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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

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

{SWD(2016) 335 final}

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PREFACE

The Commission is pleased to submit to the European Parliament and the Council its annual report on the activities relating to EU-level financial instruments for internal and external Union policy areas, supported by the Union budget and managed directly or indirectly by the Commission, as required by Article 140(8) of the Financial Regulation[1]. This is the third edition of the reporting under that provision[2].

The Commission intends to shape this report as a dynamic tool for decision-making, in particular to provide the European Parliament and the Council with a complete overview of financial instruments set-up at EU level and their performance. It should therefore be ensured that the report is aligned more closely with other documents that provide information on EU financial instruments.[3] Although the various documents are presented for different practical and procedural purposes, and their timing vary accordingly, the Commission aims to fully align their content, with a view to merging them into a single report in the near future.

The report shows the substantial effect of financial instruments established at EU level as at 31 December 2015. It provides an overview of how taxpayers' money has been used and of the progress made in implementing those instruments.

As most Member States experience low but positive growth rates, Europe seems to have started a recovery from the economic and financial crisis. However, structural and crisis-related weaknesses still limit the pace of overall recovery. In particular, high private-sector debt levels and a high ratio of non-performing loans restrict banks' lending capacity, thus hindering economic growth and financial stability. Those challenges require prompt action, since the European economy depends heavily on lending by the banking sector while access to equity funding remains limited as an alternative source of financing, especially for small businesses.

In that economic climate, public finance institutions and private investors are very reluctant to lend to the real economy and in particular to SMEs, whose investments are considered high-risk. The scale of the demand for financing, combined with the limited supply of public resources, means that additional capital flows need to be leveraged to fill the gap. The Union is therefore called upon to unlock additional investment through its budget, in particular by making increased use of financial instruments.

In the 2014-2020 Multiannual Financial Framework (MFF), it responds to those challenges by:

[1] Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ L 298, 26.10.2012, p. 1.

[2] COM (2015)565 13/11/2015 ; COM (2014)686 30/10/2014.

[3] In particular, the working document based on Article 38(5) of the Financial Regulation and the document providing the information required by Article 49(1)(e) of the Financial Regulation.

- offering opportunities to blend public and private resources: The EU has set up innovative financial instruments (such as those established under Horizon 2020 for research and innovation, or COSME for SMEs) and the Common Provisions Regulation (CPR)[4] allows Member States to combine European Structural and Investment Funds (ESIF) with Horizon 2020 and COSME resources under the first joint financial instrument, the SME Initiative. From their launch, both COSME and H2020 financial instruments were met with strong market demand – their initial envelope was quickly depleted and has recently been enhanced by increasing exposure under the risk-taking capacity of the European Fund for Strategic Investments (EFSI)[5];
- developing initiatives to encourage public finance institutions to lend to operators with impaired access to private capital: The EU has developed an Investment Plan for Europe, of which EFSI constitutes the first pillar. The Investment Plan aims to mobilise additional investments in the Union and ensure increased access to financing for infrastructure and innovative projects and companies with up to 3 000 employees, with particular focus on SMEs, through the supply of risk-bearing capacity (guarantees) and equity funding together with the European Investment Bank (EIB) Group[6]; and
- promoting a better business environment for private investment by taking steps to develop a Capital Markets Union.[7]

SMEs are the main target of EU support through financial instruments: they account for two-thirds of private-sector employment and almost 60% of real added value in the EU. Particular attention is devoted to enterprises and other target groups in strategic sectors, notably research and innovation, tangible infrastructure and energy efficiency, social entrepreneurship and education.

The evidence provided in this Report suggests that financial instruments are an effective way of dealing with the financing needs of the real economy: implemented in partnership with public and private institutions, they have addressed market failures in the provision of external financing.

[4] 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, OJ L 347, 20.12.2013, p. 320.

[5] 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.

[6] While EFSI is subject to specific reporting procedures envisaged in the EFSI Regulation (see below), some EFSI-related initiatives affect current financial instruments (e.g., COSME, InnovFin and EaSI) and are therefore accounted for in the Staff Working Document accompanying the present report.

[7] See the Commission's Action Plan on Building a Capital Markets Union, 30.9.2015, COM(2015) 468 final.

The Union's overall contribution for 2007-2013 instruments amounted to almost EUR 5,8 billion, which by 31 December 2015 supported a financing volume of about EUR 90,3 billion — indicating an aggregate leverage ratio of almost 16 (see Graph 1) — as well as an investment volume of EUR 142,5 billion benefiting strategic target groups and sectors in the areas of the internal and external EU policies.

In 2014-2020, the budget envelope of EUR 8,4 billion[8] is targeted to support the financing of EUR 87,8 billion, implying an average leverage of 10,5, and an investment amount of EUR 137,6 billion. The lower average leverage compared to the 2007-2013 generation of financial instruments reflects, firstly, that the 2014-2020 generation of financial instruments, to ensure the value added of the Union contributions, include instruments covering higher risks than the typical guarantee instruments of the 2007-2013 generation. It should however also be noted that the 2014-2020 budget envelopes do not yet include appropriations for successor instruments to certain instruments established for Enlargement and Neighbourhood or Development Cooperation countries, some of which empirically achieve a high leverage effect, and that the leverage reported for the 2007-2013 generation instruments is *actual* leverage achieved, while the leverage reported for 2014-2020 instruments is the *target* leverage. In some cases, the actual leverage exceeded the target leverage under 2007-2013 instruments (e.g. for the SME guarantee Facility under CIP). The actual leverage for the 2014-2020 financial instruments may ultimately also exceed the currently expected. The Union contribution of EUR 1,9 billion which had been committed by 31 December 2015 is expected to support financing volume of about EUR 16,8 billion, reflecting an expected leverage ratio of about 8,7 and expected investment volumes of EUR 31,9 billion.[9]

Across the past and the ongoing programming periods, Union support has been provided to strategic groups and sectors, such as SMEs, tangible and intangible infrastructures (including research and innovation), giving rise to many entrepreneurial success stories.

Some of these stories are cited below:

Research and innovation:

- **Horizon 2020: SME InnovFin Guarantee Facility**
    - A EUR 20 million loan to high-tech engineering company Manz AG is supporting the company's research and development in the area of sustainable and cost-efficient power generation. The financial assistance is being provided under the new InnovFin – EU Finance for Innovators initiative set up jointly by the EIB and the European Commission. InnovFin MidCap Growth Finance is tailored to the specific

[8] The 2014-2020 envelope may not yet fully reflect appropriations for new instruments which may be envisaged for Enlargement and Neighbourhood countries or countries covered by the Development Cooperation Instrument.

[9] The *expected* volume of financing and investment are limited at this stage to amounts resulting from contracts already signed between entrusted entities and financial intermediaries/final recipients.

requirements of midcap companies in the field of R&D financing. Our financing will primarily benefit the company's R&D in the solar photovoltaic (PV) sector. Manz's solar cell technology is among the world leaders, with currently the highest sunlight-to-energy efficiency for CIGS and other thin-film PV modules, and competitive costs compared to other technologies. CIGS technology is based on copper, indium, gallium and selenium and produced in thin-film technology. CIGS modules are currently considered to be the most efficient on the market. They require a relatively low amount of material, which makes them more sustainable and environmentally friendly. http://www.eib.org/infocentre/stories/all/2014-november-05/backing-solar-module-innovation-in-germany.htm

- **Framework Programme 7: RSI and RSFF**

  - Keeping the streets clean can be costly for local authorities and most town planners would love to roll-out dirt free pavements across towns and cities. CS-Beton is doing exactly that. It is one of the biggest producers of concrete goods for pavements, roads, highways and airports and is the first company in Czech Republic to introduce a special spray - "Clean protect"- to prevent dirt sticking to its concrete. And it is not just any type of concrete; that special concrete is highly resistant to frost as well as de-icing chemical agents. With its 160 employees, the company is currently developing some new concrete products providing completely new designs for bus stops, new solutions for road covers and large retaining walls with a view to continue growing the business across the Czech Republic and beyond. The CZK 20 700 000 (EUR 807 490 equivalent) investment loan with a 50% EU guarantee, provided in Czech Republic under the RSI, allowed CS-Beton to start working on larger projects and gave them access to international markets.

    http://www.eif.org/what_we_do/guarantees/RSI/case-studies/ceska_sporitelna_czech_republic.htm

  - Zeta Biopharma is a plant construction company in Austria with 237 employees providing process technology for biopharmaceutical applications by supplying global pharmaceutical companies with individually designed plants. Zeta's production plants are used by large pharma companies to develop vaccines, injections and pharmaceutical drugs used to fight diseases worldwide. The company is one of only two in Europe to use freeze and thaw containers for storage and transport of substances for the pharmaceutical industry. Those liquids can be frozen in a controller storage facility for years and are often sent to markets worldwide. The plants are used by large pharma companies to develop vaccines, injections and pharmaceutical drugs used to fight diseases worldwide.

