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COMMISSION STAFF WORKING DOCUMENT

Activities relating to financial instruments

Accompanying the document

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

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

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Table of Contents

3. Risk Sharing Instruments.....	122
3.1. Risk-Sharing Finance Facility under the FP7 (RSFF)	122
3.2. Horizon 2020 Loan Services for R&I Facility	128
3.3. Loan Guarantee Instrument (LGTT)	134
3.4. Project Bond Initiative	140
3.5. Risk sharing debt instrument under the Connecting Europe Facility (CEF DI)	146
3.6. Natural Capital Financing Facility (NCFF)	151
3.7. EU SME Initiative (<i>focus on indirect Commission management part, i.e. COSME/H2020</i>).....	156
4. Dedicated Investment Vehicles	163
4.1. The European Progress Microfinance FCP-FIS	163
4.2. The 2020 European Fund for Energy, Climate Change and Infrastructure – (Marguerite).....	170
4.3. European Energy Efficiency Fund (EEEEF).....	178
5. Financial Instruments in the Enlargement Countries	185
5.1. Guarantee Facility under the Western Balkans Enterprise Development and Innovation Facility (EDIF GF 1).....	185
5.2. Guarantee Facility II under the Western Balkans Enterprise Development and Innovation Facility (EDIF GF 2)	190
5.3. Enterprise Expansion Fund (ENEF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)	194
5.4. Enterprise Innovation Fund (ENIF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)	200
5.5. European Fund for Southeast Europe (EFSE).....	206
5.6. Green for Growth Fund (GGF)	211
5.7. SME Recovery Support Loan for Turkey (RSL)	218
6. Financial Instruments in Neighbourhood and Countries covered by the DCI	223
6.1. Neighbourhood Investment Facility (NIF).....	223
6.2. Investment Facility for Central Asia (IFCA) & Asian Investment Facility (AIF).....	231
6.3. Latin America Investment Facility (LAIF)	242
6.4. Support to the Facility for Euro-Mediterranean Investment Partnership (FEMIP) ...	250
6.5. Global Energy Efficiency and Renewable Energy Fund (GEEREF).....	256
V. REFERENCES	263
VI. LIST OF ACRONYMS	268

3. Risk Sharing Instruments

3.1. Risk-Sharing Finance Facility under the FP7 (RSFF)	
Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 960,73 million
Current Overall Budget:	EUR 960,73 million

A - Summary

The RSFF, officially launched in July 2007, was one of the new, innovative funding mechanisms of FP7. It is a debt finance instrument, jointly developed by the Commission and the European Investment Bank (EIB). The RSFF facilitated access to finance by providing loans and guarantees to a wide range of beneficiaries — including SMEs, mid-sized enterprises, larger companies, research institutions, universities and research infrastructures — investing in RDI.

The RSFF has reached and easily exceeded almost all its operational and intermediate objectives. Three evaluative assessments clearly demonstrate that RSFF is well on its way to realising longer-term objectives and wider achievements.

Loan agreements have been signed with 114 R&I promoters, with a total loan volume (active loans) of EUR 11,31 billion and the instrument had been implemented in 25 countries.

B - Description

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

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

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

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

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

Policy objectives and scope

The RSFF, co-developed by the European Commission and the EIB, was established in June 2007. The RSFF facilitates access to finance by providing loans and guarantees to a wide range of beneficiaries — including SMEs, mid-sized enterprises, larger companies, research institutions, universities and research infrastructures —investing in RDI.

Implementation arrangements

The EU and the EIB are risk-sharing partners for loans provided by the EIB directly or indirectly to beneficiaries. The European Union, through FP7 budget resources, and the EIB have set aside a total amount of up to EUR 2 billion (up to EUR 1 billion each) for the period 2007-2013 to cover losses if RSFF loans are not repaid.

Added value

Through those EU/EIB contributions for risk-sharing and loss coverage, the EIB is able to extend a loan volume of EUR 10 billion to companies and the research community for their investments in R&D and Innovation.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 960,73 million
Aggregate budgetary payments as at 31/12/2015	EUR 960,73 million

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

The results of the RSFF under FP7 covering from 2007 until 2013 showed a total number of 114 RDI operations, which were signed, and loan volume of EUR 11 313 million, and 112 disbursed operations (EUR 10 220 million).

¹⁹⁶The origination period of the instrument has closed as from 31/12/2013.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	<i>EUR 11 313 million</i> <i>114 eligible FRs</i>
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	<i>EUR 22 000 million</i>
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	<i>EUR 10 220 million</i> <i>112 eligible FRs</i>

¹⁹⁶ European Investment Bank (2014).

Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	<i>EUR 20 400 million</i>
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(f) An evaluation of the use of any amounts returned to the instrument as internal assigned revenue under paragraph 6;

EUR 440 million have been assigned to InnovFin Horizon 2020 Loan Services for R&I Facility which is the successor financial instrument of the Risk-Sharing Finance Facility under the FP7 (RSFF).

(g) The balance of the fiduciary account;

<i>In EUR</i>	
Balance on the fiduciary account (current account)	14 833 000
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	<i>127 815 000</i>
Term deposits > 3 months < 1 year (current assets)	<i>0</i>
Term deposits > 1 year (non-current assets)	
Bonds current	<i>193 968 000</i>
Bonds non-current	<i>579 017 000</i>
Other assets (if applicable)	11 640 000
= Total assets	927 273 000

Please note that the figures provided include RSI figures.

Impact of negative interest on RSFF: no impact as at 31/12/2015.¹⁹⁷

(h) Revenues and repayments;

For the period 2007-2015, the following revenues and repayments were received by the EU on the EU RSFF Account:

Total operating revenues:	EUR 178,78 million
Of which expected loss recovery:	EUR 12,11 million

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

N/A.

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

Impairment of assets as at 31/12/15	10,7 million
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¹⁹⁷ Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained slightly positive in 2015.

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

The target leverage of the Debt facility - defined as the total funding (i.e. Union funding plus contribution from other financial institutions) divided by the Union financial contribution - was expected to range from an average of 5 to 6,5, depending on the type of operations involved (level of risk, target recipients, and the particular debt financial instrument facility concerned).

Together with the EIB window of the Facility, the achieved leverage effect is close to 12 with an amount of financing expected to be provided to final beneficiaries of EUR 11 313 million (the reached loan volume) and an EU contribution of EUR 960,73 million.

D - Strategic importance/relevance

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

Demand for RSFF loan finance has been high since the launch of the facility in mid-2007: in its first phase (2007-2010), its take-up exceeded initial expectations by more than 50 % in terms of active loan approvals (EUR 11,3 billion versus an initial forecast of EUR 5 billion).

The RSFF has reached and easily exceeded almost all its operational and intermediate objectives. Three evaluative assessments clearly demonstrate that RSFF is well on its way to realising longer-term objectives and wider achievements.

