EUROPEAN
COMMISSION

Brussels, 24.10.2016
SWD(2016) 335 final

PART 1/2

COMMISSION STAFF WORKING DOCUMENT

Activities relating to financial instruments

Accompanying the document

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

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

{COM(2016) 675 final}

Table of Contents

I. INTRODUCTION

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

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

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

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

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

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

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

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

---

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

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

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

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

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

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

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

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

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

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

II. OVERVIEW TABLE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

III. GENERAL CONTEXT

1. The EU Economy in 2015

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

Real GDP

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

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

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

Figure 1: Real GDP, EA

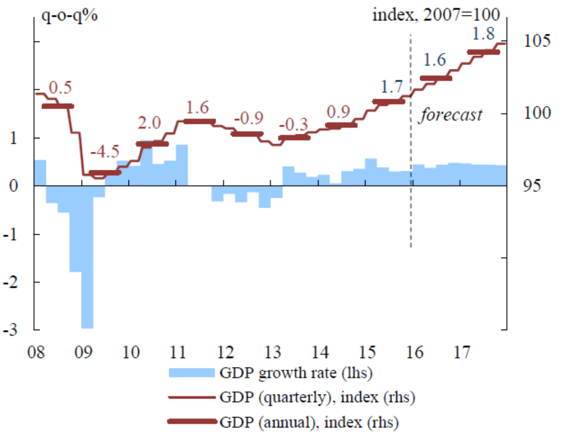
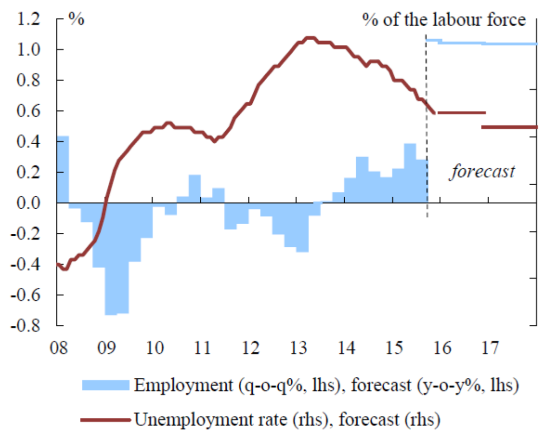


Figure 2: Labour market, EA



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

Labour market

Since the start of the economic recovery in 2013, *employment* picked up comparatively fast and strong in response to output developments. Unemployment rates continued following a moderate downward trend throughout 2015 (Figure 2). In 2015, in the EU the unemployment rate stood at 9.4%, 0.8 pps. lower than a year earlier. Labour market improvements exhibited significant differences across Member States, with respect to overall unemployment rates, but also regarding the duration of unemployment and the age profile of the unemployed.[26] Thus, the situation in the labour market continues to be reason of concern, in particular in the more vulnerable economies.

Public finance

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

Inflation and the exchange rate

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

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

Financial markets

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

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

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

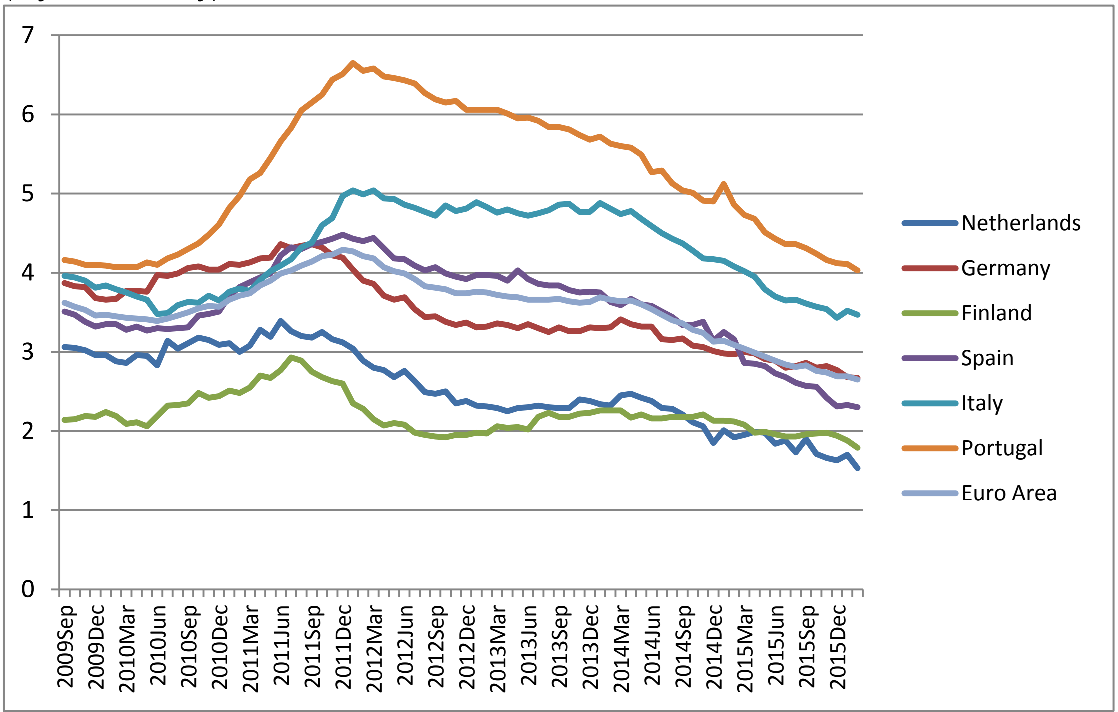
[26] In 2015, the youth unemployment rate decreased to 20.3% of the labour force of the same age in the EU and 22.4% in the euro area, compared with 22.2% and 23.7% respectively in 2014. In 2015, the long-term unemployment as a percentage of the active population stood at 4.5% in the EU and 5.5% in the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

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

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

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

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



Source: *European Central Bank*

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

Relevance of the macro-financial context for financial instruments

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

[27] ECB (2016).

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

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

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

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

2. Strategic Target Groups

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

2.1. EU SMEs[29]

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

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

2.1.1. SME Loan Market

2.1.1.1. Demand for SME loan finance

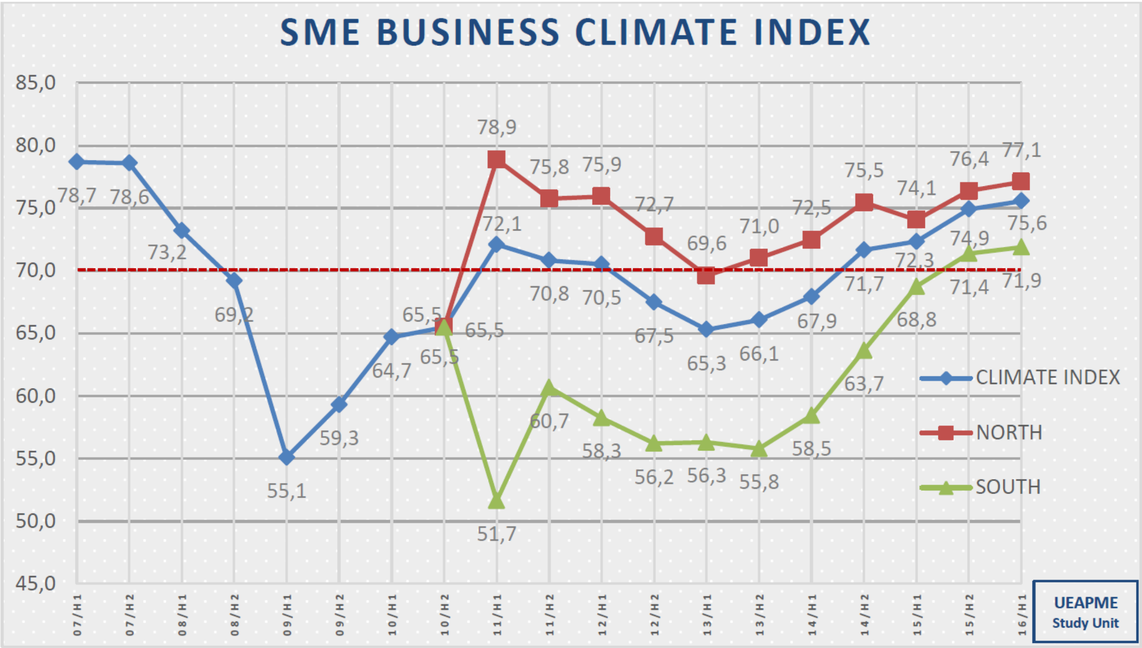
According to the UEAPME (2016), the overall business environment for European SMEs in the second semester of 2015 improved by almost 4.5% from the corresponding period in 2014, recording five consecutive upticks since the first semester 2013 (Figure 5). For the first

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

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

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

Figure 5: *SME Business Climate Index*



Source: *UEAPME (2016).*

Note: The UEAPME SME Business Climate Index is calculated as the average of the current situation and the expectations for the next period, resulting from the sum of positive and neutral (meaning: no change) answers pertaining to the overall situation for the business. For example, for "semester A" with 25% positive, neutral 55%, and 20% negative answers, the Index would be (25 + 55 =) 80, and for "semester B" with 40% positive, 30% neutral, and 30% negative answers, it would fall to (40 + 30 =) 70. However, the respective balances of positive minus negative answers would show an opposite result, growing from "semester A" (25 – 20 =) 5% to "semester B" (40 – 30 =) 10%. Therefore, these balances should also be examined, and are reported in UEAPME (2016).

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

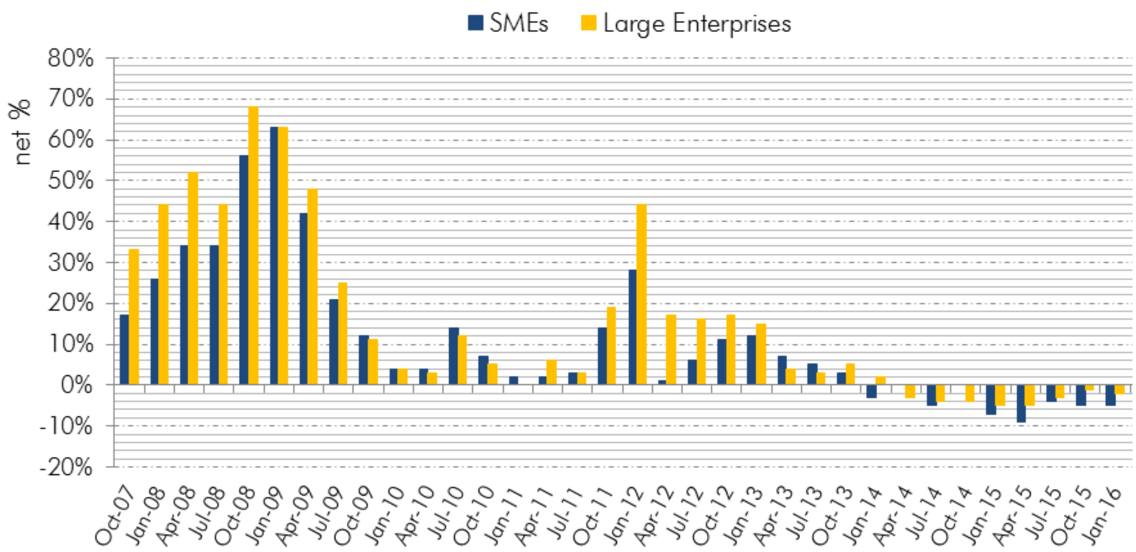
Remarkable progress can be noticed especially in the countries of the EU South and Periphery (Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain) – "South" in the graph. The SME Business Climate Index for these countries increased by 12.1% in 2015, which is higher than the increase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

2.1.1.2. Supply of SME loan finance

The current status of bank lending to non-financial corporations – including SMEs – is analysed in the ECB Bank Lending Survey. The survey reports the net percentage of banks contributing to tightening credit standards for SMEs. As shown by Figure 6, a general decrease in net tightening for loans to SMEs has occurred since the first quarter of 2013. In January 2014, a negative net tightening (i.e. a net easing) was attained for the first time after almost seven years. Henceforth, during 2014 the overall SME net tightening of credit standards stayed essentially unchanged. Through 2015, the situation of credit standards improved again slightly, with a negative net tightening through January 2016, while remaining slightly better than that for large enterprises.