    The company is one of only two in Europe to use freeze and thaw containers for storage and transport of substances for the pharmaceutical industry. Those liquids can be frozen in a controller storage facility for years and are often sent to markets worldwide. The plants are manufactured in modular design with state-of-the-art equipment at the production site in Lieboch, Graz, and are dispatched under sterile conditions to operation sites across Europe and beyond, where they are then installed and commissioned by qualified staff and engineers. The EUR 2,5 million working capital loan with a 50% EU guarantee, provided under the RSI in Austria, covers Zeta's high working capital requirements during the long lead times in plant engineering and manufacturing.

http://www.eif.org/what_we_do/guarantees/RSI/case-studies/unicredit-bank_austria.htm

- What do cars, cranes, diggers, trains, mining excavators and combine harvesters have in common? All of those vehicles use bearings to keep the machinery moving. NBI Bearings Europe is one of the leading bearings companies in Spain providing those valuable parts to industrial sectors including the oil and gas, agriculture, iron and steel industries. NBI Bearings' unique selling point is the special design it uses, which protects the bearings from dirt and moisture and allows them to maintain the grease inside. Research and development is at the core of the company's strategy, with technicians from universities including the Technical University of Valencia and Deusto in Bilbao, looking at new types of material, techniques and quality control for their bearings. NBI Bearings Europe employs 32 staff who currently cover markets in 50 countries and the company is planning to expand in the near future. The EUR 500 000 working capital loan with a 50% EU guarantee, provided under the Risk Sharing Instrument (RSI) in Spain, allowed NBI Bearings Europe to expand its research and development facilities and to take on 6 new members of staff for its technical plant.

  http://www.eif.org/what_we_do/guarantees/RSI/case-studies/bankinter_spain.htm

Competitiveness of SMEs:

- **COSME: Loan Guarantee Facility**

  KopfNuss GmbH, in Hamburg, has developed a drink in collaboration with the University of Kiel. To get started, they obtained a loan of 30 000 euros from a bank in Hamburg. The loan, which was guaranteed by KfW through the COSME programme, allowed that new venture to get off the ground by creating the company, the prototype and production of the first 40 000 bottles.. That very trendy product – a totally natural refreshing drink, without any added sugars and alcohol free – was introduced to the market just over a year ago by three young entrepreneurs. After one year, production has increased five-fold. They have formed partnerships with event organisers and their points of sale are continuously increasing. Dennis Redepenning, co-founder at KopfNuss GmbH explains: "We are in the process of launching a second product on to the market, and we are getting a European biolabel for both our products. We are continuing to expand. Our aim is to be in Berlin and Munich next year."

  http://www.euronews.com/2015/10/16/enhancing-access-to-finance-with-cosme/

Infrastructure and energy efficiency:

- **Connecting Europe Facility / Project Bond Initiative**

  The Union's contribution supported the financing of:

  - a greenfield transport project for the A11 motorway in Belgium through a EUR 578 million project-bond issue and EUR 79,6 million of equity (with a Union contribution of EUR 200 million), and
  - the A7 Autobahn in Germany through a EUR 429 million project-bond issue.

  http://eur-lex.europa.eu/resource.html?uri=cellar:d1d8e4af-8fab-11e5-983e-01aa75ed71a1.0022.02/DOC_1&format=PDF

- **Private Finance for Energy Efficiency (PF4EE)**

  An operation with Banco Santander was signed on 26 November 2015. That operation focuses on energy investments within the hotel sector and may support the PIMASOL and PERRER EE programmes of the Spanish government. The EIB granted a EUR 50 million loan, while the maximum collateral committed for that operation was set at EUR 3,6 million.

Social and micro enterprises:

- **European Progress Microfinance Facility**

  Miena Rust was made redundant from her job with an engineering company in 2010; she invested in a nougat cooker and cutter, honed her recipe and discovered that she had a hit on her hands. Miena's Nougat began as a sole trader business in July 2012. Miena manufactures fine artisan confectionary using only natural ingredients handmade in her home in the Glen of Imaal in Co. Wicklow. Miena originally began distributing her range of soft honey nougat at Marlay Park Farmer's Market, Grange Con Café in Blessington, Co. Wicklow and at various food/trade fairs throughout Dublin. Since 2014, Miena's nougat has been sold in artisan shops including Avoca Handweavers, Donnybrook Fair, select coffee shops and over 200 Super Valu stores nationwide.

  http://microfinanceireland.ie/mienas-nougat/

EXECUTIVE SUMMARY

The present report covers EU-level financial instruments for internal and external Union policy areas, managed directly or indirectly by the Commission.

It provides a comprehensive overview of progress to date in the implementation of 2007-2013 and 2014-2020 financial instruments, ensuring transparency and accountability in the use of taxpayers' money. It demonstrates that centrally managed financial instruments have achieved substantial financial leverage and shows – on the basis of the currently available evidence – how the instruments pursued their policy objectives. Further technical information can be found in the Annex.

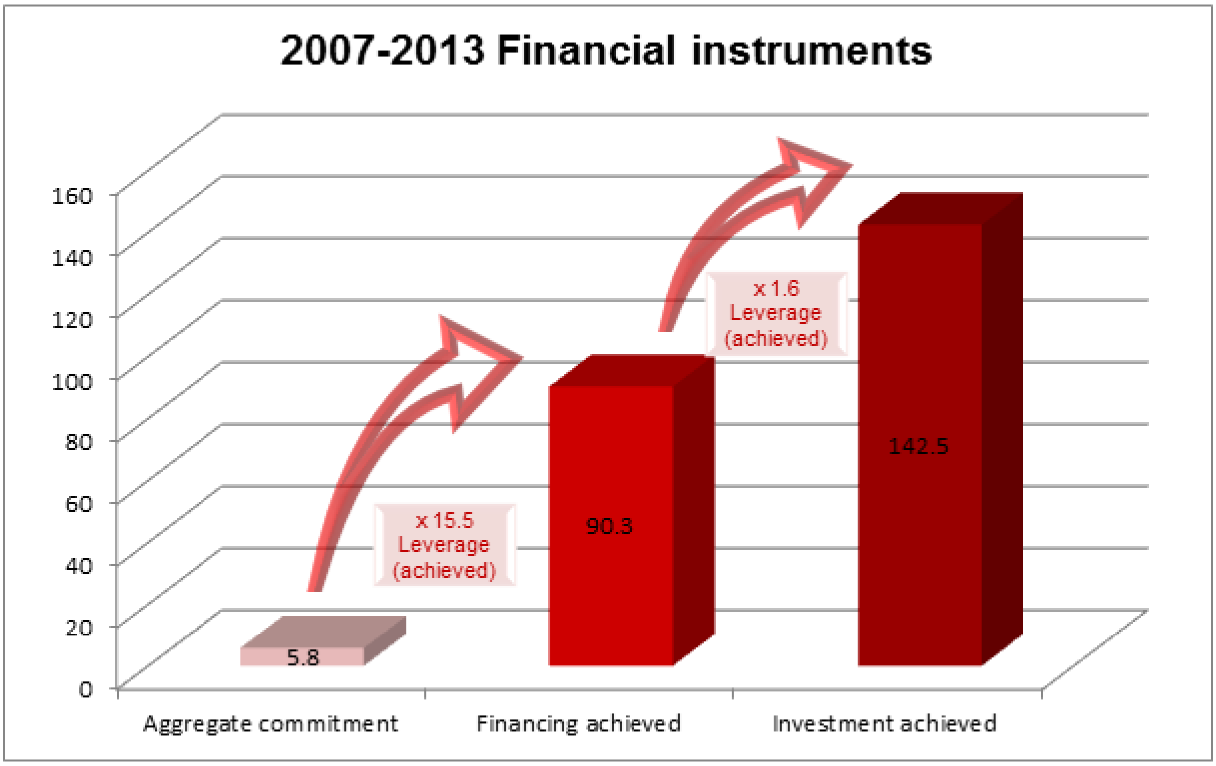
The following graphs provide a visual illustration of financial instruments' implementation in terms of leverage in the 2007-2013 and 2014-2020 MFFs as of 31 December 2015, both overall and by financial category (debt, equity and mixed instruments).

For the 2007-2013 financial instruments, the "Aggregate commitment" is defined as the cumulated budgetary commitments made for the relevant financial instrument[10]. "Financing achieved" corresponds to the volume of finance provided to eligible final recipients by a financial instrument through its financing chain, including the part of the Union contribution[11]. Finally, "Investment achieved" represents the capital investment expenditure to be undertaken by the final recipient, in many cases proxied by the total amount of financing at its disposal for the investments, including own funds.

[10] Such commitments include not only used appropriations assigned in the budget exercise but also budget resources such as EEA contributions, entry tickets from third countries for participating in the financial instrument or amounts transferred within the Union budget to the relevant financial instrument.

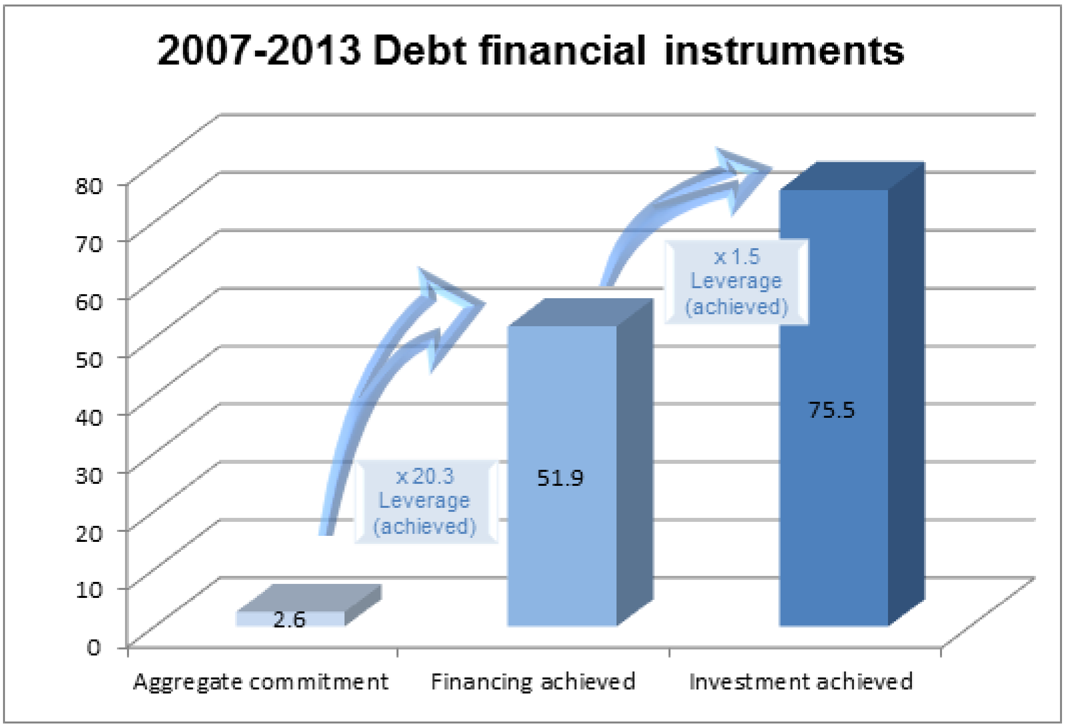
[11] I.e. the Aggregate Budgetary Commitment.