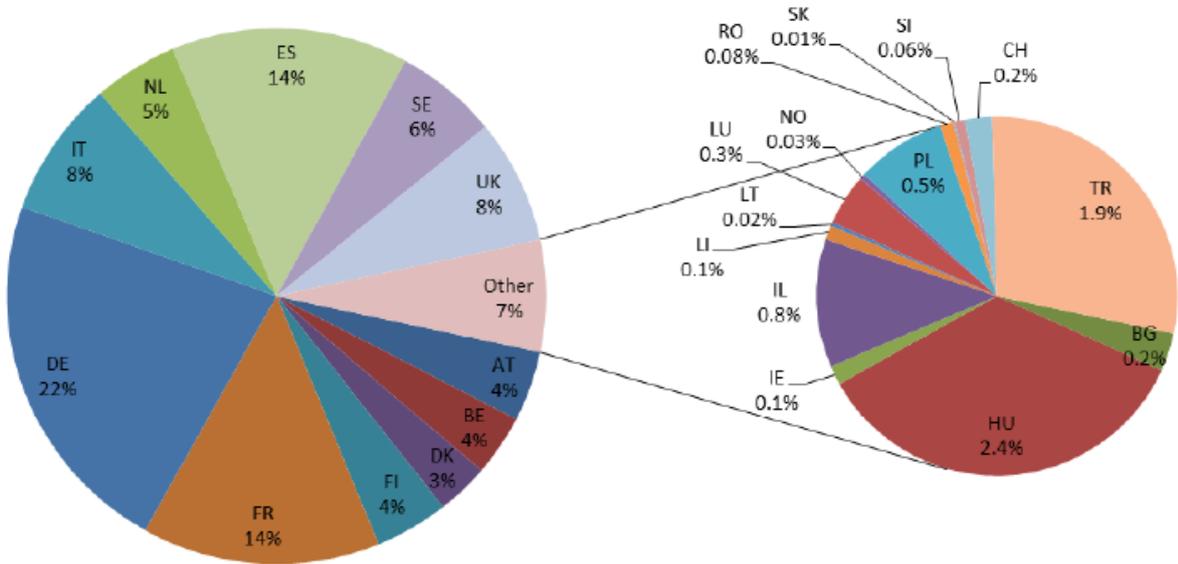
The first interim evaluation¹⁹⁸ concluded that the RSFF had been successfully introduced into the EU's research funding scheme within FP7, was a model example of an EU financial instrument, and should be further developed and strengthened. Recommendations included the need to better target SMEs and research infrastructures. The second interim evaluation¹⁹⁹ concluded that the RSFF had proved to be attractive to RDI companies and had met or exceeded its loan volume targets and enabled EIB to increase the bank's capacity to make riskier loans.

By the end of 2013, 127 RSFF operations had been approved by the EIB, with a total loan volume of EUR 16,2 billion, and the Bank had signed loan agreements with 114 R&I promoters, with a total loan volume (active loans) of EUR 11,31 billion. The sector diversification was broad, and the instrument had been implemented in 25 countries. The origination period of the instrument ended as from 31/12/2013.

¹⁹⁸ For the report by a group of independent experts on the first interim evaluation of the RSFF, see Mann et al. (2010).

¹⁹⁹ For the report by a group of independent experts on the second interim evaluation of the RSFF, see http://ec.europa.eu/research/evaluations/pdf/archive/other_reports_studies_and_documents/interim_evaluation_report_rsff.pdf

Graph: Allocation of the portfolio by country



E - Other key points and issues

At the end of 2015, reflows of EUR 440 million had been reallocated to the 'Loans Service for R&I' successor debt instrument in Horizon 2020.

3.2. Horizon 2020 Loan Services for R&I Facility	
Policy DG in charge:	DG RTD
Implementing DG in charge:	DG RTD
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 1 060 million
Current Overall Budget:	EUR 1 060 million

A - Summary

The InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee aim is to improve access to risk finance for R&I projects carried out by a variety of promoters notably including medium and large midcaps, larger companies, universities and research institutes, R&I infrastructures and special-purpose vehicles located in Member States or in Associated Countries.

This instrument helps addressing riskier projects or sub-investment grade promoters carrying out RDI investments across all Horizon 2020's Societal Challenges. A particular approach is

foreseen to address the financing needs of midcap companies (with employees between 500 and 3 000 employees).

The InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee instruments offers better access to risk finance in an open, demand-driven way through direct loans or hybrid/mezzanine investments made available by the EIB as well as through risk-sharing (guarantees) involving other banks and financial intermediaries.

The InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee cover a broad spectrum of final recipients with a flexible loan financing approach, and are complemented by a dedicated guarantee facility for loans and leases for innovative SMEs and Small Midcaps. For 2014-2020, the EU contribution of EUR 1 060 million is targeted to mobilise an amount of financing of EUR 13 250 million for the target final recipients.

B - Description

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

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

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

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

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

Policy objectives and scope

The goal is to improve access to debt financing — loans, guarantees, counter-guarantees and other forms of debt and risk finance — for public and private entities and public-private partnerships engaged in research and innovation activities requiring risky investments in order to come to fruition. The focus is on supporting research and innovation with a high potential for excellence.

The target final recipients are potentially legal entities of all sizes that can borrow and repay money and, in particular, SMEs with the potential to carry out innovation and grow rapidly; mid-caps and large firms; universities and research institutes; research infrastructures and innovation infrastructures; public-private partnerships; and special-purpose vehicles or projects.

Implementation arrangements

The Loan and Guarantee Service for Research and Innovation is implemented by the EIB and by financial intermediaries (banks). Financial intermediaries will be guaranteed against a proportion of potential losses by EIB, which will also offer counter-guarantees to guarantee institutions. This is a demand-driven instrument, with no prior allocations between sectors, countries or regions, or types or sizes of firm or other entities.

The Delegation Agreement signed with the entrusted entity ensures that the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee are accessible

Aggregate budgetary payments as at 31/12/2015

EUR 645,5 million

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

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 4 398,2 million 65 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 11 379 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 2 399,2 million 39 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 6 207 million

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

None

(g) The balance of the fiduciary account;

<i>In EUR</i>	
Balance on the fiduciary account (current account)	5 840 000
Term deposits/Bonds (if applicable)	630 186 000
Term deposits < 3 months (cash equivalent)	92 728 000
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	17 959 000
Bonds non-current	519 499 000
Other assets (if applicable)	2 367 000
= Total assets	638 393 000

Impact of negative interest on the Facility: no impact as at 31/12/2015²⁰¹

(h) Revenues and repayments;

Aggregate additional resources as at 31/12/2015

EUR 0

²⁰¹ Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained slightly positive in 2015.

Additional information

It should be noted that EUR 440 million have been paid back by the EIB further to the signature of the 8th amendment to the RSFF cooperation agreement and to reflows stemming from 2015 RSFF activities. In accordance with Article 52.3 of the Horizon 2020 Rules for Participation, this amount has been transferred to its successor debt instrument under Horizon 2020 (Horizon 2020 Loan Services for R&I Facility)

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

N/A.

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

Impairment of assets as at 31/12/15 90,25 million

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

The target leverage effect equals 12,5 with an amount of financing expected to be provided by financial intermediaries of EUR 13 250 million and an EU contribution of EUR 1 060 million.

The achieved leverage effect as at 31/12/2015 is close to 3,7 with an amount of financing provided of EUR 2 399,2 million and an EU contribution of EUR 645,5 million.

The expected leverage effect as at 31/12/2015 is close to 6,8 with an amount of financing signed provided of EUR 4 398,2 million and an EU contribution of EUR 645,5 million.