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

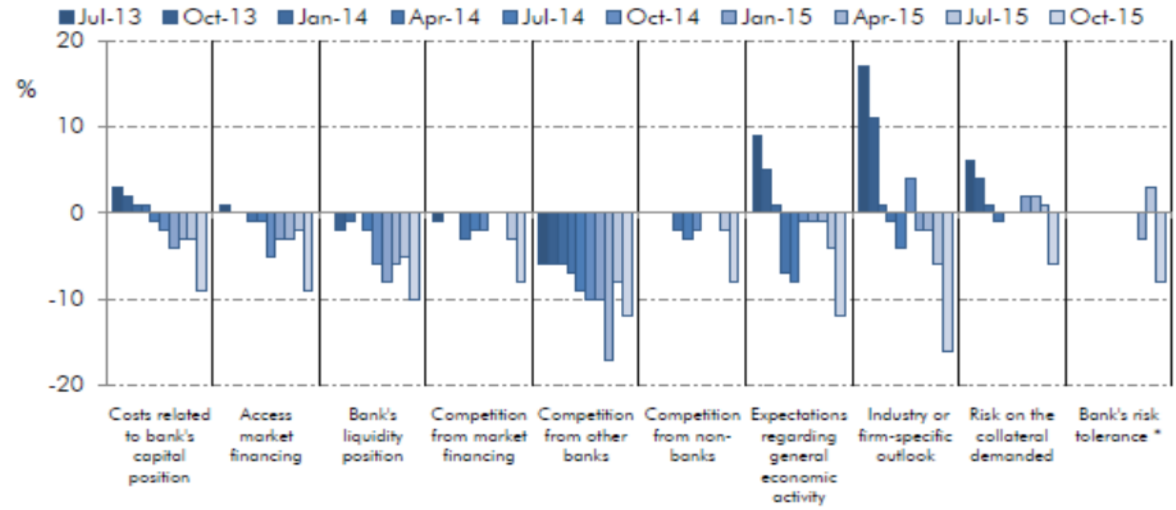
Figure 6: *Changes in credit standards applied to the approval of loans or credit lines to enterprises (SMEs versus large enterprises)*



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

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

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



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

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

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

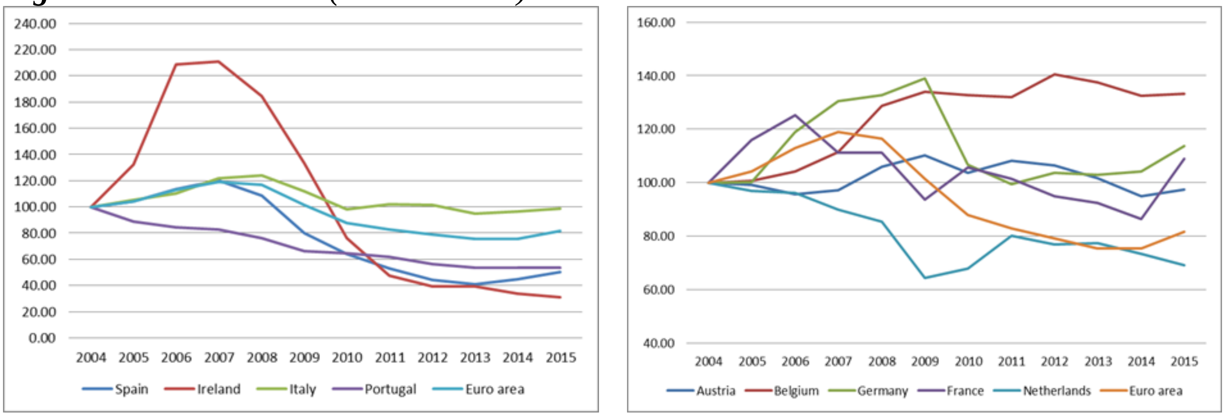
2.1.1.3. Market loan volumes and interest rates

Volumes of SME loans

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

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

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



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

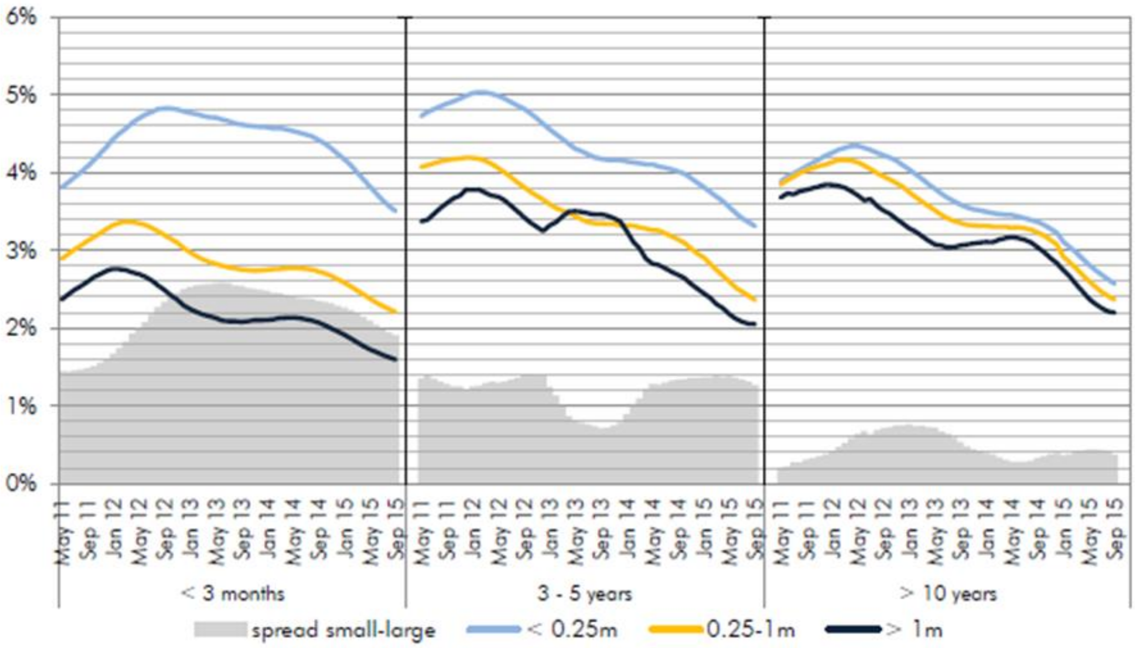
***Source:** ECB Data Warehouse*

Interest rates on SME loans

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

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

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



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

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

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

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

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

Figure 10a: *EU "South"*

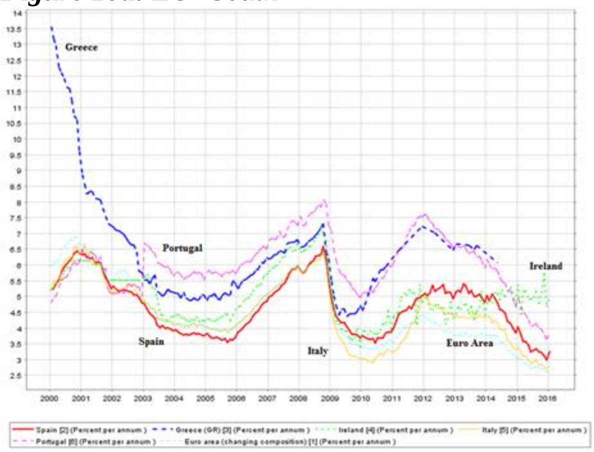
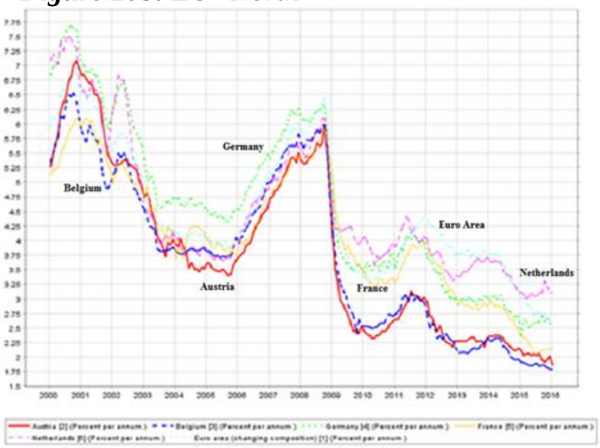


Figure 10b: *EU "North"*



Source: *ECB Data Warehouse*

2.1.1.4. Access to loan finance of EU SMEs

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

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

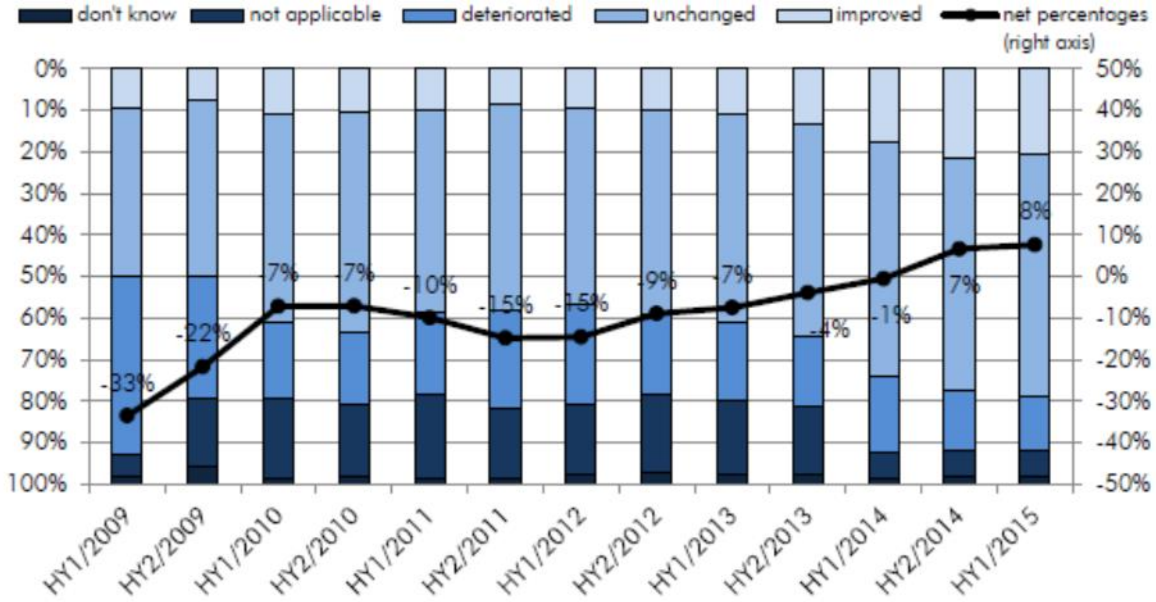
In 2015, 28% of SMEs in the 28 EU Member States applied for a bank loan, a proportion similar to 2014. Most of them were successful: 67% (60% in 2014) of all applications were granted in full and another 6% (7% in 2014) were granted most of the amount applied for. In

[30] ECB (2015).
[31] OECD (2016).

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

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

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



Source: ECB SAFE (2015a)

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

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

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

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

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

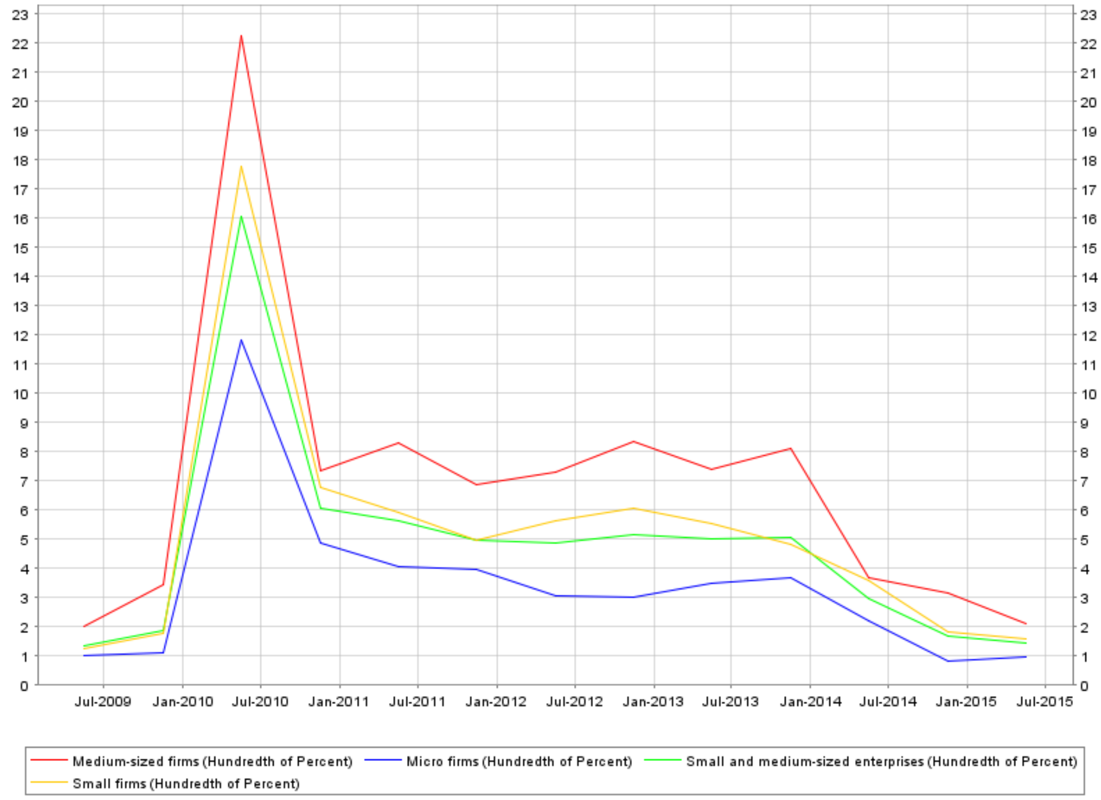
2.1.2. SMEs and the European Equity Market