Graph 1: 2007-2013 Financial instruments as of 31 December 2015 (EUR billion)



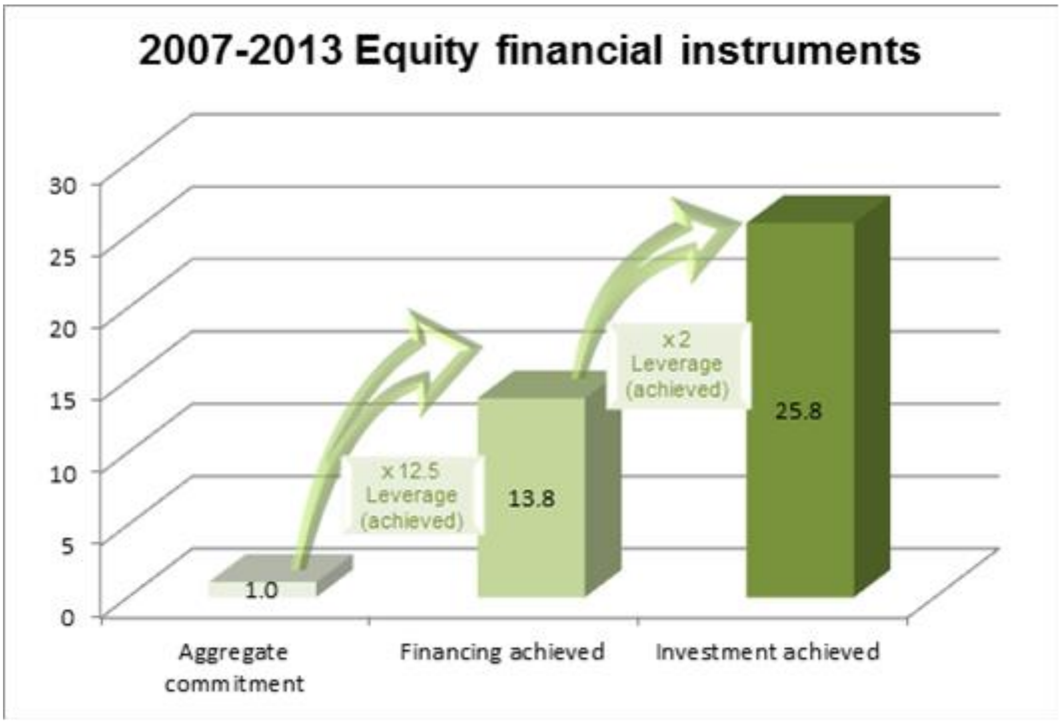
Instruments considered: SMEG 07, EPMF-G, RSI, RSFF, LGTT, Project Bond Initiative, FCP-FIS, EDIF GF 1, EFSE, RSL Turkey, GIF (CIP), Marguerite, ENEF under EDIF, ENIF under EDIF, Support to FEMIP, GEEREF, EEEF, GGF, NIF, IFCA&AIF, LAIF

Graph 2: 2007-2013 Debt financial instruments as of 31 December 2015 (EUR billion)



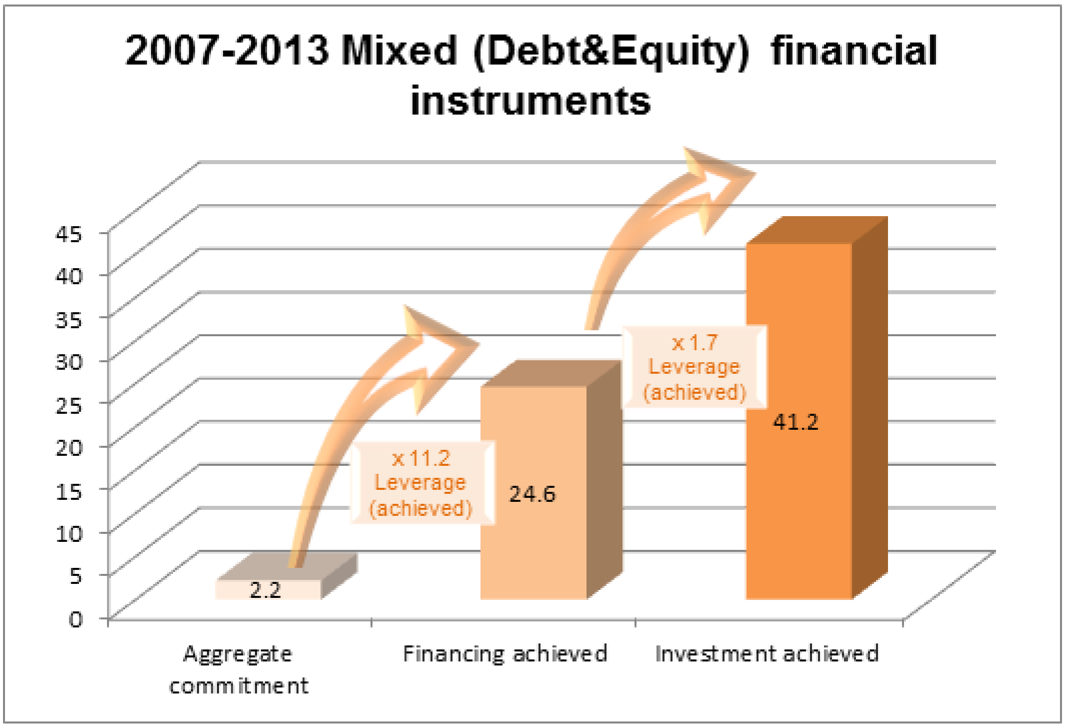
Instruments considered: SMEG 07, EPMF-G, RSI, RSFF, LGTT, Project Bond Initiative, FCP-FIS, EDIF GF 1, EFSE, RSL Turkey.

Graph 3: 2007-2013 Equity financial instruments as of 31 December 2015 (EUR billion)



Instruments considered: GIF (CIP), Marguerite, ENEF under EDIF, ENIF under EDIF, Support to FEMIP, GEEREF

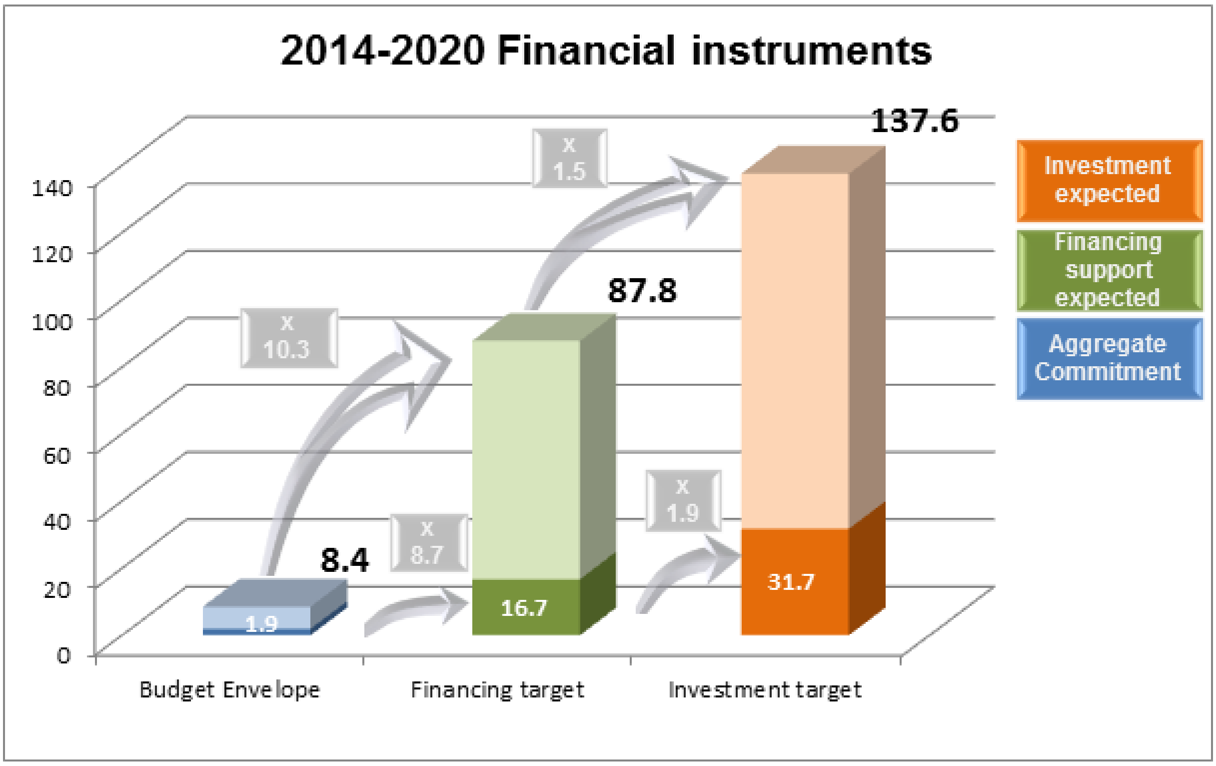
Graph 4: 2007-2013 Mixed (Debt&Equity) financial instruments as of 31 December 2015 (EUR billion)



Instruments considered: EEEF, GGF, NIF, IFCA&AIF, LAIF

For the 2014-2020 financial instruments, the "Budget envelope" indicates the commitment appropriations envisaged for the instrument throughout its life. The "Financing target" is the targeted amount of financing to eligible final recipients (part of which is the Expected financing, namely the amount of financing expected from signed operations). Finally, the "Target investment" is the targeted investment expenditure to be undertaken by the final recipient (part of which is the Expected investment, namely the amount of investment expenditure expected from signed operations).