D - Strategic importance/relevance

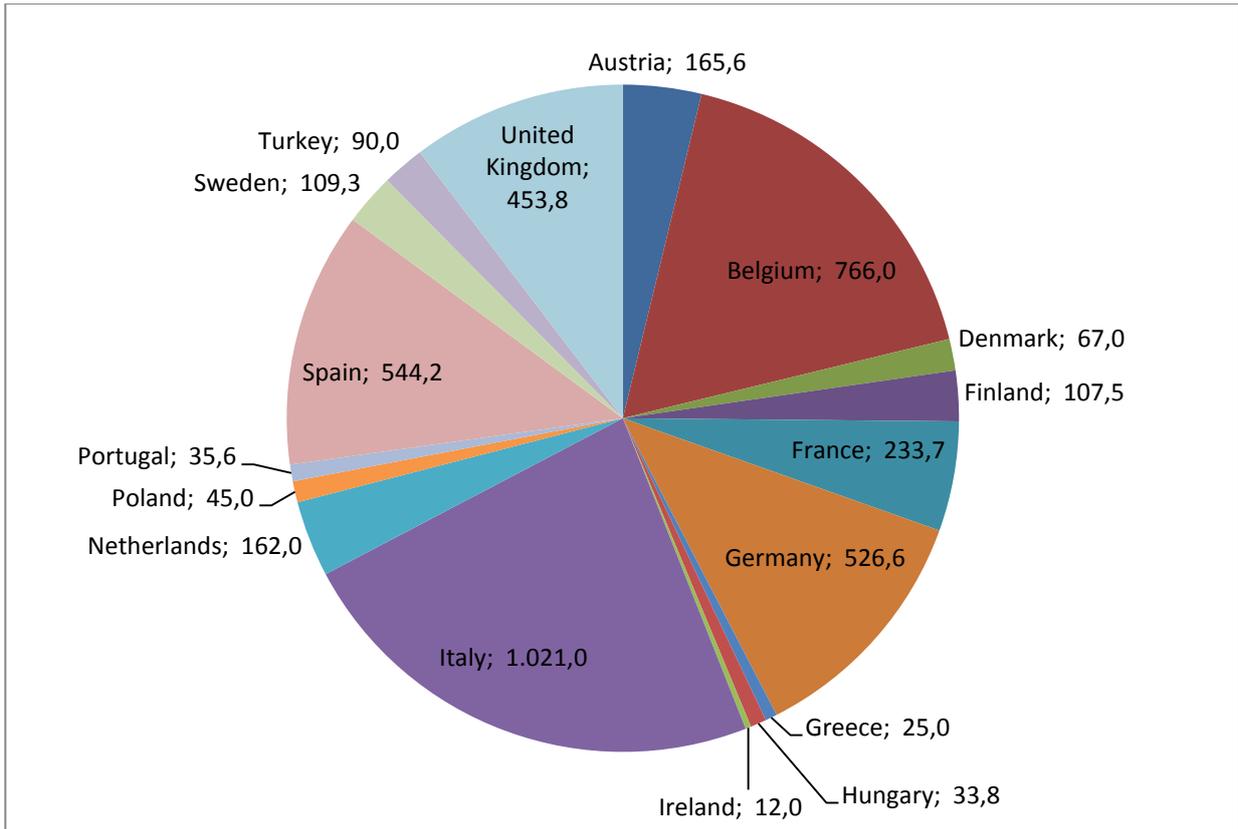
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

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

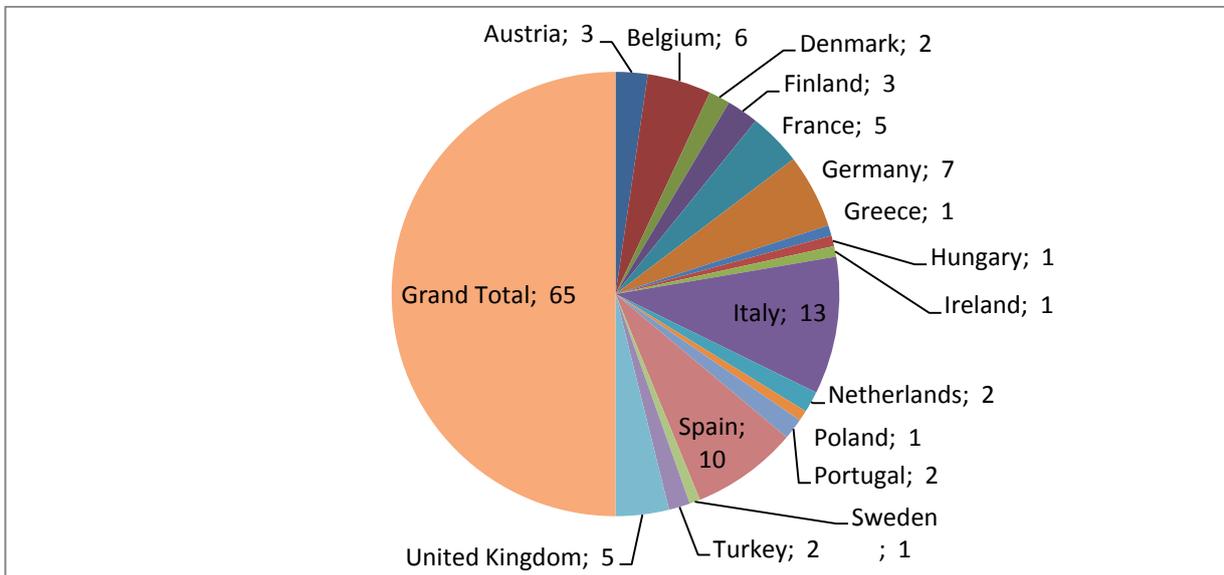
For direct loans or hybrid/mezzanine investments, the indicators are the number and volume of loans or investments made. For intermediated loans, the indicators are the number of agreements signed with financial intermediaries and the number and volume of loans made. Targets and milestones (performance indicators) are set for EIB to incentivize implementation and to reach envisaged volumes of lending, target groups as well as satisfactory geographical coverage.

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

Graph: signed loans EU+EIB windows as at 31/12/2015 in million EUR



Graph: Number of operations by country as at 31/12/2015



E - Other key point and issues

• Main issues for implementation:

- critical for the implementation of the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee will be attractiveness of the instrument, its stronger focus on midcap companies (with up to 3 000 employees) and the possibility to develop new financing approaches, if necessary, to respond to financing needs coming from the various Societal Challenges of Horizon 2020.

○However, the contractual arrangements between the EU and the EIB foresee sufficient flexibility to develop such new financing approaches and also to create policy-driven sub-facilities which could address specific needs (provided that additional budget resources become available).

• **Main risks:**

○no risks identified.

• **General outlook:**

○based on the very satisfactory implementation of the preceding loan instrument supported by FP7, (the RSFF), on-going demand for loans to finance riskier RDI investments, first indications for a robust project pipeline for the next 12 months, and a stronger focus on the midcap target group, the outlook for the InnovFin Large Projects, InnovFin MidCap Growth Finance and InnovFin MidCap Guarantee is generally positive.