2.1.2.1. SME Demand for equity

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

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

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



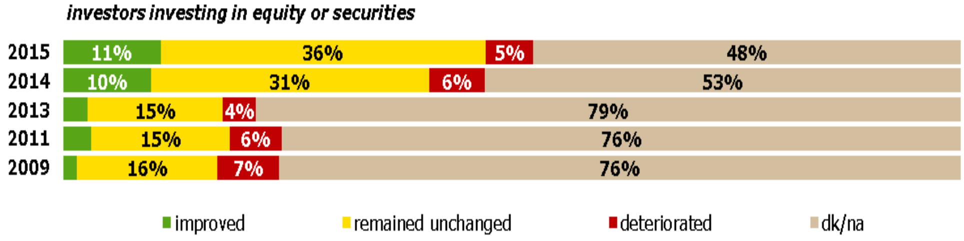
***Source:** ECB Data Warehouse SAFE*

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

2.1.2.2. Supply of equity for SMEs

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

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



***Source:** ECB and European Commission (2015)*

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

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

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

2.1.2.3. Access to Venture Capital of EU SMEs

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

The latest available figures from Invest Europe (2016) – formerly EVCA - point to the following trends in the European Venture Capital sector:

a) Fundraising

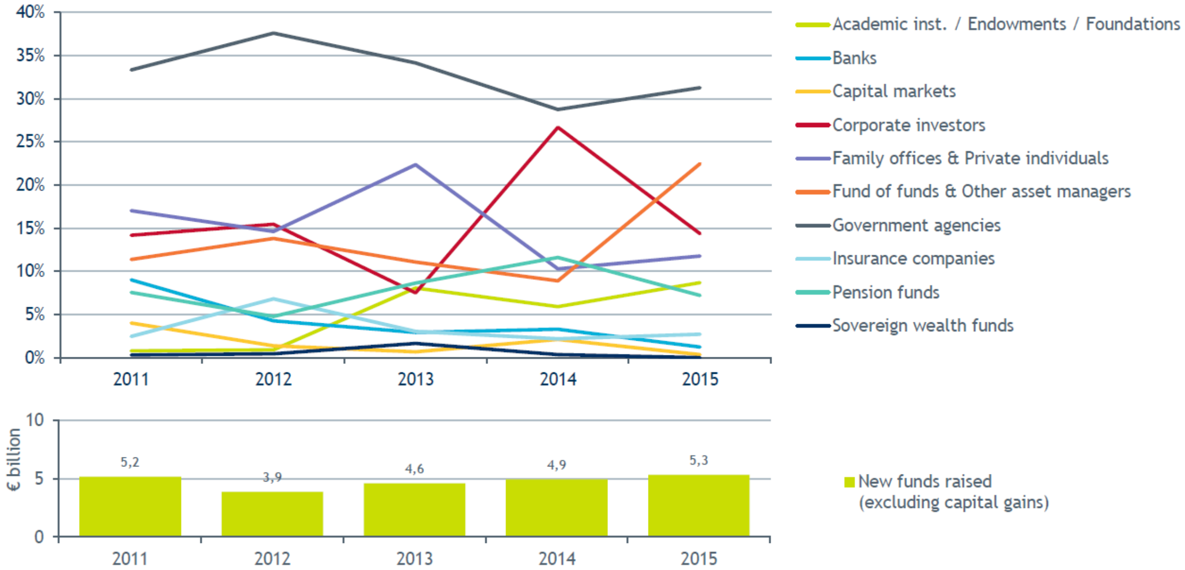
- Venture Capital fundraising in Europe totalled EUR 5,3 billion in 2015 which represents an increase of 29% compared to the EUR 4,1 billion raised in 2014; it exceeds the previous highest amount of 2011 (Figure 14) and reaches the highest level since 2008. Government agencies remained the most prominent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

---

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

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

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



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

Source: *Invest Europe / PEREP_Analysis 2016*

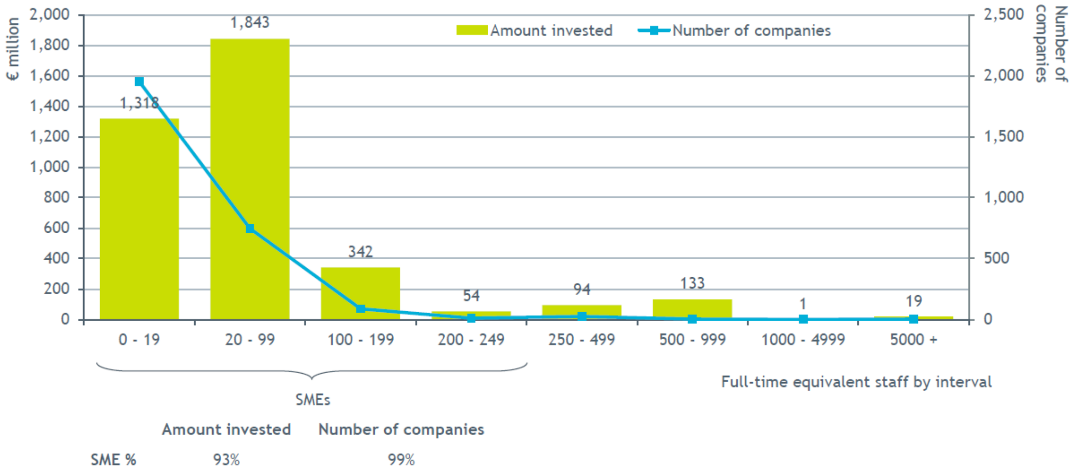
- As regards the geographic breakdown, 32,7% of the funding came from France and the Benelux region (Belgium, the Netherlands and Luxembourg), followed by 20.1% from the UK, 18.6% from other European Countries and 11.0% from the US.

b) Investments

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

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

[36] EVCA (2014).

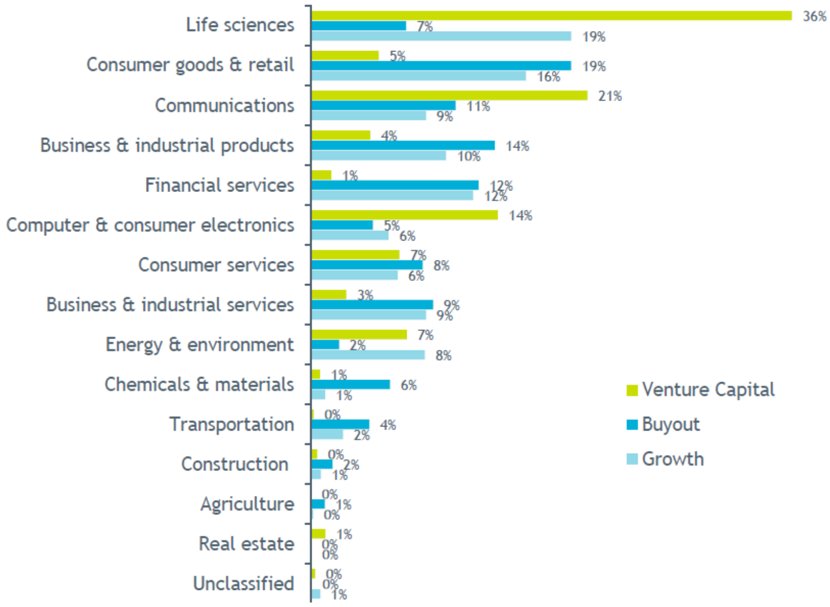


Source: *Invest Europe / Perep_Analysis 2016*

c) Divestments

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

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

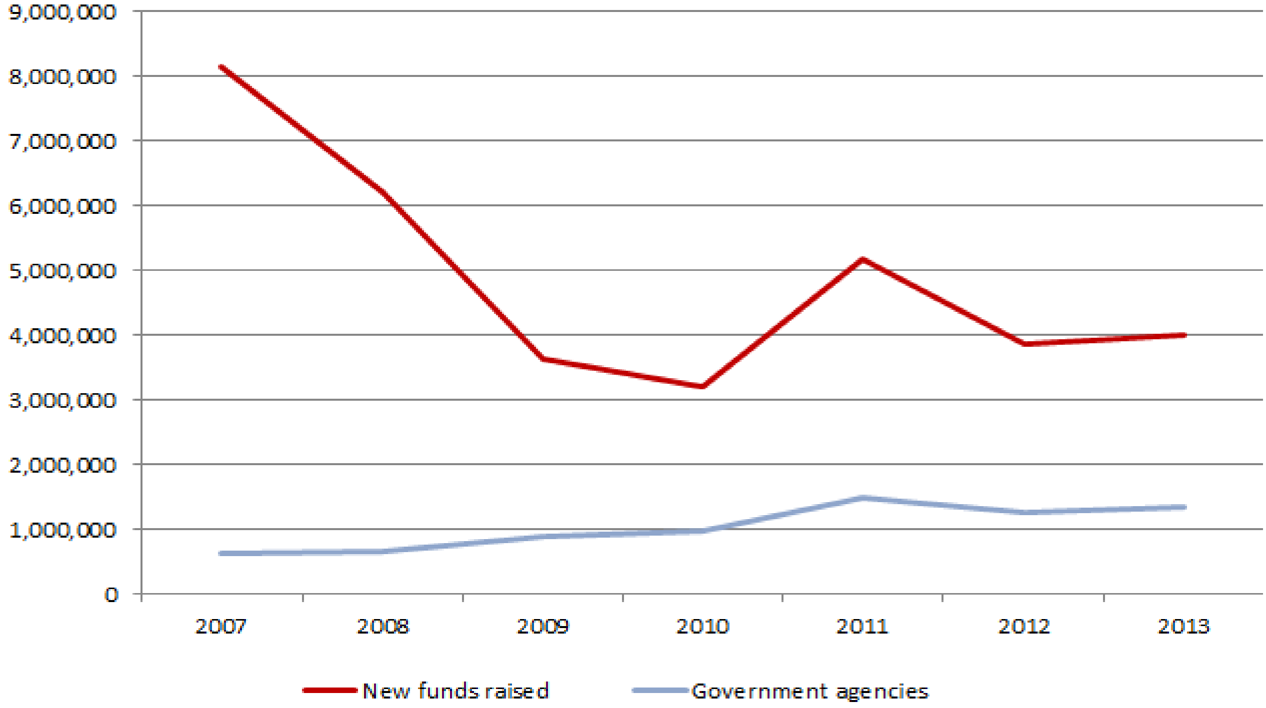


Source: *Invest Europe / Perep_Analysis 2016*

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

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

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



Source: *EVCA*

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

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

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

2.1.2.4. Equity Financing Gap for Innovative SMEs

A recent study commissioned by the European Parliament's Committee on Industry, Research and Energy (ITRE)[38] draws on and synthesises the outputs of a wide range of sources to examine, amongst other topics, the interrelated questions of whether innovative EU SMEs suffer from an insufficient supply of Venture Capital and if Venture Capital funds suffer from a lack of demand from SMEs.

The study found that the supply of Venture Capital is low in Europe because many institutional investors either withdrew from the Venture Capital market following losses from

[37] European Commission (2013a).

[38] European Parliament (2012). This study drew on data from EVCA, NVCA, ECB, EC, EIF, IMF and the VICO project's database (http://www.vicoproject.org).

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

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

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

In the study on financial instruments accompanying the impact assessment for COSME,[39] the authors reject the idea of equating the *aggregate* financing gap in the EU with the amount that would be needed to approach the ratio of Venture Capital investments to GDP found in the US. They argue that this method overlooks structural differences between the two economies and neglects issues of absorption capacity, such as difficulties in increasing the numbers of skilled Venture Capital fund-managers, or the dearth of investment opportunities. Instead, their approach is to target a doubling of the recent level of Venture Capital investments over five years, requiring, so the authors estimate, a progressively gap-filling increment of about EUR 800 million per year.

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

2.2. EU Small and Innovative Midcaps[40]

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

[39] Economisti Associati (2011).

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

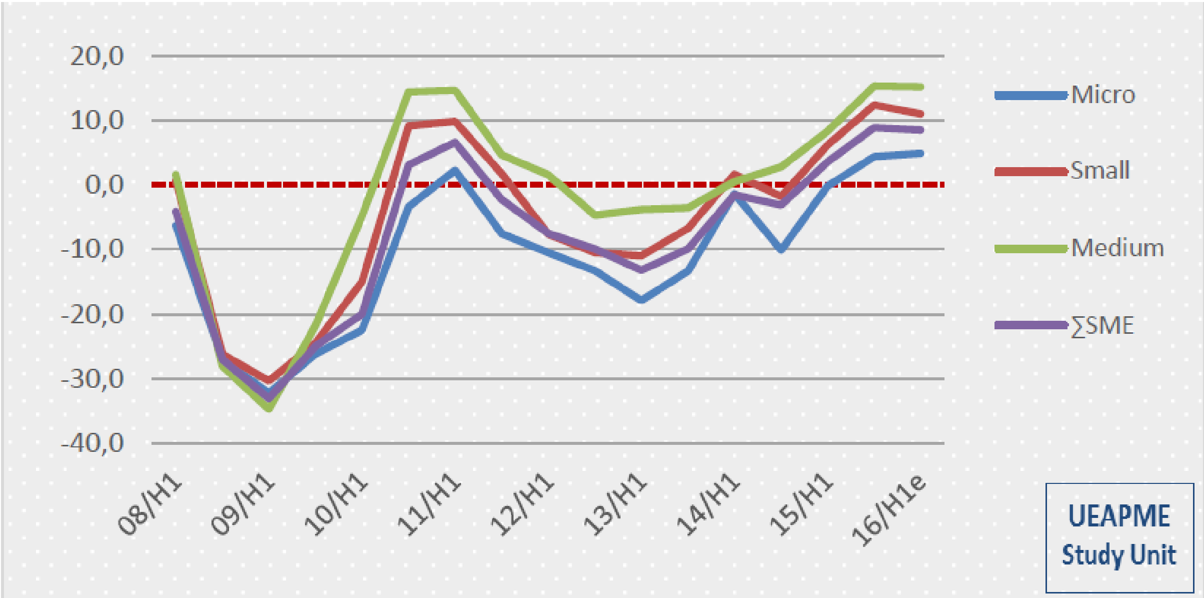
Small mid-caps, in certain circumstances, could also face financing constraints comparable to those affecting SMEs. Such may be the case for mid-caps carrying out R&D and innovation activities alongside initial investment in production facilities, including market replication, and whose track record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

While data on the consistency of small mid-caps are not readily available, from a recent study (PricewaterhouseCoopers 2012) the number of mid-caps in the EU can be gauged to lie around 39 000, with about half of them being innovative midcaps. A great part of them has mainly relied on debt finance as their main source of external finance in the recent past. Data from the latest Survey on the Access to Finance of Enterprises show that only 7% of the respondent mid-caps consider access to finance as a problem.

2.3. EU Micro-enterprises[41]

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

Figure 16: Overall situation of SMEs by size class



Source: UEAPME (2016)

A similar argument can be made in relation to access to finance. Data from the latest Survey on the Access to Finance of Enterprises[43] (SAFE) show that micro-enterprises in the Euro area reported "access to finance" as their least pressing problem, in line with small enterprises, and medium and large ones. Compared to the previous survey wave, the percentage of companies listing access to finance as their most pressing problem has decreased for all enterprises, including micro enterprises (from 14% to 12%).