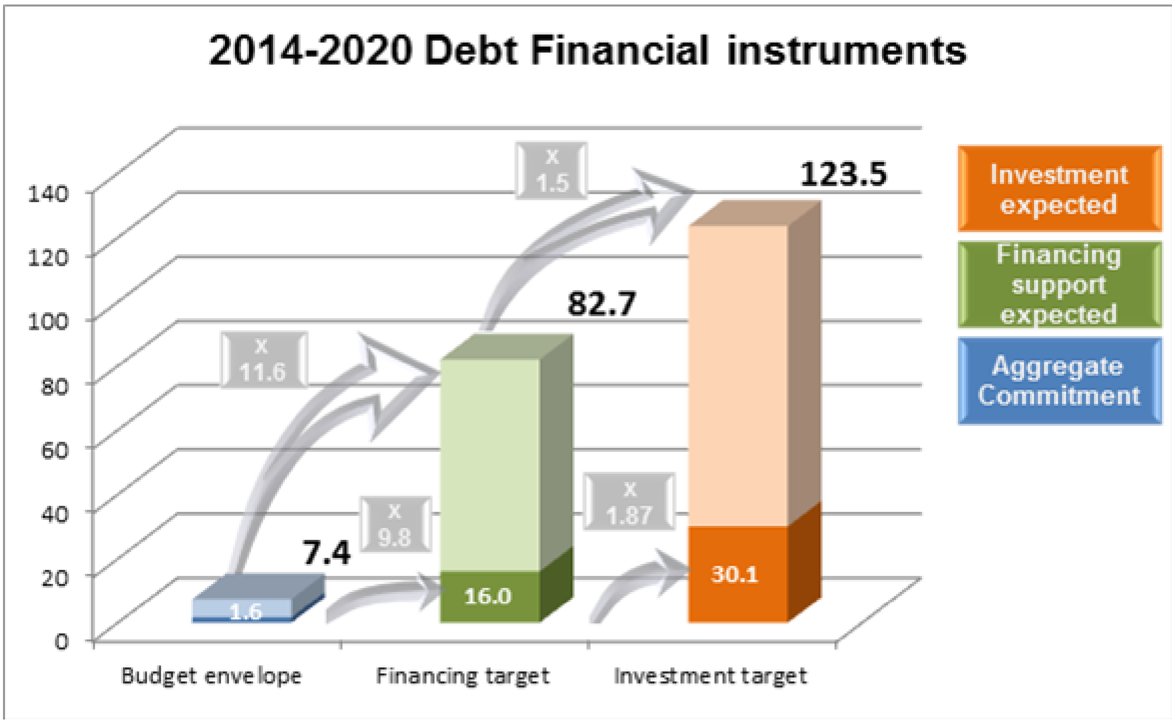
Graph 5: 2014-2020 Financial instruments as of 31 December 2015 (EUR billion)



Instruments considered: COSME LGF, EU SME initiative, EaSI, InnovFin SME Guarantee, CCS Guarantee Facility, SLG Facility, PF4EE, Innovfin Large project, RSDI, Guarantee Facility 2, EFG, CEF Equity, InnovFin SME Venture, NCFF

Including updates of initial budget envelope and corresponding financing and investment amounts.

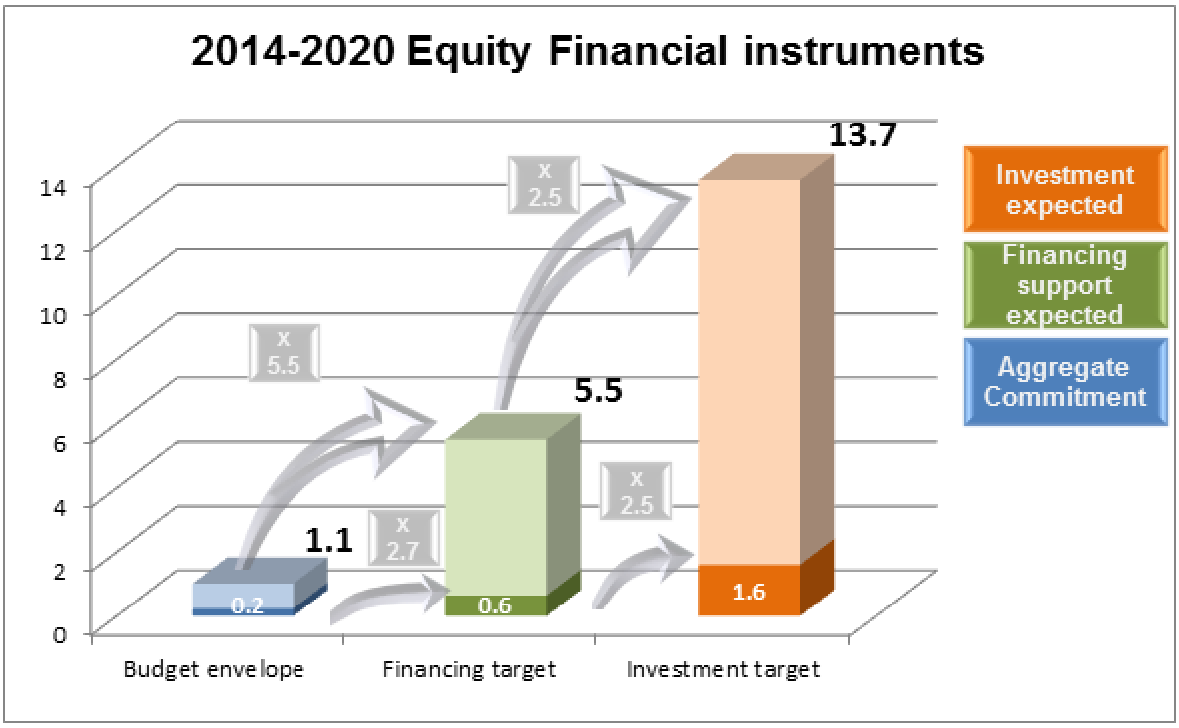
Graph 6: 2014-2020 Debt financial instruments as of 31 December 2015 (EUR billion)



Instruments considered: COSME LGF, EU SME initiative, EaSI, InnovFin SME Guarantee, CCS Guarantee Facility, SLG Facility, PF4EE, Innovfin Large project, RSDI.

Including updates of initial budget envelope and corresponding financing and investment amounts

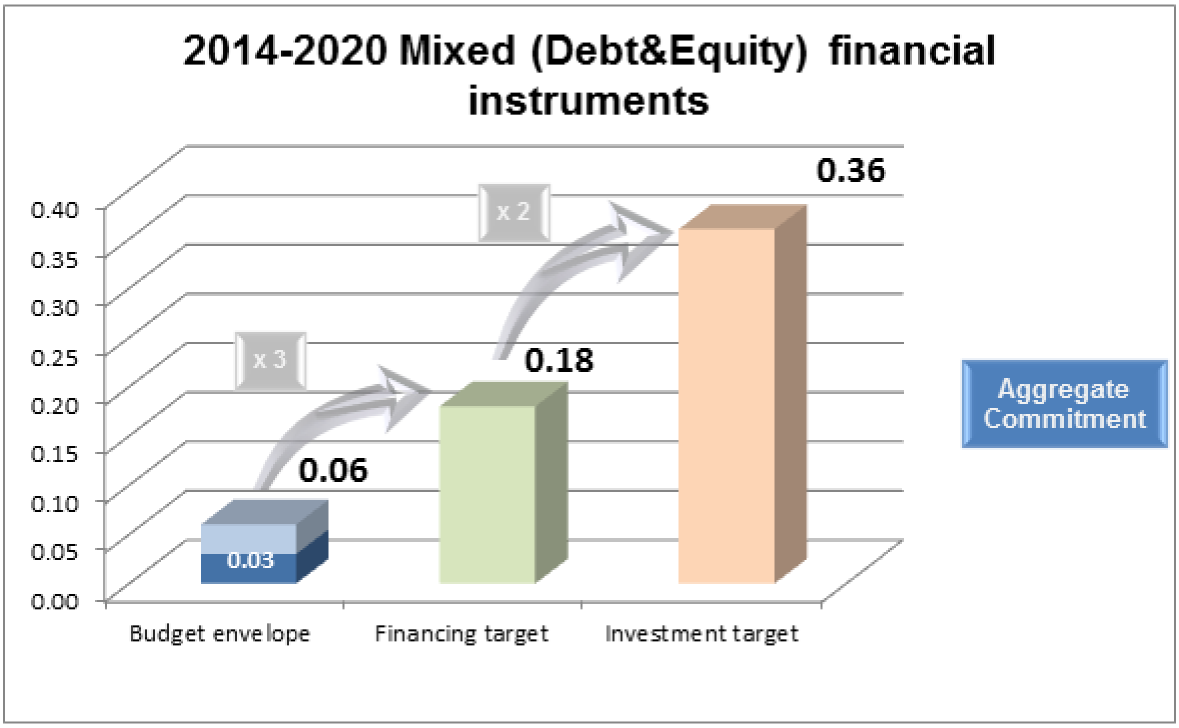
Graph 7: 2014-2020 Equity financial instruments as of 31 December 2015 (EUR billion)



Instruments considered: EFG, CEF Equity, InnovFin SME

Including updates of initial budget envelope and corresponding financing and investment amounts.