○It can be reasonably expected that across Horizon 2020 Societal Challenges (i.e. Energy, Bio-economy, Transport, Health), companies will seek EIB loan finance or risk sharing (via guarantees) to support medium and longer-term RDI investments. Target volumes for the Loan Service for R&I instrument with Horizon 2020 budget envisage lending of at least EUR 5 to 6,5 billion for the entire period 2014-2020.

○In addition, under EIB's own complementary window for RDI investments, which will be part of the overall loan finance approach for RDI investments, a similar lending volume, i.e. a further EUR 5 to 6,5 billion (EUR 13 billion in total) can be expected.

3.3. Loan Guarantee Instrument (LGTT)

Policy DG in charge:	DG Mobility and Transport
Implementing DG in charge:	DG Mobility and Transport
Implementing Body in charge:	European Investment Bank
Initial Overall Budget Envelope:	EUR 500 million
Current Overall Budget*:	EUR 205 million

**) The initial overall budget foreseen in Regulation (EC) 680/2007 for the LGTT instrument was EUR 500 million. The EIB was required to provide an equal amount. Regulation (EU) No 670/2012 reduced the overall budget re-deploying EUR 200 million from the funds dedicated to the LGTT to the pilot phase of the Project Bonds Instrument. Subsequently, after agreement with the EIB, EUR 50 million was re-deployed into the TEN-T Programme for grant funding. Finally, 45 M EUR have been returned to the budget as one transaction did not take place. Therefore, the total amount of the EU contribution available to support LGTT projects is EUR 205 million.*

A - Summary

LGTT was a guarantee scheme set up in 2007/2008 and is a risk sharing facility for revenue based projects.

No new LGTT transactions were closed in 2015 due to the lack of eligible demand-risk TEN-T projects.

The EC and EIB signed a Delegation Agreement for a Debt Instrument under the Connecting Europe Facility (CEF) on 22 July 2015. In accordance with the terms of the CEF Debt Instrument, the PBI and LGTT portfolios were merged in 1 January 2016, effectively terminating the initial ramp-up phase of the LGTT portfolio as of 31 December 2015. The CEF Debt Instrument allows for the creation of a range of financing products to achieve the policy objectives of the CEF financial instrument across three sectors. This is an important development as PBI and LGTT were single product instruments but will now be incorporated in the common CEF Debt Instrument.

B - Description

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

Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks,²⁰² as amended by Regulation (EU) No 670/2012 of the European Parliament and of the Council of 11 July 2012.²⁰³

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

Policy objectives and scope

The LGTT is a loan guarantee instrument to facilitate finance for transport infrastructure projects. The legal basis establishes that the EU contribution is to be used for the provisioning and capital allocation for guarantees to be issued by the European Investment Bank (EIB) on its own resources under the loan guarantee instrument Risk-sharing in this context means that both partners, the EU represented by the Commission and the EIB, share financial risk, to accelerate and implement TEN-T infrastructure projects.

Implementation arrangements

The practical implementation is done on the basis of a cooperation agreement between the Commission and the EIB that was originally signed on 11 January 2008 and subsequently amended in 2013 following the adoption of Regulation (EU) 670/2012.

Technically, the guarantee facilities provided by the EIB under LGTT to the private sector (project sponsors/ promoters) serve to enhance the credit rating of the senior debt issued to finance the project by reducing traffic risk. The EIB provides a guarantee in the form of a contingent credit line, which may be drawn upon by the project promoter during the first 5 to 7 years of operation, if the revenues generated by a project are not sufficient to ensure repayment of the senior debt, in case the actual revenues from the project fall below the forecasted level.

LGTT was available for transactions approved by the EIB of Directors by the end of 2014 with the financial close until end of 2016. Guarantees can be called for the first 5 to 7 years operation, the latest draw down date of a project in the current portfolio is end of 2021.

Added value

LGTT brought value added to the projects by covering traffic risk during ramp-up and thus improving the ability of borrowers to service senior debt. LGTT has clearly facilitated

²⁰² (OJ L 162/1, 22.6.2007)

²⁰³ (OJ L 204/1, 31.7.2012)

financial close in a difficult market situation of the financial crisis in all transactions which used it.

(c) The financial institutions involved in implementation;

The European Investment Bank (EIB)

C - Implementation

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

Aggregate budgetary commitments as at 31-12-2015 (voted appropriations by the budget authority)	EUR 205 000 000
Additional budgetary commitments as at 31-12-2015 (generated revenues)	EUR 6 881 251*
Aggregate budgetary payments as at 31-12-2015	EUR 211 881 251

*Note: * With regard to the regularisation of revenues of the LGTT account, an amount of EUR 6,88 million was added to the account in terms of revenues generated in the period 2008-2012. The value of the accumulated surplus for the period 2013-2015 is EUR 19,48 million.*

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

During the period 2008-2015, the LGTT has supported five motorway projects (of which one was excluded from the risk-sharing portfolio when the agreement was restated in 2014, and one of which (IP4 Amarante-Vila Real PPP project) where the LGTT Agreement has now been terminated (Baixo-Alentejo PPP project), one port infrastructure project and one high speed rail project. The total amount of LGTT guarantees signed as of 31-12-2015 is EUR 517 million. The outstanding total amount of signed LGTT guarantees towards the five remaining transactions where EU capital is at risk in the portfolio as of 31-12-2015 is EUR 472 million. This is illustrated in the table below:

In million EUR

Project	Financial close	Type	LGTT guarantee	Project cost (sum of equity, debt, grants)
A5	Mar 2009	road	25	633
Eix Transversal C25	Jul 2010	road	70	815
A8	May 2011	road	60	562
LGV SEA	Jun 2011	rail	200	7 846
London Gateway ²⁰⁴	Dec 2011	port	117	1 698

²⁰⁴ This project ended in refinancing at the end of March 2016, leading to the termination of the LGTT facility.

TOTAL		472	11 554
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Source: LGTT Annual Operational report to the Commission prepared by the EIB as at 31-12-2015

Overall, the instrument is expected to provide at least the EUR 472 million of guarantee to projects as at 31-12-2015.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	N/A
Total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	N/A
Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	N/A
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	As at 31-12-2015, the outstanding guarantee provided to the current portfolio of five projects (final recipients) is for a total of EUR 472 million.
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	The amount of project costs of the projects (final recipients) supported under the current portfolio guarantee is EUR 11 554 million (equity, debt and grants).

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

In 2013 the net interest income (net revenues less costs) covering the years 2008-2012 stood at EUR 6,88 million. The amount was returned to the Commission and recommitted and paid back into the instrument and included in the First Loss Piece, in line with the legal basis. The value of the accumulated surplus for the period 2013-2015 is EUR 19,48 million.

(g) The balance of the fiduciary account;

<i>In EUR</i>	
Balance on the fiduciary account (cash and cash equivalents)	7 878 000

Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current (AFS current)	883 000
Bonds non-current (AFS non-current)	206 672 000
Other assets (if applicable) (ST receivables)	22 620 000
= Total assets	238 053 000

Impact of negative interest on LGTT (in EUR) as at 31/12/2015: EUR 1 000.²⁰⁵

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

According to the audited statements for 2015 the total revenues attributable to the Commission for the year amount to EUR 4,25 million. The revenues cover revenues from operating activities, including first loss piece remuneration, and financial revenues.