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

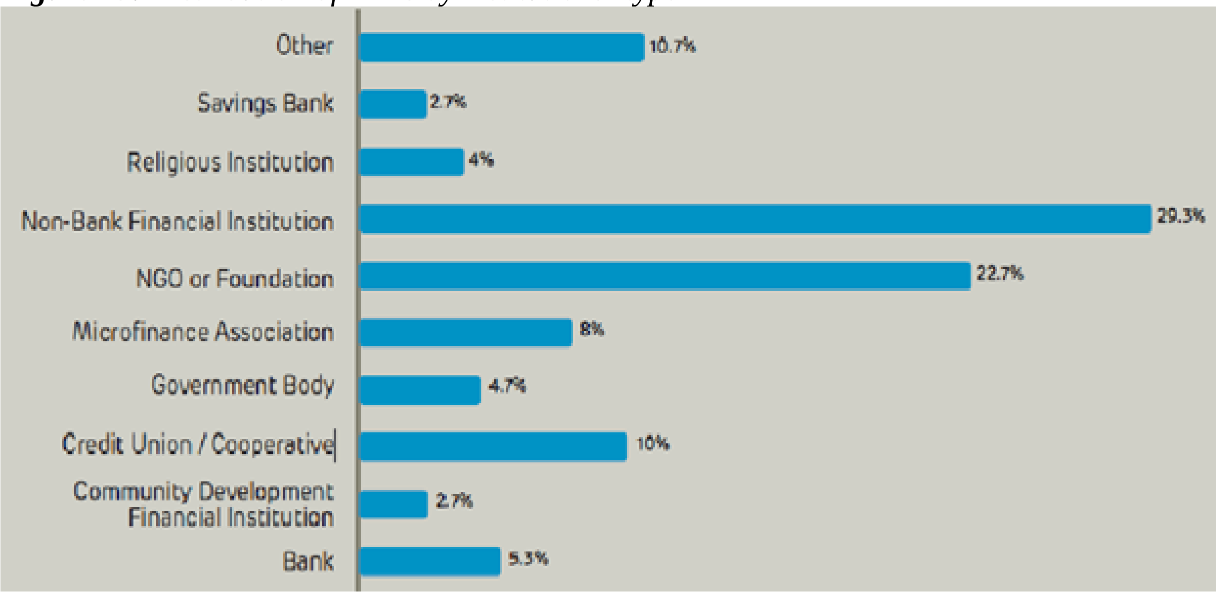
[41] Note: Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million. (Commission Recommendation, 6 May 2003, C(2003/1422), OJ L124/36, 20.05.2003).
[42] The overall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

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

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

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

Figure 19: *Distribution of MFIs by institutional type*



Source: *EMN (2014a)*

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Strategic Target Sectors

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

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

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

---

[52] EMN (2014a).

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

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

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

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

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

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

3.1. Research and Innovation

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

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

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

[54] European Commission (2015a).

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

Nonetheless, EU Industrial R&D Investment Scoreboard data and PCT (Patent Cooperation Treaty) patent applications from the World Intellectual Property Organization database show that innovation activities declined. As compared with pre-recession levels, a large proportion of European firms decreased their spending on innovation following the outbreak of the crisis. Indeed, the 2009 Innobarometer also provides evidence of the negative impact of the crisis, showing a substantial impact on firms in the medium and high innovation-intensive sectors. Trends over the past 6 years show a hesitant recovery of companies based in the EU, especially in terms of net sales. In 2014, 608 EU companies among the top world 2500 R&D investors increased R&D by 3.3%, slightly improving the previous year's performance (2.5%) in a context of net sales stagnation (-1.0%).[55]

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

Against this backdrop, an effective pursuit of the Europe 2020 Strategy's objectives and headline targets requires a recovery of R&D activities, and possibly an acceleration to meet the 2020 target of 3% R&D expenditure over GDP. From a financial viewpoint, banks typically lack the ability to value knowledge assets, and are therefore often unwilling to invest in knowledge-based companies or do so only if compensated with a significant risk premium. Consequently, many established and innovative firms (typically SMEs) find it hard to obtain loans for R&I activities.[56] To this purpose, the effectiveness of the R&I financing can be enhanced by the adoption of dedicated EU financial instruments.

3.2. Transport

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

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

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

[55] European Commission (2015a, 2015b).
[56] European Commission (2013a).
[57] European Commission (2015c).
[58] Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network, OJ L 348, 20/12/2013.

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

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

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

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

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

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

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

[59] Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, OJ L 348, 20/12/2013, amended by Regulation 2015/1017 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment project Portal, OJ L169, 25/06/2015

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

3.3. Energy Infrastructure and Energy Efficiency

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

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

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

The framework for the policy is now defined in the TEN-E guidelines regulation[61] adopted in April 2013. It is estimated that in electricity alone the transmission grid expansion to accommodate these changes would require EUR 104 billion until 2022 (or, extrapolating, EUR 207 billion until 2030)[62] in addition to the normal replacement of assets, estimated at EUR 76 billion until 2035.[63] In addition, approximately EUR 40 billion will be required by 2020 for a smart grid investment on the transmission and distribution level. Some EUR 70 billion will need to be invested by 2020 in gas transmission assets of European importance such as gas interconnectors, storages, Liquefied Natural Gas (LNG) regasification terminals. These costs will be predominantly financed from network fees paid by the energy end-users.

The projects will be developed by Transmission System Operators (TSOs) i.e. companies set up specifically to develop and run the electricity and gas transmission networks. TSOs operate in a highly regulated business environment. Although regulations differ from Member State to Member State, they frequently include aspects such as agreed investment volumes, maximum debt ratios, maximum debt remuneration, etc. The regulatory approved revenue is normally linked to the book value of the assets they operate, the so-called Regulated Asset Base (RAB).[64]

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

[60] European Commission (2010a).
[61] Regulation (EU) 347/2013.
[62] ENTSOE (2012).
[63] IEA (2011).
[64] Note: TSOs build new projects with e.g. the accumulated capital or borrow money against the strength of their balance sheets. The value of such new project is added to Regulated Asset Base (RAB) and therefore results in increased revenue of that TSO.

3.4. ICT/Broadband

The Digital Agenda for Europe (DAE) recognises the role of fast and ultra-fast broadband access platforms for innovation and growth and sets ambitious targets for broadband coverage and take-up: (i) making basic broadband access available to all EU by 2013, (ii) making broadband access at internet speeds of above 30 Mbps[65] available to all EU by 2020 and (iii) ensuring that by 2020 50% of EU households subscribe to internet broadband of 100 Mbps or higher. Full coverage with basic broadband has recently been achieved (with a combination of fixed, mobile and satellite technologies) and the focus is now shifting to the challenges associated with the deployment of Next Generation Access (NGA) networks and take-up.

The last two broadband targets ("NGA targets") require substantial investments in the modernisation of access networks. Total investment needs are difficult to quantify with precision, but indicative estimates from different sources suggest that total investment costs for NGA may exceed EUR 200 billion. As of mid-2015, NGA coverage at 30Mbps is at 71% of the European population and only 11% of broadband subscriptions are 100 Mbps and above.

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

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

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

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

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

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

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

[66] For instance, municipal fibre networks account for a significant share of NGA coverage in Sweden. Models with public sector participation also comprise PPP structures for broadband, which have been pioneered, for example, by local and regional public authorities in France.

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

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

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

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

3.5. Social enterprises

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

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

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

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

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

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

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

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

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

[68] Beugelsdijk and van Schaik (2005).
[69] By extension, debt capital can sometimes be an impediment to growth, as it requires that a social enterprise is able to generate predictable cash flows to cover the interest rates and to repay the principal.
[70] EC (2011d).
[71] Spiess-Knafl, W. (2013)
[72] Social Enterprise UK (2015)
[73] EC (2014d).

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

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

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

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

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

3.6. Education and Cultural & Creative Sectors

Education and training are at the core of the Europe 2020 Strategy and of the *Integrated Guidelines for the Economic and Employment Policies of the Member States*.[76] Arguably none of the Europe 2020 objectives and headline targets will be reached without strong investment in human capital.

[74] EC (2014d).

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

[76] European Commission (2010c).

There is a positive and statistically significant relationship between the level of cognitive skills in a population, productivity and economic growth. For example, an average increase of 25 points in PISA performance across the EU countries could lead to a 3% gain in GDP per capita. The increase in average educational attainments by emerging countries makes the human capital accumulation for EU an even more important challenge in light of international competition for growth. The benefits of learning mobility are clear with significant benefits to graduate employability as well as personal development.[77] This importance is recognised by the agreement of the EU and 'Bologna' mobility target that by 2020, at least 20% European Higher Education Area graduates should have had a study or training period abroad.

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

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

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

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

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

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

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

[77] Humburg, van der Velden and Verhagen (2013).
[78] Excluding financial and insurance activities; in number of enterprises.
[79] Working Group of EU Member States Experts (Open Method of Coordination) on Culture and Creative Industries (2012),
[80] IDEA (2013)

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

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

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

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

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

4. Strategic Target Non-EU Regions

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

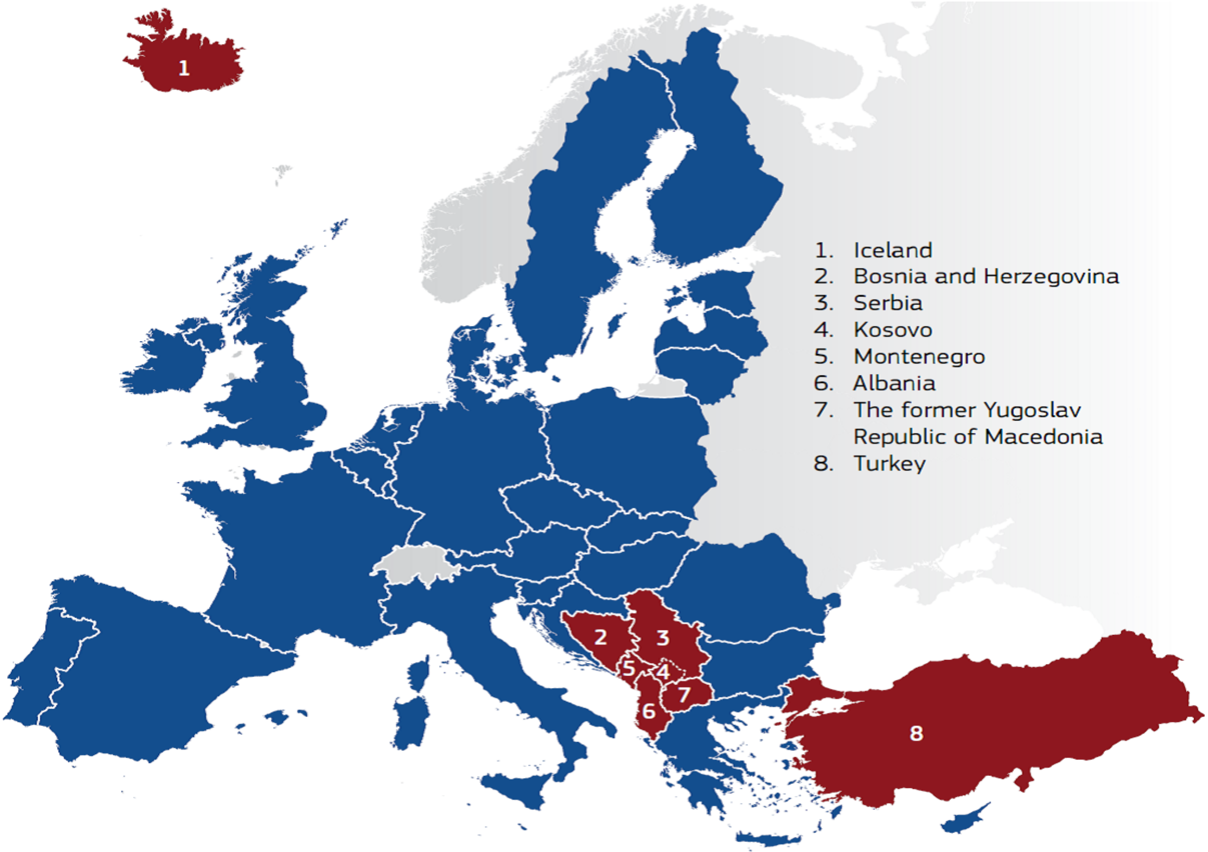
This delicate role can be primarily developed by maintaining sound international relations, also in view of the growth of the world's economy, especially through the financial support to strategic world economies, with possible gains in terms of trade with Member States.

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

4.1. Enlargement Countries

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

[81] Ibid
[82] Ibid.
[83] The former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Albania.
[84] Iceland has put its accession negotiations on hold and no longer wishes to be considered a candidate, although it has not withdrawn its accession application.
[85] Bosnia and Herzegovina, Kosovo. Kosovo's designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.



Source: *DG NEAR*

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

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

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

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

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

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

The Commission supports the reform process in candidate countries and potential candidates by providing both financial assistance through the Instrument for Pre-Accession Assistance and technical assistance, through TAIEX, which is the Commission's Technical Assistance and Information Exchange instrument.