Graph 8: 2014-2020 Mixed (Debt&Equity) financial instruments as of 31 December 2015 (EUR billion)



Instruments considered: NCFF

Including updates of initial budget envelope and corresponding financing and investment amounts

Instruments supported by the Union budget but implemented by Member States in shared management are subject to separate reporting. For the 2007-2013 programming period, an annual summary report on the implementation of financial engineering instruments under the ERDF and the ESF[12] was published by 1 October each year.[13] As of 2016, the Commission will provide data summaries on progress in implementing financial instruments under shared management as required for the ESIF under the CPR.[14] Similarly, financing and investment operations under the EFSI budgetary guarantee – which are not financial instruments in the sense of the Financial Regulation – are subject to separate reporting required by the EFSI Regulation.[15]

The present report on EU-level instruments is complemented by a Commission Staff Working Document which contains detailed tables and information on instruments implemented in direct and indirect management mode in 2007-2013 and 2014-2020.

[12] Acronyms are spelled out in the glossary of the accompanying Staff Working Document.

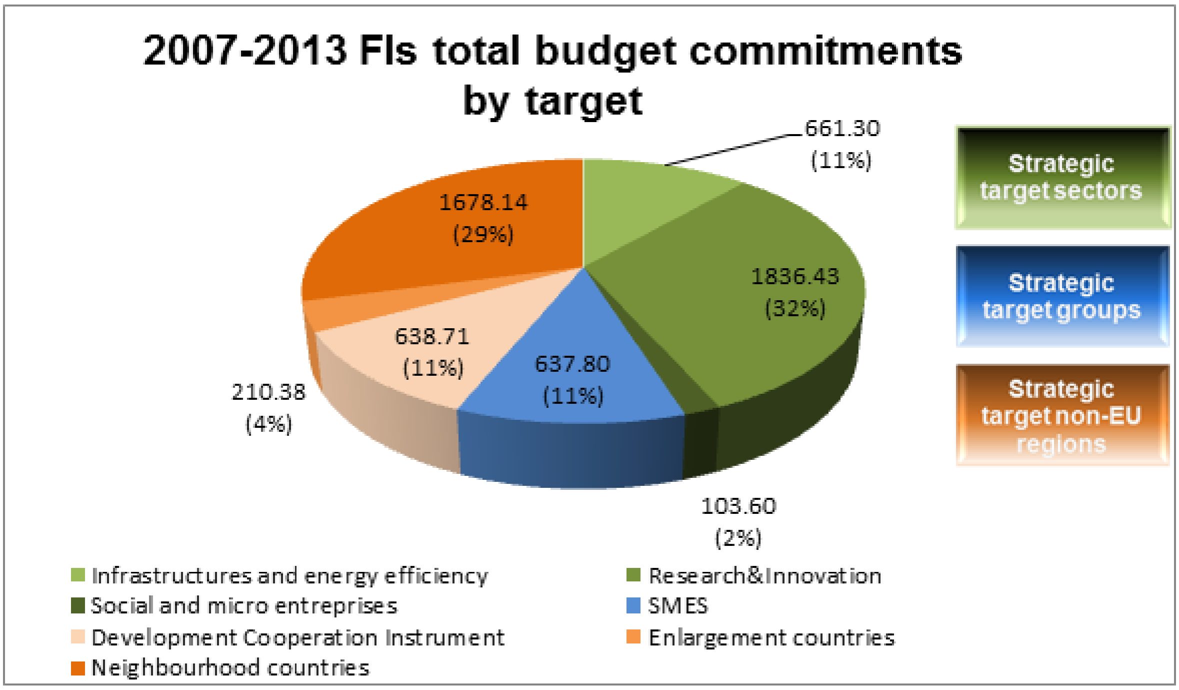
[13] The 2014 report is available at:

http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/summary_data_fei_2014.pdf

[14] Article 46(4) of Regulation (EU) No 1303/2013.

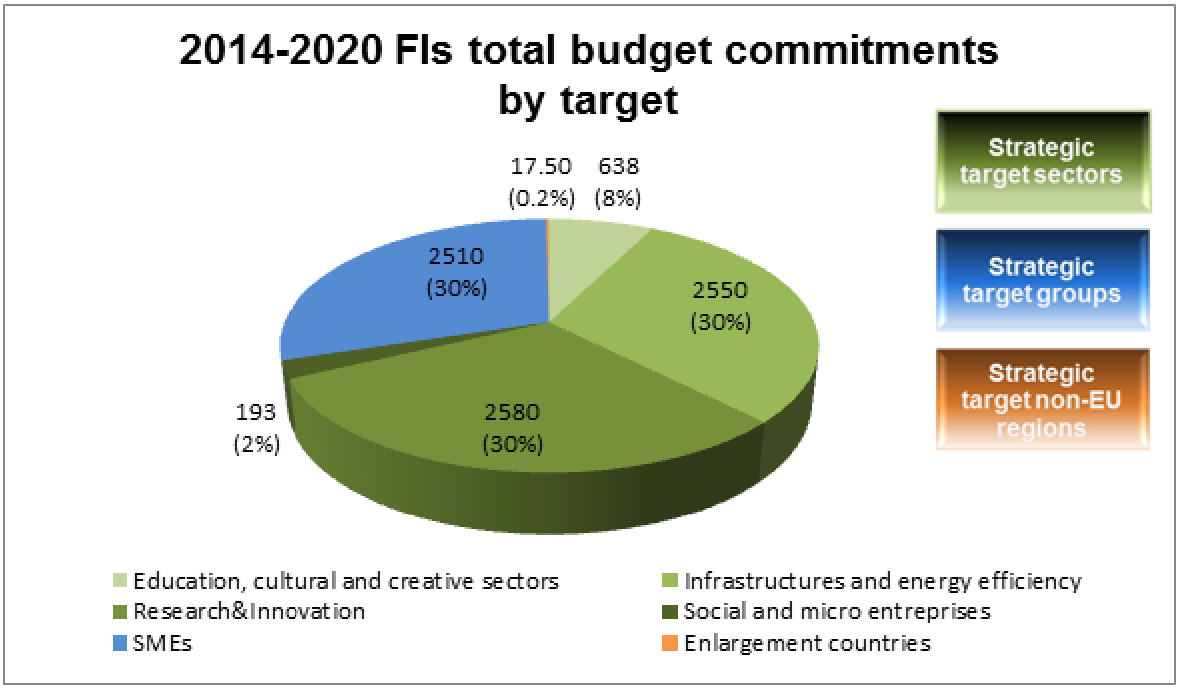
[15] Articles 16-18 of Regulation (EU) 2015/1017. In particular, Art. 16(2) requires the EIB, in cooperation with the EIF where appropriate, to submit an annual report to the European Parliament and to the Council on EIB financing and investment operations covered by the EFSI Regulation. The 2015 Report can be found here: http://www.eib.org/attachments/strategies/efsi_2015_report_ep_council_en.pdf

Graph 9: 2007-2013 FIs - Total budget commitments by target as of 31 December 2015 (EUR million)



Strategic target sectors: LGTT, PBI, Marguerite, EEEF, GIF (CIP), RSI, RSFF, EPMF-G, FCP -FIS
Strategic target groups: SMEG 07
Strategic target non-EU regions: IFCA, AIF, LAIF, GEEREF, EDIF GF 1, ENEF under EDIF, ENIF under EDIF, EFSE, GGF, SME RSLT, NIF, Support to FEMIP

Graph 10: 2014-2020 FIs - Total budget commitments by target as of 31 December 2015 (EUR million)



Strategic target sectors: CCS Guarantee Facility, SLGF, PF4EE, RSDI, CEF Equity, NCFF, InnovFin SME Guarantee, InnovFin L-M Guarantee , InnovFin SME VC, EaSI

Strategic target groups: COSME LFG, EU SME initiative, COSME EFG

Strategic target non-EU regions: EDIF GF2

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:

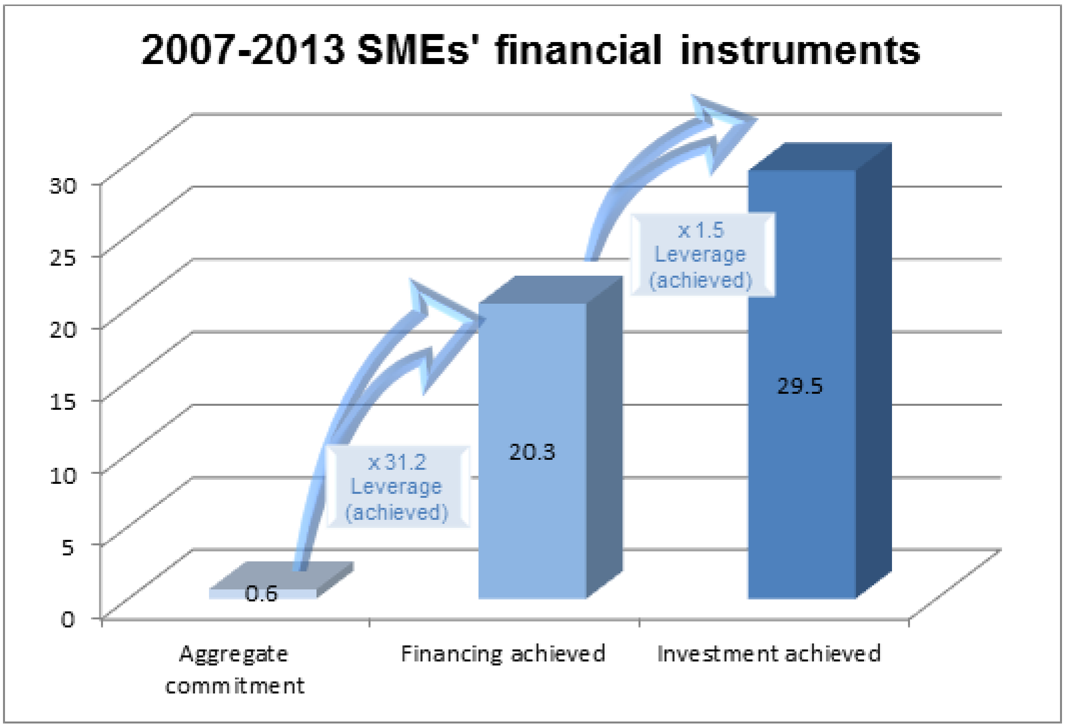
1. The *SME Guarantee Facility (SMEG07) under the Competitiveness and Innovation Framework Programme (CIP)* has enhanced SMEs' access to debt finance. As of 30 September 2015, a total of over 377 000 SMEs had benefited from EUR 20 billion in guaranteed loans over 2007-2015 and the number is still growing;
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 2015, the European Investment Fund (EIF) had concluded due diligence and signed guarantee agreements with 26 financial intermediaries for a total of over EUR 7 billion. It is estimated that the cumulative total financing mobilised for 2014-2020 will range from EUR 14,3 to 21,5 billion, reaching 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 692 million from the ERDF and Horizon 2020, the volume of new SME loans supported in Spain is expected 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 in 2008-2014 in terms of fund-raising, investment levels (notwithstanding a slight pick-up in 2014) and divestment conditions, 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 tackling 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 SMEs that have the potential to achieve high growth), bring innovation to the market and create high added-value jobs:

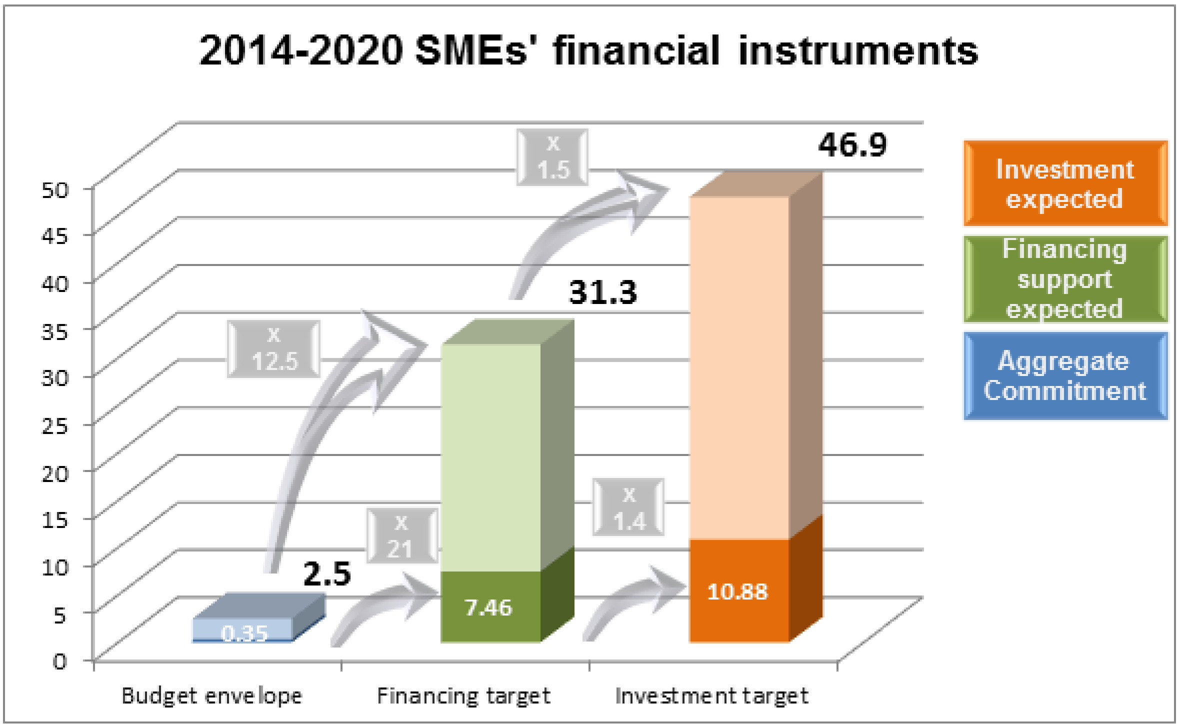
1. The *Equity Facility for Growth (EFG)* under COSME, the successor of GIF2, aims to stimulate the take-up and supply of equity finance for SMEs in their expansion phase. For 2014-2020, it is expected that an indicative commitment of EUR 546 million will support venture capital investments in the range of EUR 2,6 to 3,9 billion, reaching some 360 to 540 SMEs.

Graph 11: 2007-2013 financial instruments for SMEs as of 31 December 2015 (EUR billion)



Instruments considered: SMEG 07.

Graph 12: 2014-2020 financial instruments for SMEs as of 31 December 2015 (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,[16] as well as empirical experience, suggest that demand for R&I debt financing far exceeds current supply.

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

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 2007-2015 RSFF contribution of EUR 961 million supported activity accounting for over EUR 10,22 billion of an expected EUR 11,31 billion;

[16] 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. For 2014-2020, the EU contribution of EUR 1 060 million is targeted to mobilise financing of EUR 13 250 million for the final recipients. By the end of 2015, EU contributions totalling EUR 645,5 million had already supported financing of EUR 2 399,2 million;

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 <u>innovative SMEs and small midcaps</u> (enterprises with up to 499 employees). It has so far provided almost EUR 2,34 billion in guarantees and counter-guarantees to 37 banks and guarantee societies, which will enable them to support up to an estimated 4 000 innovative SMEs and small midcaps. By the end of 2015, the volume of financing provided was over EUR 2,3 billion, with a Union contribution of EUR 270 million;

4. The *InnovFin SME Guarantee* under Horizon 2020, the successor facility for <u>innovative SMEs and small midcaps</u> 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 2015, the overall value of financing supported by the Union contribution is expected to be around EUR 3,7 billion, of which EUR 310 million has already been provided;

5. The *High Growth and Innovative SME Facility (GIF)* under the CIP aims to increase the supply of equity for <u>innovative SMEs in their early stage (GIF1) and in the expansion phase (GIF2)</u>. By the end of 2015, a total of EUR 625,2 million in net commitments from the Union budget supported 43 venture capital funds and 437 final recipients, catalysing nearly EUR 1,25 billion in equity finance;

6. The *InnovFin SME Venture Capital* under Horizon 2020, the successor of GIF1, is designed to improve <u>early-stage R&I-driven SMEs' and small midcaps' access to risk finance</u>. An envelope of EUR 460 million indicatively planned for 2014-2020 is expected to support around EUR 2,7 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) launched in the 2007-2013 period or envisaged in 2014-2020 include:

1. The *Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT)*, a debt instrument for project finance in trans-European transport and energy networks. As of 31 December 2015, the aggregate outstanding LGTT instrument guarantee stands at a total of EUR 472 million, covering five projects expected to make investments (equity, debt, grants) of EUR 11,6 billion. The Commission's 2014 *ex post* evaluation concluded that the impact of the LGTT had been positive where it had been applied, but not sufficient to achieve its broader objectives;

2. Under the *Connecting Europe Facility (CEF)*:

    a. the *Project Bond Initiative (PBI, MFF 2007-2013)*, which aims to stimulate capital-market financing for infrastructure projects in the areas of trans-European transport and energy networks and broadband networks. To date, several transactions have reached financial close under the PBI pilot phase:

        i. As at end of 2015, the Project Bond Credit Enhancement (PBCE) projects backed with the Union contribution of EUR 230 million already contributed to provide EUR 335 million of financing to five eligible projects and had thus an important impact on the real economy of the EU, including overall investment of nearly EUR 3 billion;

        ii. the Union's contribution to TEN-T supported the financing of:

            - the Port of Calais signed in July 2015. The total project cost of EUR 863 million was financed by a EUR 504 million project bond and EUR 358 million from other sources. The total PBCE amounts to EUR 50 359 000;

            - the construction of the A11 Motorway in Belgium. The total project cost of EUR 657,5 million was financed by a EUR 577,9 million project bond and EUR 79,6 million of equity; the total PBCE provided amounts to EUR 115 580 000;

            - the construction of the A7 Motorway in Germany. The total project cost of EUR 772,6 million was partly financed by a EUR 429,1 million Project Bond; the total amount of PBCE amounts to EUR 85 827 400; and

        iii. the budget contribution of EUR 20 million for the ICT sector also enabled credit enhancement of around EUR 38 million in support of a bond issue for around EUR 189 million by a French broadband service provider;

b. the *Risk-sharing Debt Instrument (CEF)* will target projects of common interest in the transport, broadband and energy networks sectors. Starting 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 2,4 billion is made available to the instrument, total funding of EUR 18 to 45 billion could be attracted thanks to the Union contribution;

c. the *Equity Instrument (CEF)* aims to support funding for broadband investment by SMEs through the establishment of a Broadband Investment Fund. A commitment of EUR 100 million is indicatively planned for 2014-2020.