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

N/A.

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

No impairments registered at 31.12.2015

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

The specific basic act, as amended, does not define the target leverage effect.

The achieved leverage effect.

The leverage effect is quantified as the aggregate of the amounts raised to finance LGTT Projects (including inter alia equity, quasi-equity, subordinated debt, mezzanine debt and senior debt but excluding grants) divided by the aggregate amount of the EU Contribution. On 31 December 2015, the leverage effect amounted to 37,2²⁰⁶.

D - Strategic importance/relevance

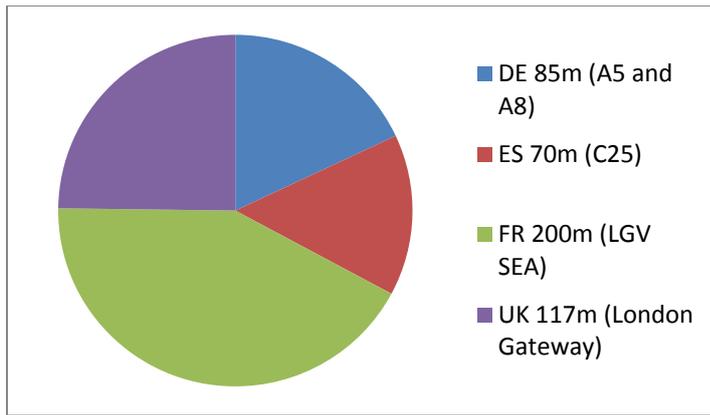
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

As at the end of 2015, the LGTT already supported nearly 500 million EUR of financing to five eligible projects, with nearly EUR 12 billion of total investment.

Country breakdown and value of of LGTT support to projects as at 31 December 2015:

²⁰⁵ Interest expense on cash and cash equivalents of EUR 1 000 netted by interest revenue of EUR 2 000.

²⁰⁶ Source LGTT Operational reporting to the European Commission As of 31st December 2015



E - Other key points and issues

Main issues

The critical issues for the implementation of the LGTT instrument, including aspects relevant for future design and development of new instruments have been examined in the ex-post Evaluation carried out by the Commission in 2014.²⁰⁷

The ex-post evaluation pointed out the following issues:

- the LGTT instrument had a fairly narrow scope of application limited to projects on the TEN-T network whose revenues were generated from the traffic (this excluded all availability-payment based PPPs).
- The instrument was not flexible enough to be successfully adapted to a drastically changed market environment (near-disappearance of revenue-risk PPPs in TEN-T transport).

These lessons learned were reflected in the design of the Connecting Europe Facility Debt Instrument (CEF DI): the instrument was devised in a flexible way so as to allow for changes in market gaps and needs. Also, the instrument will not focus on a single type of transactions linked to a unique risk category (i.e. focus on only revenue-risk PPPs).

General outlook

As of 1 January 2016, the LGTT Portfolio was merged with the new Debt Instrument under the Connecting Europe Facility, as foreseen in article 14.3 of Regulation (EU) 1316/2013.

Under the CEF Debt Instrument, the Bank has also developed a new financing product as a successor to the LGTT product. That product, Senior Debt Credit Enhancement (SDCE), is a guarantee product for senior bank loans, similar to the PBCE product for project bonds. SDCE will cover a broader range of risks than LGTT, which is restricted to mitigating traffic risk during the traffic ramp-up period following project completion. As the SDCE product will be available for traffic risk projects, it can provide greater risk mitigation, where the market need exists, than the existing LGTT product. The SDCE product is expected to be piloted in 2016.

²⁰⁷ http://ec.europa.eu/transport/themes/infrastructure/studies/doc/2014_ex-post_evaluation_of_the_loan_guarantee_instrument_for_ten-t_projects.pdf

3.4. Project Bond Initiative	
Policy DG in charge:	DG Mobility and Transport, DG Energy, DG Communications Networks, Content and Technology
Implementing DG in charge:	DG Mobility and Transport, DG Energy, DG Communications Networks, Content and Technology
Operating Body in charge:	European Investment Bank
Initial Overall Budget Envelope:	EUR 230 million
Current Overall Budget:	EUR 230 million
TEN-T sub-account	EUR 200 million
TEN-E sub-account	EUR 10 million
ICT sub-account	EUR 20 million

Summary

The Project Bond Initiative is a financial instrument developed, set up, and supported jointly by the Commission and the EIB. It was launched in 2012 with the aim of stimulating capital market financing for infrastructure projects in the areas of Trans-European networks in transport and energy as well as broadband networks. The Project Bond Initiative provides credit enhancement to bond issues which is attractive inter alia to institutional investors such as insurance companies and pension funds.

As at 31-12-2015 the Project Bond Initiative supported eight transactions in all three sectors and five Member States. Five projects were supported by EU funds.

The PBI has served as a catalyst to attract debt capital market investment to targeted infrastructure projects and opening up new financing sources for infrastructure projects as alternatives to bank financing.

The EC and EIB signed a Delegation Agreement for a Debt Instrument under the Connecting Europe Facility (CEF) on 22 July 2015. In accordance with the terms of the CEF Debt Instrument, the PBI and LGTT portfolios were merged in 1 January 2016, effectively terminating the initial ramp-up phase of the PBI portfolio as of 31 December 2015. The CEF Debt Instrument allows for the creation of a range of financing products to achieve the policy objectives of the CEF financial instrument. This is an important development as PBI and LGTT were single product instruments but will now be incorporated in the common CEF Debt Instrument.

A - Description

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

Regulation (EU) No 670/2012 of the European Parliament and of the Council of 11 July 2012 amending Decision No 1639/2006/EC, establishing a Competitiveness and Innovation

Framework Programme (2007-2013)²⁰⁸, and Regulation (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks²⁰⁹

Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility²¹⁰

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

Policy objectives and scope: Pilot phase of the Project Bonds Initiative

The Project Bond Initiative is a financial instrument developed, set up, and supported jointly by the Commission and the EIB.

It aims at stimulating capital market financing for infrastructure projects in the areas of Trans-European networks in transport and energy as well as broadband networks by improving the credit quality of the senior debt such that it can be financed by a bond issue which is attractive *inter alia* to institutional investors such as insurance companies and pension funds.

In addition to financing provided for the benefit of individual projects, the objective is to pave the way for the creation of a new asset class for EU infrastructure, in which institutional investors could invest. This way, the Project Bond Initiative intends to open up new sources for infrastructure financing in the context of constrained public budgets and restricted bank lending to infrastructure projects with long-term maturities.

Implementation arrangements

The financial instrument is carried out in indirect management mode. The entrusted entity is the EIB. The governance structure is established in the cooperation agreement and includes the establishment of a Steering Committee to supervise the implementation of the instrument.

Three trust accounts have been set up to hold the Union contribution under the three respective budget lines (TEN-T, ICT and TEN-E).

Individual PBI Operations can be approved by the EIB Board of Directors no later than end of 2014 and their financial close must take place no later than end of 2016.