4.2. Neighbourhood Countries

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Conclusion

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

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

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

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

6. Annex - Additional Information on the European Equity Market

6.1. The structure of the European Equity Market

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

Box 1: *Equity investment stages*

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

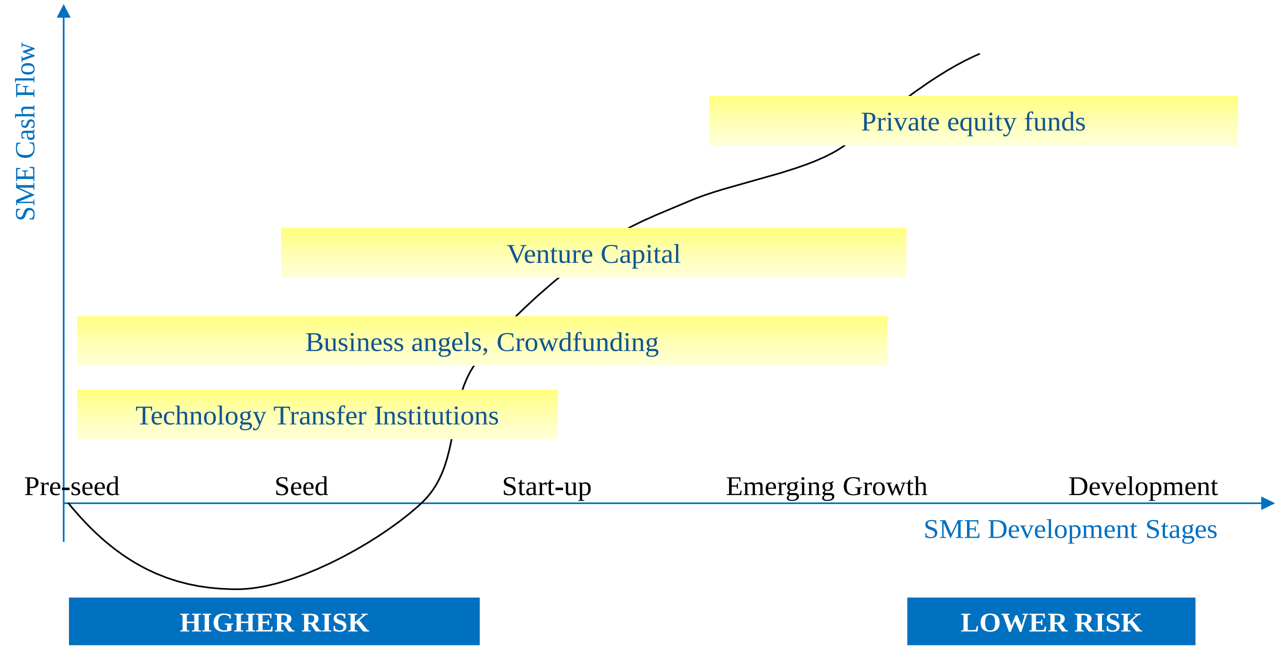
2. Start-up and Early Stage: this phase includes the planning and preparation of production. Targeted project management is important in order to keep control of the market entry schedule as well as the cost of R&D projects.

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

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

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

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



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

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

Box 2: *Characteristics of equity market stages*

Technology Transfer Institutions, Business angels, Crowdfunding

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

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

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

Venture Capital Funds

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

Private equity

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

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

6.2. Regulatory framework for the Venture Capital market

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

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

- The European Venture Capital Funds Regulation[90] (EVCFR) creates an opt-in regulatory regime for fund managers whose funds are below the EUR 500 million threshold requiring registration under the Alternative Investment Fund Managers Directive (AIFMD). EVCFR introduces the protected designation of "European Venture Capital Fund" (EVCF).

[89] European Commission (2004).
[90] Regulation (EU) No.345/2013 (OJ L115/1, 25.04.2013).

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

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

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

- The prudential regulation of Venture Capital investors, such as Solvency II for insurers, has increased investors' risk aversion and further constrained fundraising.
- The Commission has adopted on 15.1.2014 new guidelines[94] setting out the conditions under which Member States can grant aid to facilitate access to finance by European SMEs and companies with a medium capitalisation (the so-called "midcaps"). These guidelines are part of the Commission's State Aid Modernisation (SAM) strategy, which aims at fostering growth in the Single Market. The guidelines will enter into force on 1 July 2014.

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

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

1. Equity Instruments

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

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

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

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

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

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

A - <u>Summary</u>

The overall objective of GIF is to improve the access to finance for the start-up and growth of small and medium-sized enterprises (SMEs) in order to support their investment in (eco-) innovation activities. GIF used 94,3% of its allocated budget of EUR 625,2 million, with a leverage ratio of 5,6 to 1. It invested in 43 venture capital funds, therefore supporting 505 final recipients[95] and creating more than 3 000 jobs as of September 2015.

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

B - Description

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

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

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

Policy objectives and scope

GIF is part of the Entrepreneurship and Innovation Programme (EIP), one of the three specific programmes under the Competitiveness and Innovation Framework Programme (CIP), the overall objective of which is the improvement of access to finance for small and medium-sized enterprises (SMEs) in order to support their investment expenditures in innovation activities, including eco-innovation. Under GIF, this is done by increasing volumes of risk capital funds and other financial investment vehicles.

Implementation arrangements

GIF is implemented by the EIF on behalf of the Commission. The Commission empowers and mandates the EIF to provide EU venture capital investments in its own name but on behalf of and at the risk of the Commission, under a Fiduciary and Management Agreement ('FMA', signed 22/11/2007). The EIF is responsible for identifying, evaluating and selecting the Financial Intermediaries ('FI') by applying selection criteria and processes set out in the Investment Policy, which is part of the FMA. Under the FMA, the EIF examined, on a continuous basis, proposals collected based on a published call for expression of interests. Investment proposals by financial intermediaries are selected based on a *notice of implementation* (OJ C 302, 14.12.2007). GIF funds equity or quasi-equity investments in intermediaries[97], which then must provide long term equity or quasi-equity capital (including subordinated or participating loans and convertible bonds) to innovative SMEs.

Moreover:

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

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

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

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

GIF2). GIF1 was required to invest at least 10%, but not more than 25% of the total commitments to an intermediary (the maximum limit could reach 50% exceptionally, including for eco-innovation focused venture capital funds). GIF2 had to invest at least 7,5% and no more than 15% of total commitments to an Intermediary (the maximum limit could reach 25% exceptionally, including for eco-innovation focused venture capital funds). GIF may co-invest with other EIF-managed resources.

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

Added value

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

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

GIF contributed to filling the sizable gap in access to finance for local young SMEs in their development phase, as well as helping companies in their international expansion strategy. It also increased competition in the market, spread best practices around the region, and highlighted to other private equity teams the support the European Union is providing as well as motivated them to raise independent funds of their own.[98]

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

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

(c) The financial institutions involved in implementation;

European Investment fund (EIF).

<u>C - Implementation</u>

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

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

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

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

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

GIF Impact on employment

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

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

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

Additional GIF operational information

---

99 Signed amounts between EIF and financial intermediaries.

100 Target intermediary size; source: EIF-European Investment Fund (2015a), GIF-High Growth and Innovative SME Facility, Quarterly Report 30 September 2015.

101 EIF-European Investment Fund (2015b), GIF-High Growth and Innovative SME Facility Annual Report, (Table 8) 30 September 2015.

102 See explanation sub section "A-Summary" above.

103 Real figure not available; estimate based on EIF leverage methodology for equity (multiplier for equity: 1 EUR equity financing for 2,5 EUR investment).

104 Employment Report as at 31/12/2012 (latest available)

Given that the EIF is entitled to fees up to 6% of its net commitments to Financial Intermediaries, the maximum amount available for deals under GIF was of EUR 589,8 million over the period 2007-2013. This implies that the GIF budget had an utilisation rate of 94,1% of commitments available for deals.

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

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

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

(g) The balance of the fiduciary account;

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

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

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

(h) Revenues and repayments;

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

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

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

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

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

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

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

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

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

The difference between the two figures reflects Realized Investment Gains/Losses on Exits, Realized Investment Losses through Write-Offs, and Unrealized Investment Gains/Losses.

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

Impairment losses on shares and other variable-income securities as at 31/12/2015	EUR 5 271 996

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

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

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

D -Strategic relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification[113];

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

The impact of the EU's Financial Instruments for SMEs

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

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

---

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

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

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

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

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

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

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

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

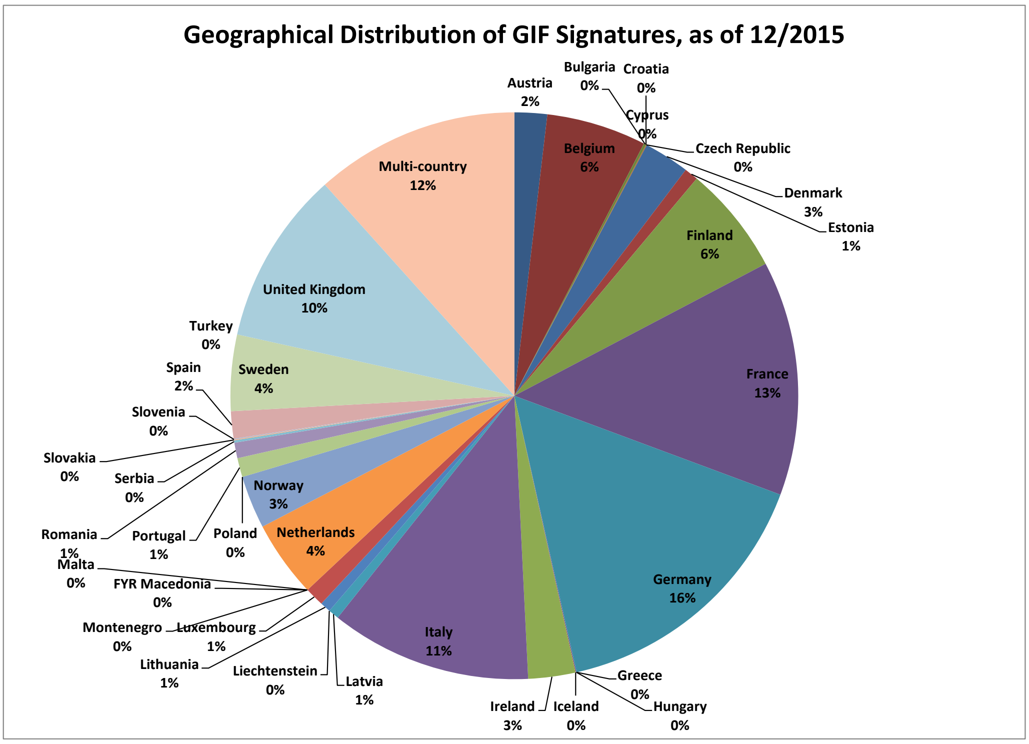
Apart from the financial means, GIF recipients also received other support (appointment of a non-executive director, advice on general business planning, access to a network, financial advice, special business advice or mentoring).

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

As regards *Sustainability*, the evaluators noted that possible improvements raised by EIPC[116] members and representatives of business organisations, related only to more general issues and that no improvements were suggested relating to the details of the instruments. Finally, as regards *European value-added*, the evaluation report recognised the leverage effect achieved, the fact that 80% of GIF recipients operate on an international market and that venture capital funds i) have a broader geographical focus and ii) operate across boundaries Although the overall effect of EU programmes on SMEs' financing remains limited (by nature, EU intervention is limited to market gaps or sub-optimal market situations, meaning by far the largest part of financing is provided by banking and finance market players), the GIF components of CIP contributed very positively to the development and sustainability of EU SMEs throughout 2015.

[116] Entrepreneurship and Innovation Programme Committee.

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



***Source:** ECFIN*

E -Other key points and issues

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

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

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

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

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

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

1.2. The Connecting Europe Facility (CEF) Equity Instrument

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

A - <u>Summary</u>

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

B - Description

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

Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/2010 (OJ L 348, 20.12.2013, p. 129).

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

Policy objectives and scope

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

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

Implementation arrangements

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

Added value

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

(c) The financial institutions involved in implementation;

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

C - Implementation

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

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

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

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

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

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

NA

(g) The balance of the fiduciary account;

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

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

(h) Revenues and repayments;

N/A

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

N/A

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

N/A

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

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

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

D - Strategic importance/relevance

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

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

E - Other key points and issues

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

1.3. Equity Facility for Growth under COSME

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

A - Summary

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

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

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

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

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

B - Description

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

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

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

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

Policy objectives and scope

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

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

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

Implementation arrangements

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

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

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 102 407 588
Aggregate budgetary payments as at 31/12/2015	EUR 41 029 779

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

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

Additional EFG operational information

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

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

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

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

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

NA

(g) The balance of the fiduciary account;

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

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

(h) Revenues and repayments;
EUR 0

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

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

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

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

The achieved leverage effect

As the first operations with financial intermediaries under the EFG have been signed towards the end of 2015, no achieved leverage effect can be computed for 2015.

The "Expected Leverage for Signed Operations"

For the five operations signed with financial intermediaries in 2015, the maximum investment volume available to SMEs amounts to almost EUR 395 million. Based on the cumulative 2014-2015 budgetary commitments for the EFG (i.e. EUR 102,4 million), the expected leverage for the operations signed in 2015 is 3,85.

D - Strategic importance/relevance

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

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

E - Other key points and issues

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

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

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

[125] Geographical pie chart will be provided once investments have occurred (for the 2016 annual report).
[126] EIF Research & Market Analysis, Working Paper 2015/32, December 2015.
[127] Note: This name for the successor to GIF-1 is a placeholder. A brand-name will be proposed soon. Please note that the information provided under this chapter complements the information provided under the GIF-1 scheme under CIP 2007-2013.

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

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

A - Summary

The InnovFin SME Venture Capital succeeds and refines the GIF-1 scheme under CIP,[128] and is part of a single equity financial instrument supporting the growth of enterprises and their R&I activities. It is designed to improve access to risk finance by early-stage R&I-driven SMEs and small midcaps through supporting early-stage risk capital funds that invest, on a predominantly cross-border basis, in individual enterprises.

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

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

Current Overall (2014-2020) Programme Budget amounts to EUR 460 million.