3. The *Private Finance for Energy Efficiency Instruments (PF4EE)* financed under the LIFE programme, which will provide *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 is expected to support total investment up to about EUR 540 million for 2014-2017. However, on the basis of the first three operations signed in 2015 (in the Czech Republic, Spain and France) and the existing pipeline, the EIB now targets to achieve EUR 1 billion of new investments in energy efficiency;

4. 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 been targeted to support funding volumes of around EUR 10 billion, of which EUR 4,9 billion of equity and debt financing has already been mobilised. By 31 December 2015, the Fund had committed EUR 295 million of equity investment to three TEN-T and seven renewable energy projects;

5. 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 2015, the Fund had already received a Union contribution of EUR 125 million, which allowed allocating EUR 120 million financing to 10 projects for a total investment of EUR 219 million. EEEF technical assistance support has proved to be useful in helping public authorities prepare projects that will subsequently be financed.

6. The *Natural Capital Financing Facility (NCFF)*, which 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, half of which has already been committed.

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 fall in bank lending, national governments' limited capacity to support micro-finance and strong demand for it on the market. That context suggests that there is still a clear rationale for intervention at EU level by providing micro-finance institutions with risk-sharing and funding solutions.

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'.[17] The wide diversification of institutional actors and products offered calls for specific micro-finance and social facilities aimed 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* (2010-2013) — it consists of:
    a. a guarantee facility, which provided up to 20% capped guarantees on portfolios of micro-loans granted by intermediaries to micro–enterprises; and
    b. the *Fonds commun de placement — Fonds d'investissement spécialisé*, a specialised investment fund aimed at increasing access to micro-finance through a range of financial products (notably loans).

   As of 30 September 2015, those instruments had provided 45 999 micro-loans to final recipients for a total of EUR 390 million (the initial target was 46 000 micro-loans for EUR 500 million by 2018). The Facility is on track to reach the initial target, as new loans will be included between now and 2018;

2. *Programme for Employment and Social Innovation (EaSI)–Micro-finance and Social Entrepreneurship*, the successor to the above instruments, is 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

[17] 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.

enterprises. The envisaged Union contribution of EUR 96 million is targeted to support a total of EUR 528 million in financing to final recipients.

2.4. The Education and the Cultural and Creative Sectors

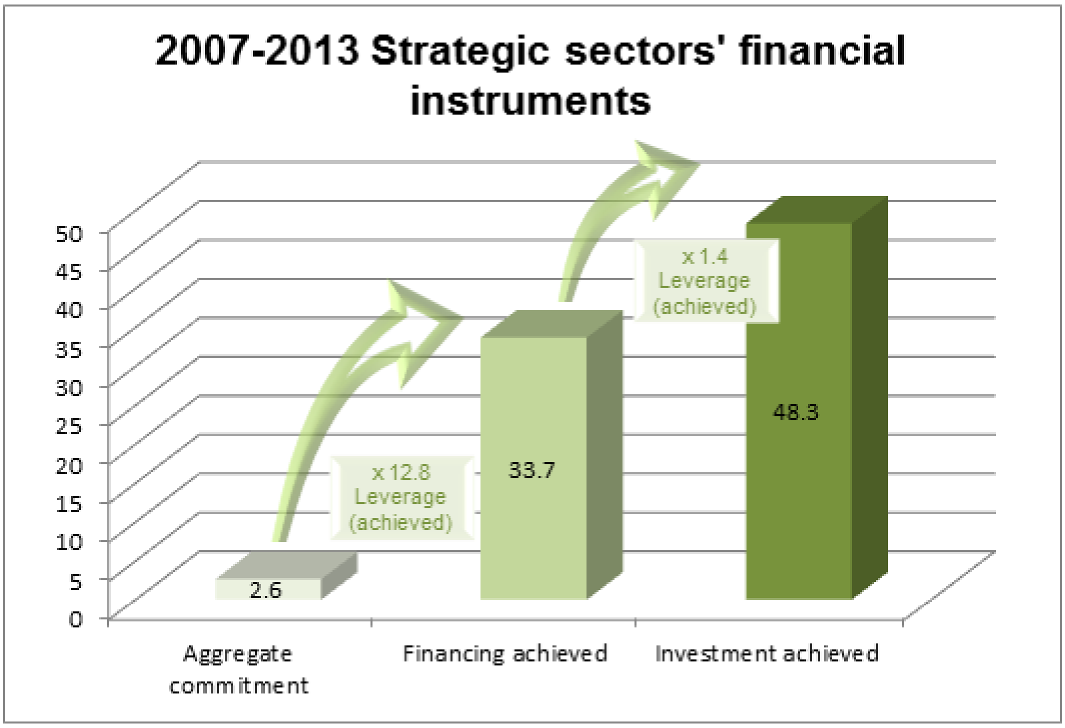
As a form of human capital accumulation, education is a primary source of economic growth, but to the extent it can be accessed by students of different social and economic backgrounds, it also contributes to social equity and cohesion. Moreover, student mobility has been proven significantly to affect social and economic development.

The *Student Loan Guarantee Facility* is a new EU financial instrument under the Erasmus+ programme that 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 60 million in Master loans. The first Erasmus+-guaranteed Master loans were disbursed in 2015. The planned Union contribution of EUR 517 million for 2014-2020 is expected to support loans for up to EUR 3 billion, benefitting around 200 000 students.

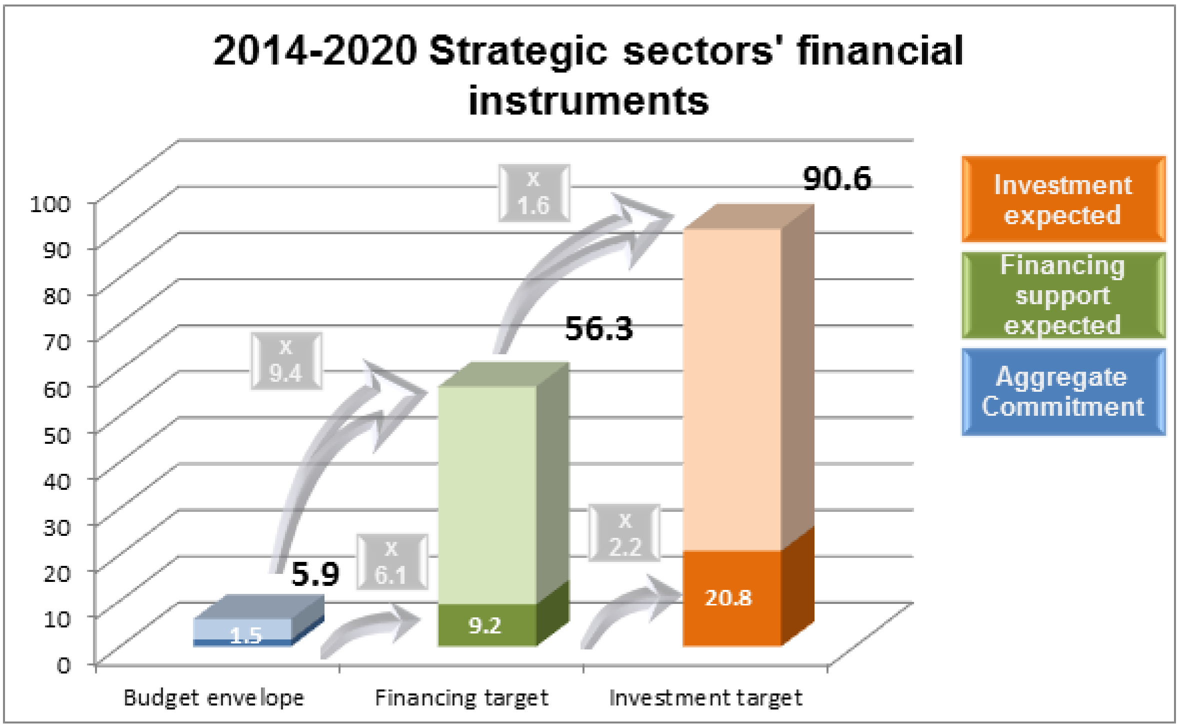
The *Cultural and Creative Sectors Guarantee Facility* under the Creative Europe programme will provide guarantees to banks dealing with cultural and creative SMEs, thereby strengthening financial capacity in those sectors. The scheme will begin in 2016 and the overall amount of additional loans in the sectors supported by the Union contribution of EUR 121 million is estimated at around EUR 690 million.

Graph 13: 2007-2013 financial instruments for strategic sectors as of 31 December 2015 (EUR billion)



Instruments considered: EPMF-G, RSI, RSFF, LGTT, PBI, FCP-FIS, GIF, Marguerite, EEEF.

Graph 14: 2014-2020 financial instruments for strategic sectors as of 31 December 2015 (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[18]

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 <u>innovative and high-potential SMEs</u>. The Union's EDIF GF1 contribution of nearly EUR 22 million is estimated to support 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 <u>innovative and high-potential SMEs</u>. The Union's EDIF GF2 contribution of EUR 17,5 million is estimated to support total financing of more than EUR 94,5 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 <u>innovative and high-potential SMEs *in the expansion and development stages*</u>. The EU financial contribution of EUR 11 million is expected to leverage a total financing/investment of EUR 77 million (including the contribution from the additional co-financing facility of the European Bank for Reconstruction and Development (EBRD)) after the first closing. After the second closing, the total financing/investment amount is expected to reach approximately EUR 110 million (EBRD contribution included);
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 <u>*early-stage* innovative SMEs</u>. 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 <u>on-lending to micro and small enterprises and households</u>. The Union contribution of nearly EUR 88

[18] 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 3,8 billion, benefitting nearly 599 000 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 368 million expected financing for final recipients. So far, the facility has provided EUR 289 million financing to more than 18 000 final recipients, via 32 partner institutions in 11 partner countries.