The risk-sharing mechanism between the Commission and EIB operates on the basis of a First Loss Piece principle: the risk for the Union budget and the EIB is divided into two tranches, a Portfolio First Loss Piece (PFLP), which is called upon first in the event of impairments on PBI operations, and a Residual Risk Tranche (RRT), which is only used if PFLP has been exhausted.

The EU and EIB contribute 95% and 5% to PFLP, respectively. The residual risk tranche is covered entirely by the EIB.

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

In 2015, the PBI was merged with the debt instrument under the CEF, as foreseen in Article 14(3) of Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility. The actual portfolio merger occurred on 1 January 2016.

Added value

²⁰⁸ (OJ L 204/1, 31.7.2012)

²⁰⁹ (OJ L 162/1, 22.5.2007)

²¹⁰ (OJ L 348, 20.12.2013)

This new merged portfolio will be supported by a portfolio first loss piece of which the EU will hold 95% of the risk. This merged portfolio and portfolio first loss piece will allow for an improved risk diversification allowing for a better use of the EU funds committed to the merged instrument. This will in return increase the leverage and allow for a more wide deployment of the instrument.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

B - Implementation of the financial instrument

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

In million EUR

	Total (2015)
TEN-T sub-account	
Commitment	200
Payments	200
TEN-E sub-account	
Commitment	10
Payments	10
ICT sub-account	
Commitment	20
Payments	20
Aggregate PBI	Total (2015)
Commitment	230
Payments	230

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

The EIB has been working on transactions in the three sectors. Eight projects have been signed in 5 Member States as of 31.12.2015, out of which three (Castor project, Gwynt y Mor, and West of Duddon Sands) have been entirely signed on the EIB own resources. The details of those five signed with EU funds are as follows:

- One energy project, i.e.:
 - i) The Greater Gabbard offshore transmission project (OFTO) was signed in November 2013. The size of the project bond-credit enhancement (PBCE) for this transaction is EUR 45,7 million for a project size of EUR 351 million (including debt and equity). The Union contribution under TEN-E is EUR 10 million.
- Three transports projects signed:
 - The Port of Calais signed in July 2015. Total project cost of EUR 863 million was financed by a EUR 504 million project bond and EUR 358 million from other sources. The total PBCE amount to EUR 50 359 000.
 - the construction of A11 Motorway in Belgium. Total project cost of EUR 657,5 million was financed by a EUR 577,9 million project bond and EUR 79,6 million of equity; the total PBCE provided amounts to EUR 115 580 000;

- the construction of the A7 Motorway in Germany. The total project cost of EUR 772,6 million was partly financed by a EUR 429,1 million Project Bond; the total amount of PBCE amounts to EUR 85 827 400;
- one broadband project signed in 2014, Axione Infrastructures, where credit enhancement of ca. EUR 38 million under the PBI supported a EUR 189 million bond issue by a French provider of wholesale ,broadband network services. The total project cost is circa EUR 257 million. The amount of Union contribution to this project is EUR 20 million.
- Since 31 December 2015, two additional projects were signed in Q1 2016 with EU budget support, i.e. the N25 New Ross Bypass PPP Project in Ireland,- where total project cost of EUR 169 million was financed by a EUR 145 million project bond supported by EUR 21,8 million PBCE Facility, and the Passante di Mestre motorway in Italy (total project cost of EUR 1,300 million was financed by EUR830 million senior bonds, which was supported by EUR166 million PBCE).

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	As at 31-12-2015 the EU provided EUR 230 million towards the PBI instrument. There is a single financial intermediary – the EIB.
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	As of 31-12-2015, the Pilot Phase of the Project Bond Initiative has provided a credit enhancement of EUR 335 million to five projects,supported by EU funds.
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	As of 31-12-2015 the Pilot Phase has mobilised circa EUR 2,9 billion of capital cost for the five projects supported.

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

Pilot phase of the Project Bonds Initiative

As of 31-12-2015 no revenues were recovered to the EU budget, committed and reused by the instrument as internal assigned revenue.

However, in 2015, financial revenues earned on PBI sub-accounts amounted to EUR 1 312 000, as per the PBI audited financial statements at 31 December 2015.

(g) The balance of the fiduciary account;

The balance on the fiduciary accounts amount overall to EUR 7 021 000 as per the audited financial statements of the Project Bond Initiative at 31.12.2015. The total assets (adjusted to account for the above mentioned payment made in December) are broken down as follows:

<i>EUR</i>	
Balance on the fiduciary account (current account)	7 021 000
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 month s< 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current (AFS current)	13 938 000
Bonds non-current (AFS non-current)	202 934 000
Other assets (if applicable) (ST receivables)	12 376 000
= Total assets	236 269 000

Impact of negative interest on PBI (in EUR) as at 31/12/2015: EUR -1 000²¹¹

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

Two main sources of revenues are foreseen in the agreement: 1) treasury income and 2) risk related income.

1) The total treasury income in 2015 amounted to EUR 1 311 968.

2) During the ramp-up period where the Portfolio of projects is being built (initially set to 31 December 2016), no cash distribution of risk-related income was made to remunerate the First Loss Piece (FLP) holders, in line with the waterfall principles established in the cooperation agreement.

Following the signature of the Connecting Europe Facility Debt Instrument Delegation Agreement with the European Investment Bank on 22 July 2015, the Portfolios of PBI projects for Transport, Energy and Information and Communication were merged with the LGTT Portfolio into the CEF Debt Instrument on 1 January 2016.

The total FLP remuneration receivable at 31 December 2015 amounts to EUR 12 375 581.

Further to the signature of the CEF Debt Instrument Delegation Agreement the end of the ramp-up period was anticipated to 31 December 2015, therefore the FLP remuneration receivable will be settled in cash in 2016.

No repayments took place so far.

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

N/A.

²¹¹ Interest expense on cash and cash equivalents of EUR 5 000 and interest revenue of EUR 4 000

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

No impairments registered at 31.12.2015

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

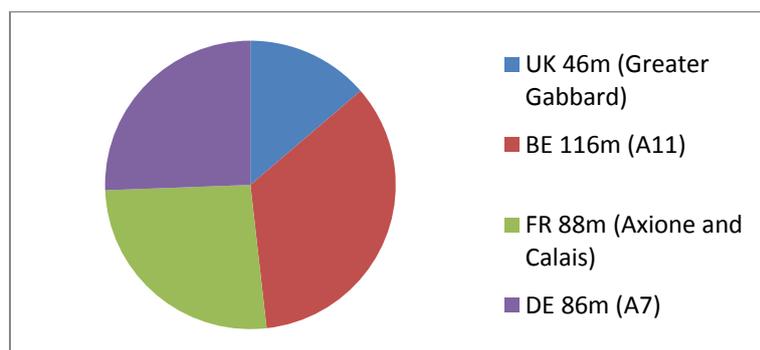
The leverage effect is quantified as the aggregate of the amounts raised to finance the PBI projects supported by EU funds divided by the aggregate amount of the EU Contribution. On 31 December 2015, the leverage effect amounted to approximately 12,6²¹².

A - Strategic importance/relevance of the financial instrument

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

As at end of 2015, the PBCE projects backed with EU funds already contributed to provide EUR 335 million of financing to five eligible projects and had thus an important impact on the real economy of the EU, including overall investment of nearly EUR 3 billion.