B - Description[129]

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

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

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

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

[128] European Commission (2013c).
[129] Note: All figures concerning the implementation of GIF-1 for the period 2007-2013 should be made available by the DGs responsible for the implementation at that time, DG ENTR and DG ECFIN. All following information given refers to the implementation of the successor scheme of GIF-1, the Horizon 2020 Equity Facility for R&I.
[130] (OJ L 347/104, 20.12.2013).
[131] (OJ L 347/81, 20.12.2013).

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

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

Policy objectives and scope

This facility succeeds and refines the GIF-1 scheme under CIP,[133] and is part of a single equity financial instrument supporting the growth of enterprises and their R&I activities. It is designed to improve access to risk finance by early-stage R&I-driven SMEs and small midcaps through supporting early-stage risk capital funds that invest, on a predominantly cross-border basis, in individual enterprises. SMEs and small midcaps located in Member States or in Associated Countries are eligible as final recipients. The COSME programme's Equity Facility for Growth (EFG) complements this facility.

Implementation arrangements

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

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

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

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment fund (EIF)

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

C - Implementation

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

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

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

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

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

Not applicable.

(g) The balance of the fiduciary account;

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

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

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

(h) Revenues and repayments;

Not applicable.

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

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

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

Not applicable.

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

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

D - Strategic importance/relevance

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

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

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

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

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

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

In 2011, the Commission proposed[137] *that Horizon 2020 and COSME, the programmes succeeding FP7 and CIP, should jointly support an equity and a debt financial instrument designed to foster the growth of SMEs and small midcaps and their ability to undertake R&I, with Horizon 2020 also providing debt finance for larger entities.*

---

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

[136] European Commission (2010b).

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

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

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

- **Main issues:**
    - The Union-level InnovFin SME Venture Capital is needed to help improve the availability of equity finance for early and growth-stage investments and to boost the development of the Union venture capital market. During the technology transfer and start-up phase, new companies face a 'valley of death' where public research grants stop and it is not possible to attract private finance. Public support aiming to leverage private seed and start-up funds to fill this gap is currently too fragmented and intermittent, or its management lacks the necessary expertise. Furthermore, most venture capital funds in Europe are too small to support the continued growth of innovative companies and do not have the critical mass to specialize and operate transnationally.
    - Specific support actions such as information and coaching activities for SMEs should be provided. Regional authorities, SMEs associations, chambers of commerce and relevant financial intermediaries may be consulted, where appropriate, in relation to the programming and implementation of these activities.
    - In the case of conditional closings, despite the EIF making a firm commitment of investing into a fund it may be that fund managers fail to raise the required additional private and public funding to reach the first closing of a fund.
- **Main risks:**
    - No specific risks identified at this stage of implementation.
- **General outlook:**
    - Given the generally pro-cyclical nature of the activities of equity investors, the health of the economy overall is very likely to dominate the evolution of both Europe's VC and BA industries, though some analysts advocate and predict a considerable downsizing of the VC sector in both Europe and the USA in order for a smaller number of funds to enjoy a reasonable level of return and profitability.[138]
    - The implementation of the Horizon 2020 InnovFin SME Venture Capital has started end of 2015, after the EIF FAFA and the Delegation Agreement for the Horizon 2020 Financial Instruments between the EU (represented by the Commissioner for Research and Innovation), EIB and EIF were signed.

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

2. Guarantee Instruments

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

Policy DG in charge:	DG GROW, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 506* million
Current Overall (2007-2013) Programme Budget:**	EUR 637,8 million
Executed Budget since beginning until 31/12/2015*:**	Commitments: EUR 649,9 million**** Payments: EUR 379,7 million

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

<u>A -Summary</u>

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

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

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

B - Description

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

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

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

Policy objectives and scope

SMEG 07 is part of the Entrepreneurship and Innovation Programme (EIP), one of the three specific programmes under the Competitiveness and Innovation Programme (CIP).

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

Implementation arrangements

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

It provides counter- or co-guarantees to guarantee schemes and direct guarantees to Financial Intermediaries operating in eligible countries with the aim of increasing lending volumes available to SMEs. The Facility is a demand-driven instrument, with only indicative country-based allocations, in order to ensure wide geographical coverage. The EIF provides a capped guarantee that covers potential losses against a commitment of the financial intermediary to provide more debt financing (loans, leases or guarantees that support loans and leases) to target SMEs.

Until the end of budgetary commitment period in 2013,

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

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

Value added

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

Regarding the sustainability and European value-added,[140] the effectiveness of the instruments used has increased over time; notwithstanding the scope for further improvements, European value-added is evident in the development of facilities that are at the cutting-edge of provision for SMEs.

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

(c) The financial institutions involved in implementation;

European Investment Fund.

C - <u>Implementation</u>

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

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

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

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

Additional operational information

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

[141] Correspond to the overall SMEG 07 portfolio's guarantee cap amount, as per EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.

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

[143] Correspond to the SMEG 07 overall portfolio's "estimated SME financing guaranteed", as per the latest data available, i.e. EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.

[144] According to CIP performance indicators (Annex to the Proposal for a Decision of the European Parliament and of the Council establishing a Competitiveness and Innovation Framework Programme (2007–2013), SEC(2005) 433) and as confirmed by the 2011 ECA's Performance Audit, the SMEG07 facility should reach the number of 315 000 supported final recipients. Please note that as at 30/9/2015 (see below) the number of benefitting final recipients already trespassed this target/expected number.

[145] Correspond to the total loan volume received by the recipient SMEs as per the latest data available, i.e. EIF's Q3 Quarterly Report dated 29/12/2015 with data as at 30/09/2015.

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

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

Regarding the payments appropriations for the period 2007-2015, out of the EUR 793,8 million made available for the CIP financial instruments, EUR 379,65 million were paid to the SMEG fiduciary account, managed by the EIF on behalf of the Commission. Funds are drawn down from the fiduciary account as and when defaults occur under SMEG.

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

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

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

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

SMEG impact on employment

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

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

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

For the period 2007-2015, the amount of EUR 12,1 million returned to the instrument (point (h)) has been more than 60% used for further transactions in line with the policy objectives of the Programme.

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2015 EUR 107 861 397

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

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

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

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

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

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

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

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

NA

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

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

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

The achieved leverage effect for CIP SMEG 07 at the level of entrusted entity (total loan volume received by the recipient SMEs / EU guarantee cap amount) is 35,8.[152]

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

D - Strategic importance/relevance

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

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

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

a) Effectiveness and efficiency

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

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

b) Relevance

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

[151] Negative interest on some sub-accounts of the Trust Account were more than offset by positive interests on other sub-accounts , so, all in all, the Facility was not hampered by negative interests.
[152] Source: EIF's Q3 Quarterly report dated 29/12/2015 with data as at 30/09/2015; total loan volume received by the recipient SMEs = 20 306,7 million EUR / EU guarantee cap amount = 567 million EUR.
[153] Source: EIF's Q3 Quarterly report dated 29/12/2015 with data as at 30/09/2015; maximum portfolio volume = 17 531,4 million EUR / EU guarantee cap amount = 567 million EUR.
[154] CSES (2012).
[155] CSES (2011).

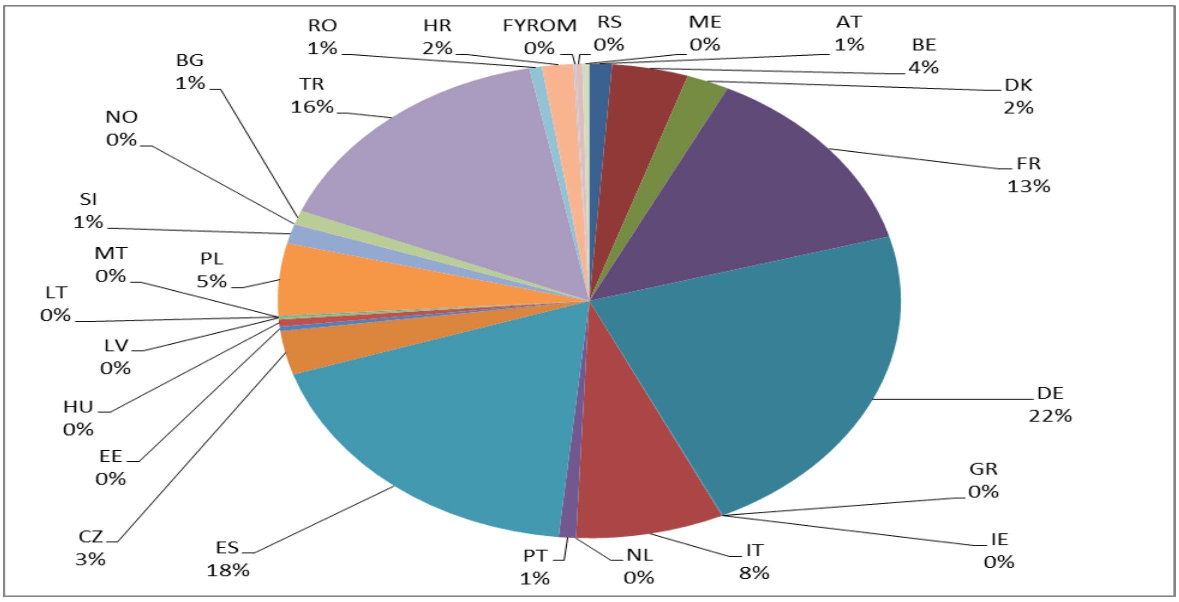
- 46% stated that the EU financing scheme was the only option available for them to get financing,
- 18% stated that without the EU support they would have received only part of the funding needed, 42% stated that the EU support helped them to get additional finance and
- 64% stated that EU support was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

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

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

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

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



[156] Source: ECFIN.

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

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

The **monitoring visits** carried out by both the EIF and the Commission for SMEG07 during 2015 allowed to confirm the eligibility of financial intermediaries (FI's) and final recipients, contractual compliance (transposal of the Commission's requirements into the contractual documentation), process compliance (observance of processes prescribed by the Commission) and performance (achievement of predefined targets/objectives). The EIF monitoring report 2015 did not indicate major deviations.

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

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

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

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

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

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

2.2. European Progress Microfinance Guarantee Facility (EPMF – G)	
Policy DG in charge:	DG EMPL, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 25 million (appropriations as approved by the Budgetary Authority)
Current Overall (2007-2013) Programme Budget:	EUR 23,6 million (including any changes in the course of the programme)
Executed Budget since beginning until 31/12/2015:	Commitments: EUR 23,6 million Payments: EUR 20,64 million*

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

A - <u>Summary</u>

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

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

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

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

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

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

B - Description

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

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

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

Policy objectives and scope

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

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

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

Implementation arrangements

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

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

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

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

[157] European Progress Microfinance Facility includes both Guarantees (EPMF-G) and Funded instruments (FCP-FIS).
[158] (OJ L 87/1, 7.4.2010).

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

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

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

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment fund (EIF).

C - <u>Implementation</u>

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

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

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

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

[159] EPMF FMA - 2015 Annual Implementation Report

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

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

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

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

Additional operational information

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

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

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

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

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

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

(g) The balance of the fiduciary account;

At the end of the financial year 31/12/2015 EUR 5 078 009

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

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

(h) Revenues and repayments;

Aggregate additional resources as at 31/12/2015 EUR 349 387,07

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

NA

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

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

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

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

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

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

D - Strategic importance/relevance

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

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

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

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

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

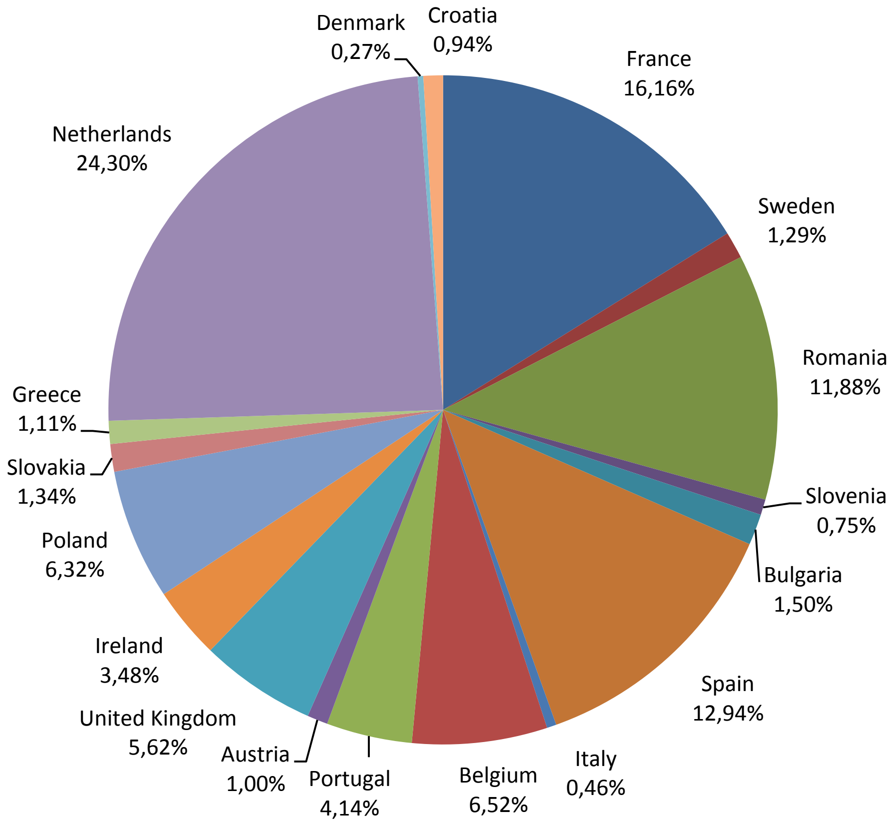
At Facility level, individuals which were final recipients of micro-loans were, by and large, educated at the secondary level (40,3%). Nevertheless, EPMF continues to be of importance in serving the financing needs of individuals with more substantial education beyond the secondary level (39,7%).

