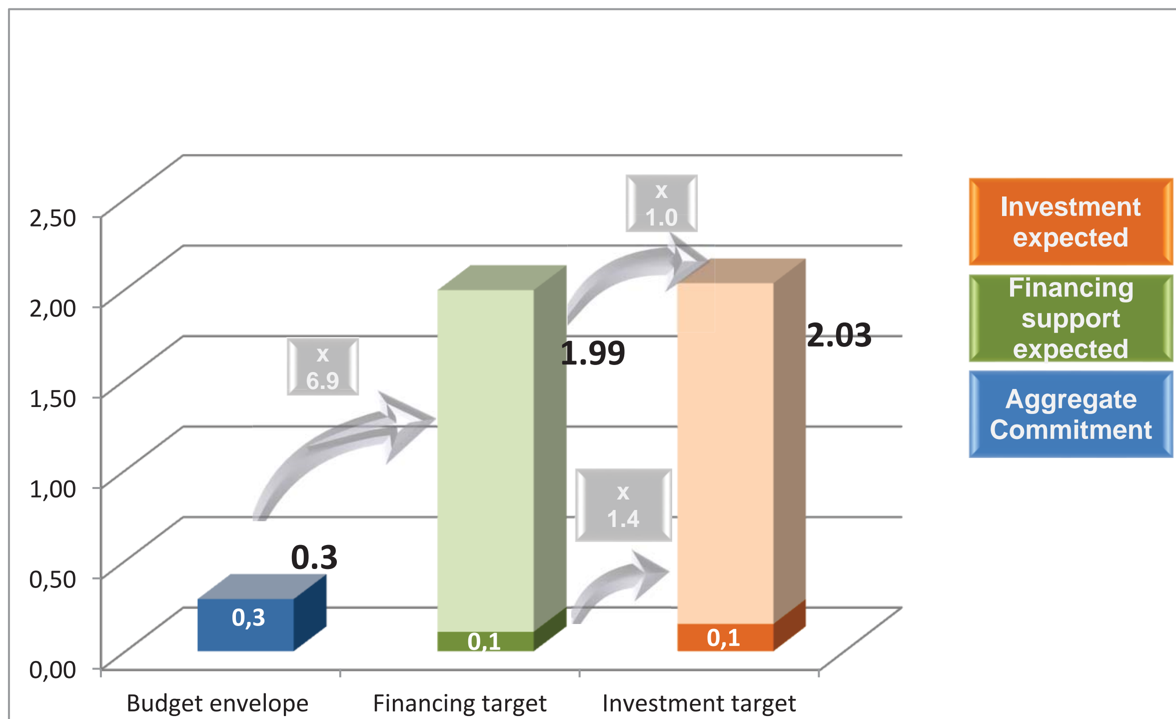
4. The *Thematic Blending (ElectriFI, AgriFI, Climate Change)* which aims at providing financial support to i) addressing the lack of access to clean, reliable and affordable electricity and energy services all over the world (ElectriFI); ii) developing inclusive and sustainable agriculture based value chains (AgriFI); iii) developing local climate strategies into action plans, budgets, and investment projects (Climate Change). , the aggregate budgetary commitments amounted to EUR 270 million. Projects approved through a Commission decision accounted for a total investment volume of EUR 968 million (ElectriFI) and EUR 234 million (AgriFI).

Graph E: 2007-2013 financial instruments for Non-EU Regions as of 31 December 2016 (EUR billion)



Instruments considered: EDIF GF1, EFSE, SME RSLT, ENEF Under EDIF, ENI Under ENEF, Support to FEMIP, GEEREF, GGF, NIF, IFCA-AIF, LAIF

Graph F: 2014-2020 financial instruments for Non-EU Regions as of 31 December 2016 (EUR billion)



Instruments considered: EDIF GF2, Thematic Blending

Including updates of initial budget envelope and corresponding financing and investment amounts

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VII. 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, Youth, Sport 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