Country Breakdown and Value of Project Bond Credit Enhancement provided with EU budget support as at 31 December 2015



Pilot phase of the Project Bonds Initiative

In view of EU Regulation No. 670/2012 (Article 1(1)), the Pilot Phase of the Project Bond Initiative required a full scale independent evaluation to be concluded in 2015, whose conclusions would enable the Commission to consider proposing appropriate regulatory changes, if deemed necessary.

An independent evaluation was carried out and concluded in 2015. This evaluation drew upon the results of the previous external evaluation concluded in June 2014 and was carried out by external consultants.

The evaluation concludes that going forward, the Project Bond Credit Enhancement product is clearly needed by the market. While market conditions have evolved since the launch of the initiative to an extent that triggered a change in the type of credit enhancement needed, the evaluation points out that the additionality of the instrument needs to be assessed from a long-

²¹² Total project costs EUR 2091 m / EU contribution EUR 230 m.

term perspective, as it is intrinsically linked to the economic environment (i.e. stage of development of capital markets, state of public finances, investment behaviour of the private sector, the regulatory environment, etc.). Based on these considerations, the evaluation argues that in the future the product is needed as it will be able to counterbalance the market volatility or uncertainty by providing long term and competitive solutions to finance crucial infrastructure projects in Europe. An extra argument in favour of the continuity of the product is that a temporary interruption in the use of the Project Bond Credit Enhancement might result in the loss of the knowledge gained and might put a stop to the market developments achieved so far with infrastructure still a new asset class for many investors.

B - Key points and issues

Main issues

The critical issues for the implementation of the PBI were assessed as part of the PBI evaluation concluded in December 2015. The recommendations included:

- Focussing on projects of highest EU added value
- Developing further debt capital market financing for infrastructure projects
- Maintaining a sufficient product utilization rate
- Developing tailored solutions for TEN-E and ICT
- Better address current market needs, through for example a focus on projects in less mature markets

Main risks

The uptake of the PBI or similar instruments is dependent on the overall market conditions, in particular, the comparative cost of bank debt and the investors' risk appetite.

General outlook

A number of the recommendations made by the evaluation point to improvements which have already been reflected in the design of the products to be offered under the Connecting Europe Facility and the European Fund for Strategic Investments, both launched in July 2015.

3.5. Risk sharing debt instrument under the Connecting Europe Facility (CEF DI)	
Policy DG in charge:	DG Mobility and Transport DG Energy DG CNECT
Implementing DG in charge:	DGs MOVE, ENER and CNECT
Operating Body in charge:	European Investment Bank Other possible entrusted entities
Initial Overall Budget Envelope:	Up to 8,4% of the funds from the CEF

	Regulation (EU) 1316/2013
Current Overall Budget:	<p>Aggregate budgetary commitments as at 31/12/2015:</p> <p>MOVE EUR 140 000 000 ENER EUR 89 289 000 CNECT EUR 17 499 729</p> <p><i>Nota : the total envelope over the period is up to 8,4 % of the funds from the CEF Reg. as amended by the EFSI Regulation, so +/- EUR 2,4 billion.</i></p>

A - Summary

The Debt Financial instrument under the CEF will tackle one of the key failures identified in the market, i.e. the insufficient involvement of private investors in infrastructure financing throughout the Union, particularly on cross-border and riskier projects.

The objective of the Debt Instrument under the CEF is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage. The financial instrument shall help finance projects of common interest with a clear European added value, and facilitate greater private sector involvement in the long-term financing of such projects in the transport, energy and broadband sectors.

B - Description

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

Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/210²¹³.

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

Policy objectives and scope

The goal of the CEF Debt Instrument is to contribute to overcoming deficiencies of the European debt capital markets by offering risk-sharing for debt financing. Debt financing shall be provided by entrusted entities or dedicated investment vehicles in the form of senior and subordinated debt or guarantees.

The Debt Instrument will consist of a risk-sharing instrument for loans and guarantees as well as for Project Bonds. The project promoters may, in addition, seek equity financing under the Equity Instrument (currently under development).²¹⁴

²¹³ (OJ L 348, 20.12.2013)

The instrument builds on the existing Project Bond Initiative and the Loan Guarantee for TEN-Transport. However, given that not all CEF eligible projects where market failures have been identified can be financed by capital markets or on a project financing basis and to face efficiently a changing market environment, the instrument deploys a wide toolbox available of debt products, including senior and subordinated funded and unfunded products.

All operations under the Debt Instrument are supported by a risk sharing mechanism with the EIB where the EU budget takes the first loss piece of the portfolio of such operations. The first loss provisioning provided by the EU budget is shared among all projects in the three sectors covered by the CEF. This allows for higher diversification and hence maximises the number of projects that can be supported by the CEF Debt Instrument. Also, the portfolios and first-loss pieces of the existing Project Bond Initiative and of the Loan Guarantee for TEN-T transport have been merged together with the CEF Debt Instrument.

With the introduction of EFSI, the CEF Steering Committee has approved a complementary approach of the interplay between EFSI and the CEF debt instrument and possible future products, where CEF concentrates on innovative, demonstrator (for example using the CEF DI for the first time in a sector, or mode, in a Member State) and pilot products and initiatives (equity/hybrid/new products), taking into account the overall portfolio risk of such an approach - while recognising also the need to strike a balance between commitments under both funding sources, especially in the early stages.

Implementation arrangements

Risk-sharing instrument for loans and guarantees

The risk-sharing instrument for loans and guarantees is designed to create additional risk capacity in the entrusted entities. This shall allow the entrusted entities to provide funded and unfunded subordinated and senior debt to projects and corporates in order to facilitate promoters' access to bank financing. If the debt financing is subordinated, it shall rank behind the senior debt but ahead of equity and related financing related to equity.

The unfunded subordinated debt financing does not exceed 30 % of the total amount of the senior debt issued.

The senior debt financing provided under the Debt Instrument does not exceed 50 % of the total amount of the overall senior debt financing provided by the entrusted entity or the dedicated investment vehicle.

Project Bonds

The risk-sharing instrument for project bonds is designed as a subordinated debt financing in order to facilitate financing for project companies raising senior debt in the form of bonds. This credit enhancement instrument aims at helping the senior debt to achieve an investment grade credit rating. It ranks behind the senior debt but ahead of equity and financing related to equity.

The subordinated debt financing does not exceed 30 % of the total amount of the senior debt issued.

²¹⁴ European Commission (2014b), *Ex-Ante Assessment on the Potential Use of Financial Instruments within the Connecting Europe Facility*, March 2014.

Combination with other sources of funding

Funding from the Debt Instrument may be combined with other budgetary contributions listed below, subject to the rules laid down in Regulation (EU, Euratom) No 966/2012 and the relevant legal base:

- other parts of the CEF;
- other instruments, programmes and budget lines in the Union budget;
- Member States, including regional and local authorities, that wish to contribute own resources or resources available from the funds under the cohesion policy without changing the nature of the instrument.

Duration of the Debt Instrument

The last tranche of the Union contribution to the Debt Instrument shall be committed by the Commission by 31 December 2020. The actual approval of debt financing by the entrusted entities or the dedicated investment vehicles shall be finalized by 31 December 2022.