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

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

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

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



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

- ***Main issues for the implementation & general outlook:***
  - In terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2015, which is also reflected by the guarantee activity under EPMF. The continuously decreasing bank lending, the limited capacity of national governments to support microfinance and the strong market demand for microfinance still suggest that there is a clear rationale for intervention at EU-level by providing risk-sharing solutions to Microfinance providers.
  - Room for improvement has been identified for accompanying mentoring and training for micro-entrepreneurs since it is considered as important factor for the sustainability of the micro-enterprises. The issue of Microfinance providers' institutional capacity concerning mainly small non-bank microfinance institutions is a bottleneck which hurdles the disbursement of the agreed micro-loans and affects negatively their prospects in the microfinance market.
  - The provision of regulatory capital relief under the Guarantee Agreements has been identified as important issue in attracting qualified microfinance providers. During the negotiations with EIF many Intermediaries, mainly banks, raised this issue especially when EIF asked Intermediaries to pass the EPMF benefit to the final recipients through price reduction.

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

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

2.3. EaSI Microfinance and Social Entrepreneurship

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

A - Summary

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

B - Description

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

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

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

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

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

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

Policy objectives and scope

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

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

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

"Microfinance Instrument" targets:

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

"Social Entrepreneurship financial Instrument" will target

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

Implementation arrangements

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

Added value

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

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

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

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

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

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

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

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

C - **<u>Implementation</u>**

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

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

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

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

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

[171] EaSI - 2015 Annual Operational Report.

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

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

Impact on employment

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

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

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

Additional operational information

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

EaSI Microfinance Guarantee Instrument

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

EaSI Social Entrepreneurship Guarantee Instrument

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

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

Not applicable for 2015.

(g) The balance of the fiduciary account;

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

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

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

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

(h) Revenues and repayments;
Not yet applicable.

(i) The value of equity investments, with respect to previous years;
Not yet applicable.

(j) The accumulated figures on impairments of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;
Not yet applicable.

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

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

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

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;
Considering the facts that a) EaSI Guarantee Financial instrument was at the beginning of its implementation in 2015, b) the first operation was signed on 30/9/2015 and c) data presented in the 2015 EaSI Annual Operational Report is as of 31/12/2015, the basic indicators of the instrument cannot provide us with meaningful conclusions.

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

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

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

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

2.4. Loan Guarantee Facility under COSME

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

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

A - Summary

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

B - Description

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

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

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

Policy objectives and scope

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

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

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

The Loan Guarantee Facility (LGF) provides:

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

The LGF consists of:

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

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

Implementation arrangements

The LGF is implemented by the EIF on behalf of the Commission, as part of the single EU debt financial instrument for EU enterprises' growth and research and innovation (R&I), together with the InnovFin SME Guarantee Facility set up under the Horizon 2020 programme. The Delegation Agreement signed with the EIF on 22 July 2014 ensures that the LGF is accessible for a broad range of financial intermediaries (guarantee societies, national promotional institutes, commercial banks, cooperatives, etc.) which are experienced in financial transactions with SMEs or which have the capacity to enter into financial transactions with SMEs.

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

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

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

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF)

C - <u>Implementation</u>

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

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

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

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

Additional LGF operational information

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

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

(g) The balance of the fiduciary account;

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

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

(h) Revenues and repayments;
EUR 0.

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

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

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

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

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

The "Expected Leverage for Signed Operations"

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

D - Strategic importance/relevance

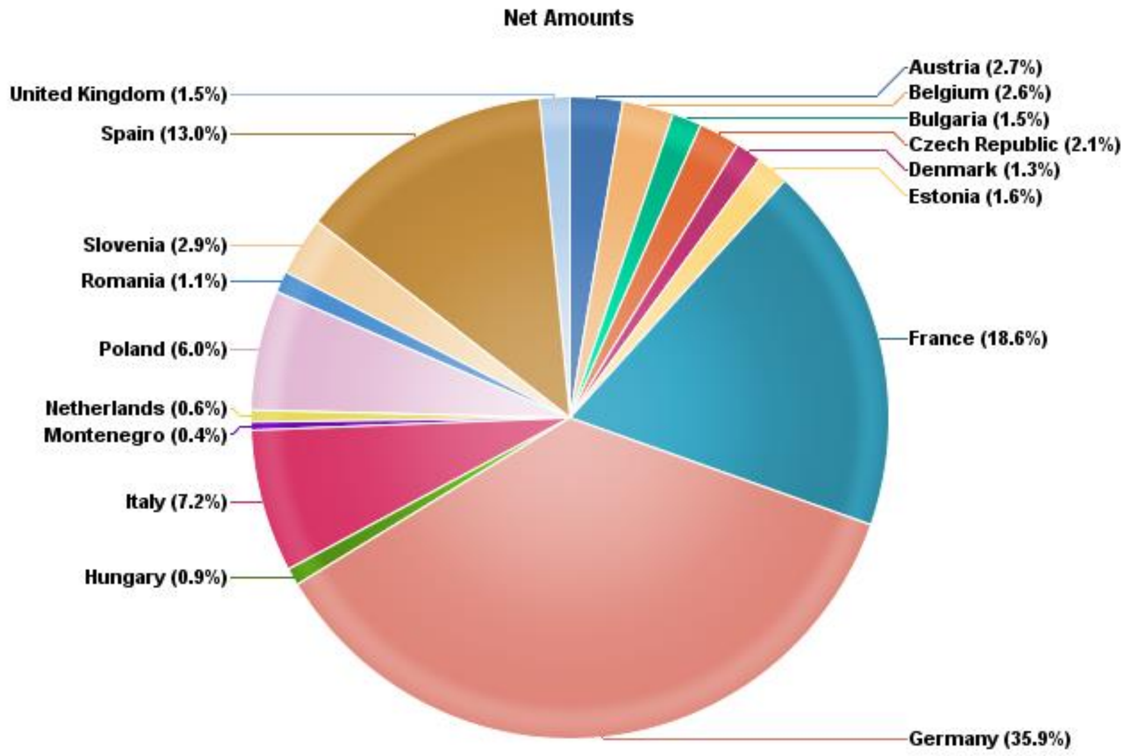
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

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

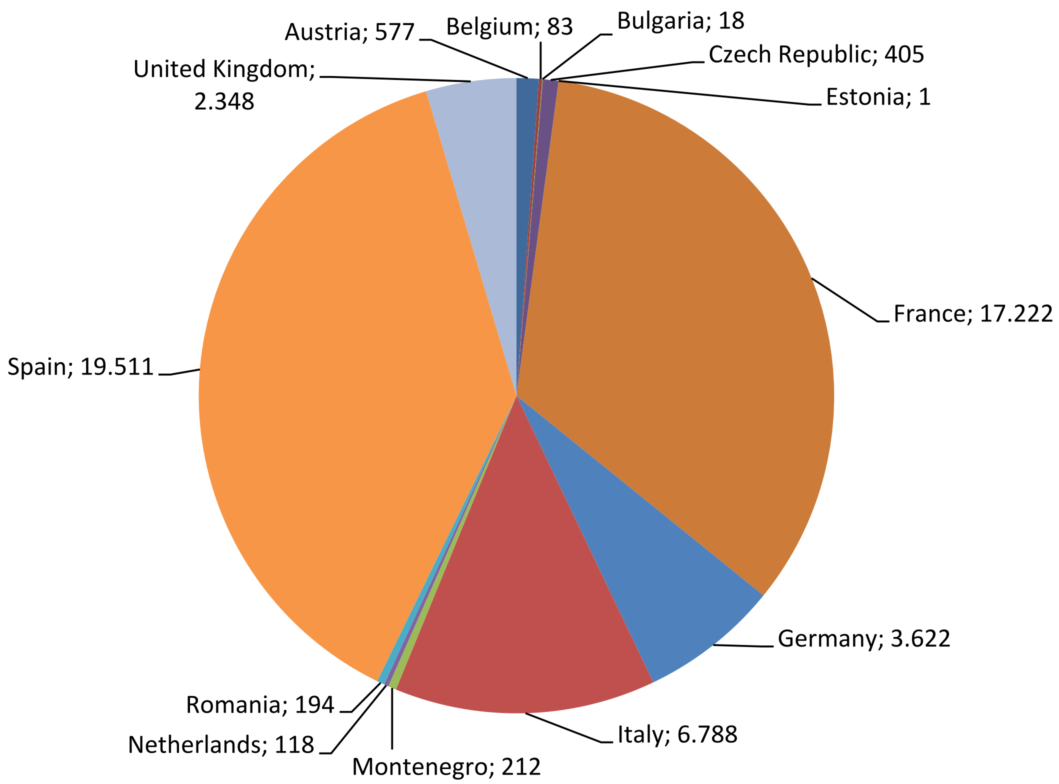
This shows that the LGF, by providing financing to riskier SMEs that otherwise would not have had access to such financing, has an important impact on the real economy in the EU and other participating countries of the COSME programme. Furthermore, the combination of resources with EFSI allows addressing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

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

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



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



E - Other key points and issues

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

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

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

A - Summary

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

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

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

B - Description

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

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

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

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

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

Policy objectives and scope

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

Implementation arrangements

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

C - Implementation

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

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

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

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

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

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

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

(g) The balance of the fiduciary account;

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

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

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

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

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

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

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

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

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

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

D - <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 Risk Sharing Instrument (RSI) under the 7th Framework Programme is a guarantee facility dedicated for loan and lease finance addressing the finance gap for innovative SMEs and Small Midcaps (enterprises with up to 499 employees).

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

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

2.6. <u>SMEs & Small Midcaps R&I Loans Service under Horizon 2020</u>

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

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

Current Overall Budget:	EUR 1 060 million *

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

A - Summary

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

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

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

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

B - Description

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

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

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

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

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

Policy objectives and scope

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

Implementation arrangements

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

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

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

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

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

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

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

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

<u>C - Implementation</u>

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

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

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

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

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

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

NA.

(g) The balance of the fiduciary account;

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

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

(h) Revenues and repayments;

Revenues[183]: EUR 511 548

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

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

.

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

NA

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

Impairments : EUR 163 029

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

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

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

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

D - Strategic importance/relevance

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

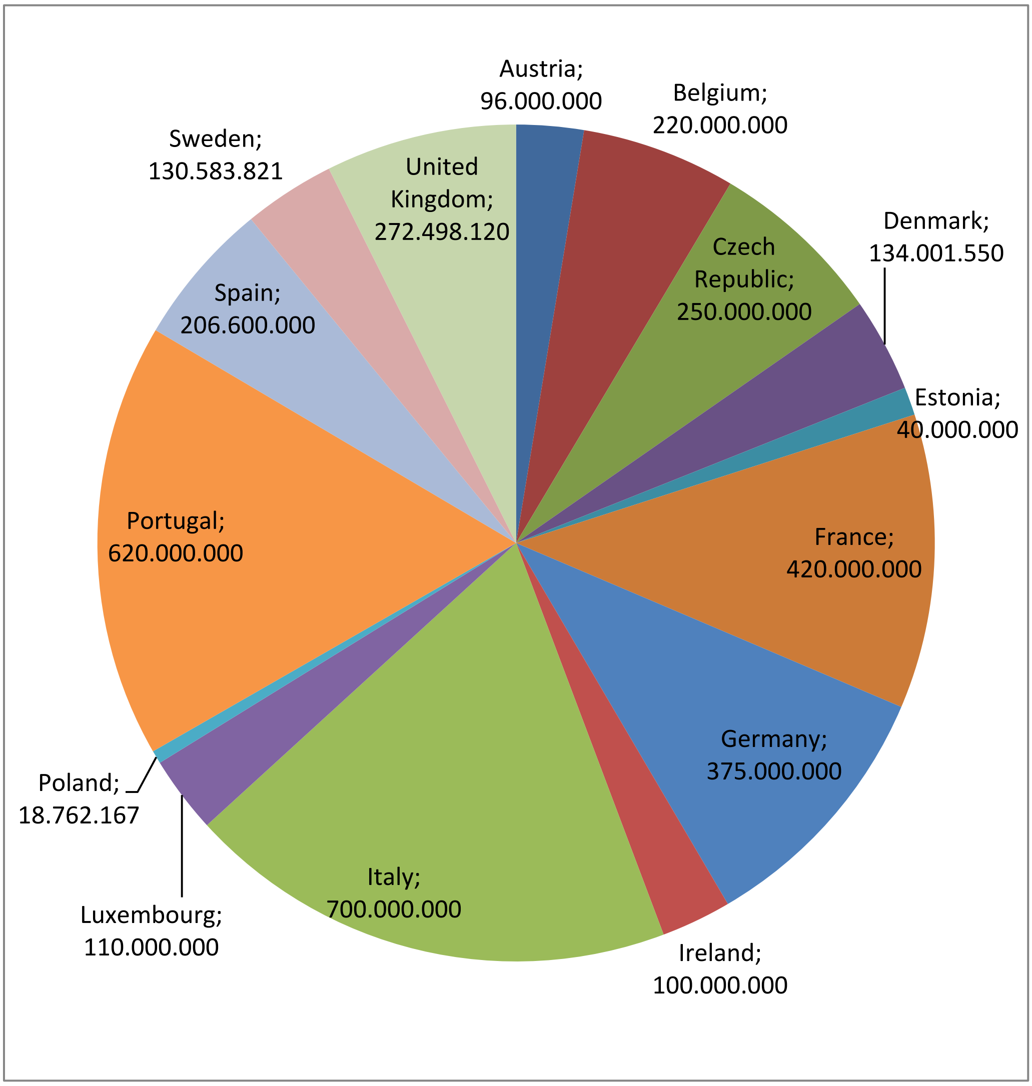
As at 31/12/2015, the Innovfin SME Guarantee already contributed to provide 310 million EUR of financing to 727 Final Recipients, accounting for an estimated 443 million EUR investment amount, and had thus an important impact on the real economy of the EU as described below

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

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

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

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



E - Other key points and issues

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

2.7. The Cultural and Creative Sectors Guarantee Facility

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

A - Summary

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

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

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

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

B - <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.[187]

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

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

Policy objectives and scope

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

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

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

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

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

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

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

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

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

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

C - <u>Implementation</u>[189]

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

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

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

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

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

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

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

(h) Revenues and repayments;

NA.