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[19]

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:

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 2008-2015, the Union contribution of approximately EUR 1 454 million leveraged a total financing of nearly EUR 13,8 billion (including EUR 12,3 billion from European financial institutions), with total project costs estimated at EUR 28,8 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 growth

[19] 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.

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)

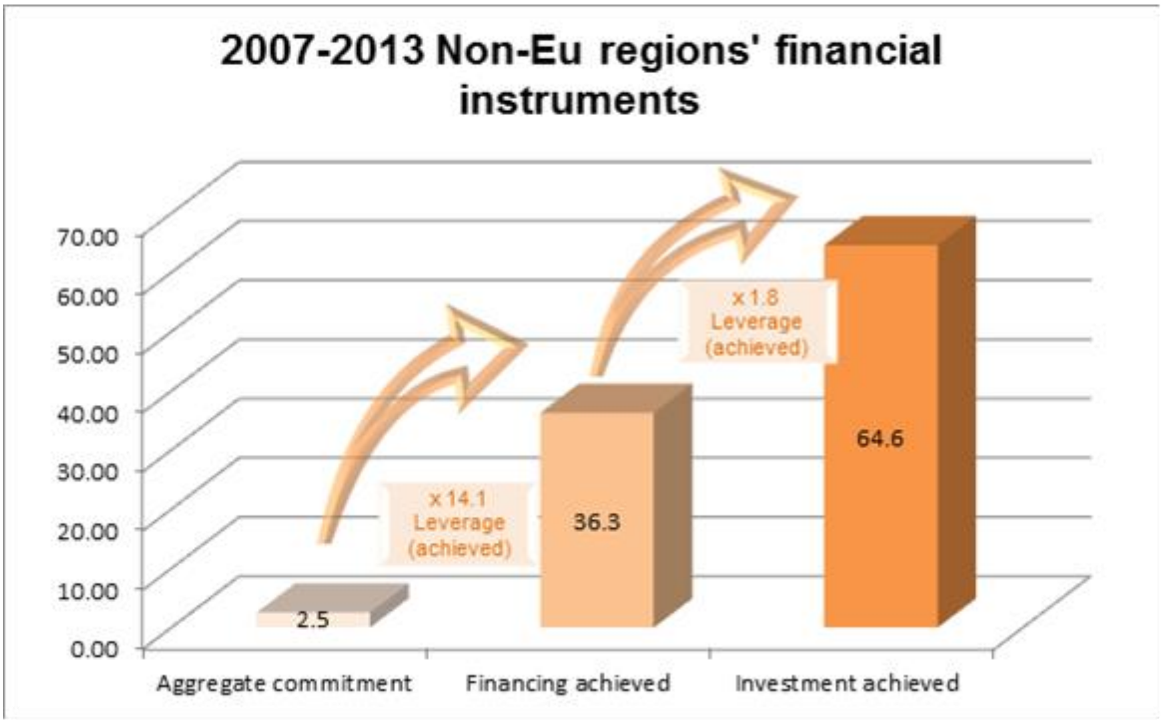
In some non-EU countries, the lack of a well-established institutional framework to safeguard property rights, address market failures and provide incentives for private initiatives is often at the root of SME-sector underdevelopment, infrastructure shortages and deficient overall investment in health, 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 priority focus on better energy infrastructure, increased protection of the environment and SME growth. The current overall budget is EUR 287,6 million. To date, IFCA contributions of EUR 119 million have leveraged approximately EUR 828 million of investments whereas the AIF contributions of EUR 89 million have leveraged approximately EUR 2 631 million of investments;

2. The *Latin America Investment Facility (LAIF)* aims to promote investments and infrastructures in the transport, energy and environment sectors and to support social- and private-sector development in Latin American countries. In 2010-2015, LAIF provided EUR 232 million financing to 28 projects accounting for a total investment volume of nearly 6,9 billion (with a contribution from eligible EFI of circa EUR 3,3 billion). LAIF was recreated in 2014 for the Multiannual Financial Framework 2014-2020, through an initial allocation of EUR 30 million; the envisaged overall budget for the entire period 2014-2020 amounts to EUR 320 million;

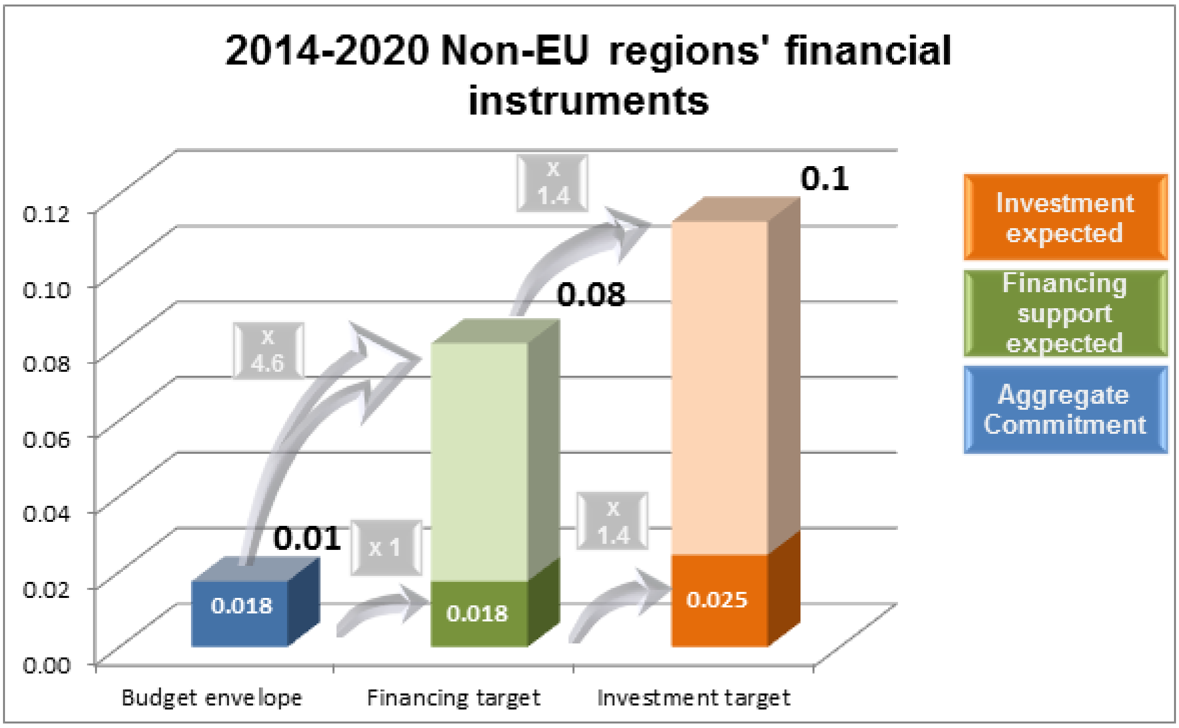
3. The *Global Energy Efficiency and Renewable Energy Fund (GEEREF)* aims to promote energy efficiency and renewable energy in developing countries and economies in transition. As of end 2015, the total investment supported with the Union's contribution of EUR 81 million was about EUR 892 million.

Graph 15: 2007-2013 financial instruments for Non-EU Regions as of 31 December 2015 (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 16: 2014-2020 financial instruments for Non-EU Regions as of 31 December 2015 (EUR billion)



Instruments considered: EDIF GF2

Including updates of initial budget envelope and corresponding financing and investment amounts

CONCLUSION

In the period affected by the financial crisis, important sectors of the economy have seen their access to finance severely impaired. Even post-crisis, the hangover effects of deleveraging and financial fragmentation have prolonged financing difficulties in terms of financing volumes and conditions, especially for vulnerable Member States and target groups.

As shown in the previous pages, the EU financial instruments have proven effective and cost-efficient in addressing those challenges. The Commission has already given a clear commitment to using such instruments more widely. It will also explore the possibility of boosting existing instruments or launching new ones in response to market gaps or sub-optimal investment situations, where market-based financing with an EU guarantee, equity investment or a risk-sharing arrangement appears the most appropriate model of support.

At the same time, the Commission will continue to strike the balance between greater assurance for the budgetary authority in terms of reporting, monitoring and audit, and greater efficiency in the implementation of financial instruments. Important work has been done in that regard. The current framework for the implementation of the 2014-2020 instruments includes solid provisions on technical requirements, transparency, internal control and audit and reporting. In addition, the remuneration of the entrusted entities has been linked to actual performance and capped in a consistent and reasonable way so as to align their interests with the EU policy objectives.

Moreover, procedural requirements have been laid down for centrally managed instruments to ensure that the Union contribution is fully invested and that the funds paid to the entrusted entities are continually calibrated to the specific operational needs of the instrument in question. In the case of instruments established and managed by Member States in shared management with resources from the EU budget, regulatory provisions have been established to link the payment of funds to the actual support that financial intermediaries pass on to final recipients.

The Commission is currently reviewing the regulatory framework with a view to reducing possible unnecessary bureaucracy in the first phase of implementation and further aligning the design of financial instruments on the most efficient and up-to-date market practices. With this in mind, the Commission will conduct interim evaluations of the individual instruments as required by the sectorial legal bases. Similarly,the Commission is proposing to revise the Financial Regulation provisions on financial instruments to embed lessons learnt from experience, take better account of market practices, cut red tape and further ease implementation.