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

NA (guarantee fund).

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

NA.

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

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

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

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

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

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

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

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

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

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

- no specific risk identified.

- ***General outlook:***
    - based on market testing carried out by the EIF and direct contacts and an info session with potential Financial Intermediaries, there is a positive forecast demand for the guarantees.
    - The scheme itself will start in earnest after a signature of Delegation Agreement between the European Commission and the EIF, expected in Q2 of year 2016.

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

A - Summary

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

B - Description

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

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

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

Policy objectives and scope

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

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

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

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

C - <u>Implementation</u>

(d) The aggregate budgetary commitments and payments from the budget;
Aggregate budgetary commitments as at 31/12/2015 EUR 61 348 000
Aggregate budgetary payments as at 31/12/2015 EUR 19 782 558

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

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

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

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

(g) The balance of the fiduciary account;

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

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

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

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

(h) Revenues and repayments;
NA.

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

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

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

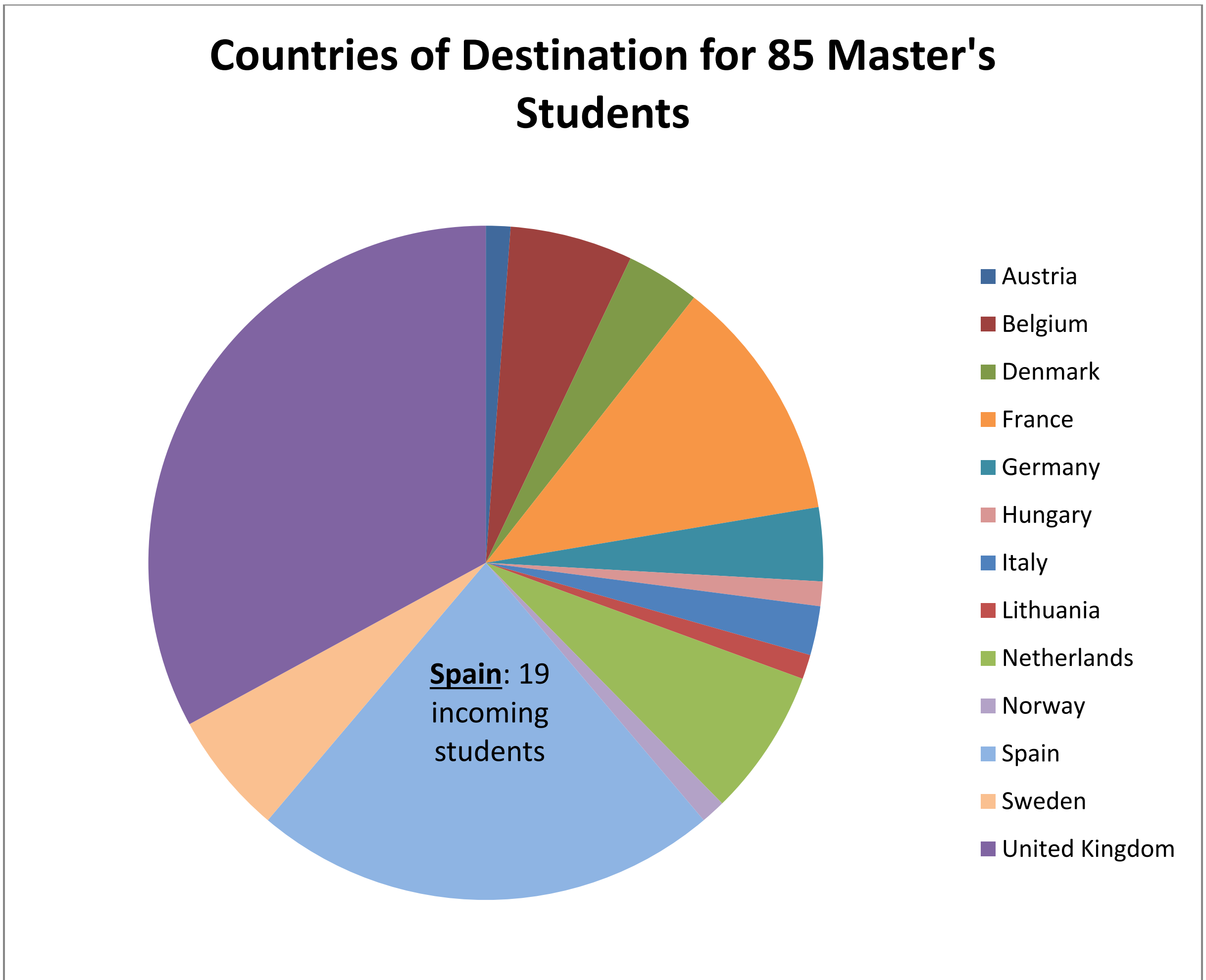
EU contribution of EUR 517 million is targeted to unlock about EUR 3 billion in student loans.

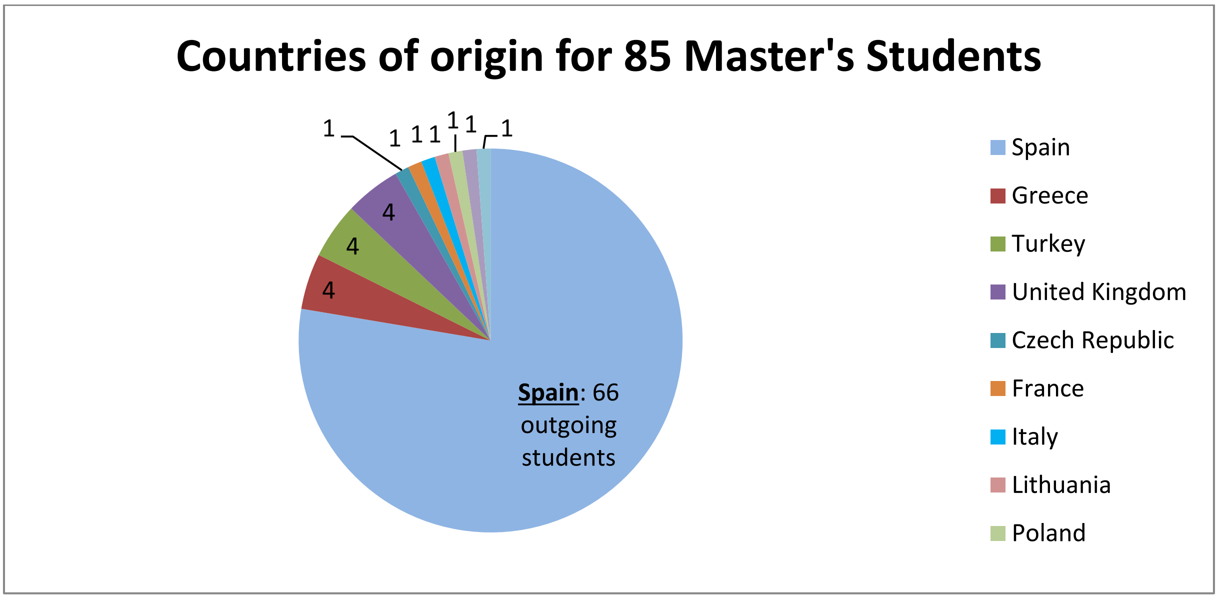
D - <u>Strategic importance/relevance</u>

(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;

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

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





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

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

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

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

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

A - Summary

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

It is implemented under indirect management by the European Investment Bank. The delegation agreement (DA) was signed on 8 December 2014.

The instrument aims to increase lending activity and to improve financing conditions for final recipients through, among others, lower pricing, longer maturities and lighter securities requirements.

B - Description

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

Regulation (EU) N° 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) Article 17.[193]

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

Policy objectives and scope

The PF4EE is a guarantee instrument which is implemented under indirect management by the European Investment Bank. The delegation agreement (DA) was signed on 8 December 2014.

The PF4EE is conceived as a pilot initiative in the years 2014-2017 to provide access to adequate and affordable commercial financing for eligible energy efficiency (EE) investments targeted by schemes developed by Participating Countries to implement their National Energy Efficiency Action Plans (NEEAP) or other programmes in line with EU Directives relating to Energy Efficiency.

Implementation arrangements

The PF4EE instrument provides to financial intermediaries (FIs):

---

[191] The overall budget envelope of the PF4EE is defined in the Commission Implementing Decision C(2014)1709 of 19 March 2014 on the adoption of the LIFE multiannual work programme for 2014-2017 and it is referred to the period 2014-2017.

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

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

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

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

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

EU added value

The RSF aims to increase lending activity and to improve financing conditions for final recipients through, among others, lower pricing, longer maturities and lighter securities requirements. The EIB loan for EE to the FIs may complement the RSF. Such EIB loans for EE will be provided by the EIB at competitive rates and with long-maturities.

The final recipients include private individuals, home-owner associations, SMEs, corporates and/or public institutions/bodies, undertaking EE investments in line with the NEEAP of each Member States.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 50 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 12 126 667

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

The PF4EE delegation agreement was signed on 8 December 2014. Agreements with three financial intermediaries were signed in 2015. No final recipients yet.

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

NA

(g) The balance of the fiduciary account;

EUR 11 626 667

	In EUR
Balance on the fiduciary account (current account)	11 626 667
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	

Bonds non-current	
Other assets **(if applicable)**	221 600
= Total assets	11 848 267

Impact of negative interest on PF4EE: no impact as at 31/12/2015.[194]

(h) Revenues and repayments;
EUR 0

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

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

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

- *The target leverage effect*

The EU budget allocation foreseen in the LIFE regulation for the programming period 2014-2017 amounts to EUR 80 million (4% of which will finance the Expert Support Facility and are not considered in the calculation of the leverage).

The total amount of loan financing by the EIB is expected to reach up to approximately EUR 430 million. Additional debt financing is expected from other financial intermediaries. The total investment in EE over this period could be at around EUR 540 million. However, on the basis of the three first operations signed in 2015 (CZ, ES and FR) and the pipeline, the EIB now targets to achieve EUR 1 billion of new investments in energy efficiency.

The target leverage effect (defined also as Target Investment Leverage) as indicated in the Delegation Agreement is 8.

- *The achieved leverage effect*

The Delegation Agreement (DA) was signed in December 2014. Agreements with three financial intermediaries were signed in 2015. No final recipients yet. The calculation will follow the same rationale as outlined for the target leverage factor.

- *The "Expected Leverage for Signed Operations"*

The Delegation Agreement (DA) was signed in December 2014. Agreements with three financial intermediaries were signed in 2015. No final recipients yet.

D - 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 three financial intermediaries were signed in 2015. No final recipients yet.

E - Other key points and issues

- **Three main issues for the implementation**:

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

- the PF4EE instrument will provide valuable piloting experience for possible up scaling. This piloting phase will allow in particular to test the most appropriate level of protection (i.e. minimise) to be provided to financial intermediaries in about 10 banks in different Member States for different categories of beneficiaries.
- Since its structure is fully decentralized (i.e. the risk protection is provided by the Commission by means of collateral deposited on collateral accounts, set for each financial intermediaries and managed by the EIB) the PF4EE is designed to allow for scalable levels of finance using structural funds. In this respect Managing Authorities of Member States can replicate (or provide financial contributions to) this instrument which ensures that the impact of the contribution provided remain within the relevant geographical area, building on the existing ex-ante assessment[195] and benefiting from the basic legal structure of the PF4EE instrument as described in the Delegation Agreement.
- The EIB is committed under the Delegation Agreement art. 17 to carry out by 2017 a specific evaluation of the cash collateral approach to assess the effectiveness of the cash collateral approach, including through a comparison with alternative unfunded approaches, such as financial guarantees provided by the Union through entrusted entities or directly to Financial Intermediaries.

- **Main risks identified:**
  - considering that lending is implemented through financial intermediaries, the assessment of compliance of final recipient and eligible investments and impact indicators with the provisions set in the Delegation Agreement is challenging. EIB's monitoring and reporting on these critical aspects will need to be scrutinized by the PF4EE Board.
  - Accordingly with the provision of the Delegation Agreement Annex 1, section 7.2 the assessment of eligibility of Final Recipient will need to be performed against specific requirements and financing should only support Eligible Energy Efficiency Investment.
  - As mentioned in the Delegation Agreement Annex 5a, Section III, operations will be chosen having regard to the fields of intervention of the PF4EE and carefully monitored and evaluated to assess the impact on energy efficiency and GHG saving and other impact indicators.
- **General outlook:**
  - after the publication of the "Request for proposals in order to become a financial intermediary under the PF4EE" in January 2015, the EIB reported that so far 10 banks manifested an interest to implement the PF4EE. The EIB signed three agreements with 3 banks in different Member States (Czech Republic, Spain and France) in Q3 and Q4 2015.
  - An additional operational achievement within the year was the conclusion of the public procurement process for the selection of the technical expert and the actual delivery of the first expert support training to the bank from the Czech Repulic.
  - As at writing date, 5 additional operations are expected by the end of 2016.

[195] "Ex-ante evaluation of a new Financial Instrument to foster investment in EE by private financial institutions (PF4EE)", Annex 2 to the LIFE multiannual work programme 2014-2020 - Commission Implementing Decision C(2014)1709.