Expiry

The Union contribution allocated to the Debt Instrument shall be reimbursed to the relevant fiduciary account as debt financing expires or is repaid. The fiduciary account shall maintain sufficient funding to cover fees or risks related to the Debt Instrument until its expiry.

EU added value

This CEF Debt Instrument merged portfolio is supported by a portfolio first loss piece of which the EU holds 95% of the risk. This merged portfolio and portfolio first loss piece will allow for an improved risk diversification allowing for a better use of the EU funds committed to the merged instrument. This will in return increase the leverage and allow for a more wide deployment of the instrument bringing affordable financial support to projects targeted under CEF.

(c) The financial institutions involved in implementation;

The European Investment Bank (EIB)

Other Entrusted entities (not yet designated at this stage; entities to be selected in accordance with Regulation (EU, Euratom) No 966/2012

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015:

MOVE	EUR	140 000 000
ENER	EUR	89 289 000
CNECT	EUR	17 499 729

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

N/A (as no investments yet).

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

N/A.

(g) The balance of the fiduciary account;

N/A.

(h) Revenues and repayments;

N/A.

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

N/A.

(j) The accumulated figures on impairments²¹⁵ of assets of equity or risk-sharing instruments, and on called guarantees for guarantee instruments;

N/A.

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

The target (expected) leverage of the Debt Instrument — defined as the total funding (i.e. Union contribution plus contributions from other financial sources) divided by the Union contribution — is expected to range from 6 to 15, depending on the type of operations involved (level of risk, target beneficiaries, and the debt financing concerned). Assuming the full possible budgetary allocation of EUR 2,4 billion is made available to the instrument, total funding of EUR 18 billion to EUR 45 billion could be attracted thanks to the Union contribution.

D - Strategic importance/relevance

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

The financial instruments to be deployed under the CEF (Debt Instrument and possibly Equity Instrument) will tackle one of the key failures identified in the market, i.e. the insufficient involvement of private investors in infrastructure financing throughout the Union, particularly on cross-border and riskier projects. The objective of the financial instruments under the CEF is to facilitate infrastructure projects' access to project and corporate financing by using Union funding as leverage. The CEF financial instruments shall support the financing of projects of common interest with a clear European added value, and facilitate greater private sector involvement in the long-term financing of such projects in the transport, energy and broadband sectors. At the same time, CEF financial instruments shall be designed such as to enhance the development of a sustainable financial environment – both capital markets and banks.

E - Other key points and issues

General outlook

²¹⁵ Note: 'Impairment of Assets' seeks to ensure that an entity's assets are not carried at more than their recoverable amount (IAS36).

The CEF Debt Instrument has an important role to play in the financing of infrastructure through providing complementary support to EFSI, in particular to pilot new products, sectors, or financings in Member States.

The pipeline for the CEF Debt Instrument is relatively strong (though there may be some projects that are allocated to EFSI rather than CEF at the time of project approval) as set out below:

Project	Sector
A7 Phase 2	TEN-T
Port Of Cork - Ringaskiddy Port Development	TEN-T
Pedemontana Veneta	TEN-T
Greener Shipping Financing Tools Pilots	TEN-T
New Heraklion Airport (Kasteli)	TEN-T
LNG-KrK	TEN-E
Poland Gas PCI Programme	TEN-E
Italy- France Interconnector	TEN-E

3.6. Natural Capital Financing Facility (NCFF)

Policy DG in charge:	DG ENV and DG CLIMA
Implementing DG in charge:	DG ENV
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 60 million ²¹⁶
Current Overall Budget:	EUR 60 million (2014-2017)

A - Summary

NCFF provides direct and indirect financing for natural capital investment projects. The financing may consist in loans or equity. It finances revenue-generating or cost-saving projects which promote the conservation, restoration, management and enhancement of natural capital that contribute to the Union's objectives for biodiversity and climate change

²¹⁶ The overall budget envelope of the NCFF is defined in the Commission Implementing Decision C(2014)1709 of 19 March 2014 on the adoption of the LIFE multiannual work programme for 2014-2017 and it is referred to the period 2014-2017.

adaptation, e.g. through ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste.

The NCFE is a risk sharing financial instrument which is implemented under indirect management by the European Investment Bank.

The NCFE will finance up to 75% of total project cost for direct investments. When investing in equity funds, the maximum share is 33%.

B - Description

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

Regulation (EU) N° 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) Article 17.²¹⁷

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

Policy objectives and scope

NCFE provides direct and indirect financing for natural capital investment projects. The financing may consist in loans or equity. It finances upfront investment and operating costs for revenue-generating or cost-saving projects which promote the conservation, restoration, management and enhancement of natural capital that contribute to the Union's objectives for biodiversity and climate change adaptation, e.g. through ecosystem-based solutions to challenges related to land, soil, forestry, agriculture, water and waste.

Projects will fall into four broad categories:

- Payments for Ecosystem services (PES): projects involving payments for the flows of benefits resulting from natural capital, usually a small scale bilateral transaction with a well identified buyer and seller of an ecosystem service. They are based on the "beneficiary pays" principle, whereby payments take place to secure critical ecosystem services.
- Green Infrastructure (GI): GI is a strategically planned network of natural or semi-natural areas with other environmental features designed and managed to deliver a wide range of ecosystem services. It incorporates green spaces (or blue if aquatic ecosystems are concerned) and other physical features in terrestrial (including coastal) and marine areas. On land, GI is present in rural and urban settings. GI projects have the potential to generate revenues or save costs based on the provision of goods and services, e.g. water management, air quality, forestry, recreation, flood/erosion/fire control, pollination, increased resilience to the consequences of climate change.
- Biodiversity offsets: they are conservation actions intended to compensate for the residual, unavoidable harm to biodiversity caused by development projects. They are based on the "polluter pays" principle, whereby offsets are undertaken for compliance or to mitigate reputational risks. Projects aimed at compensating damages done to Natura 2000 sites according to Article 6(4) of the Habitats Directive are not eligible for financing under the NCFE.

²¹⁷ OJ L116/1, 17.04.2014

- Innovative pro biodiversity and adaptation investments: they are projects involving the supply of goods and services, mostly by SMEs, which aim to protect biodiversity or increase the resilience of communities and other business sectors.

Implementation arrangements

The NCFE is a risk sharing financial instrument which is implemented under indirect management by the European Investment Bank. The delegation agreement was signed on 18 December 2014.

The NCFE is currently implemented in a pilot phase, which will allow testing different financing options to focus on the most suitable approaches in a potential second phase. The EIB has the possibility to invest the available funds up to the end of 2019. The overall EU budget contribution foreseen for this period is EUR 60 million, including EUR 10 million for the Technical Support Facility.

Added value

The added value of the NCFE is to address current market gaps and barriers to the private financing of projects in the field of biodiversity and climate change adaptation. The aim is to establish a pipeline of replicable, bankable investments that will serve as a "proof of concept" and that demonstrate to private investors the attractiveness of such investments for the longer term. A further aim is to leverage funding from private investors for this pipeline of investments.

The NCFE will support projects that the EIB normally does not invest in, because they are too small, the time to ensure an investment return is too long, or the perceived credit risk of biodiversity and climate change adaptation investments is too high. To this end the EIB and the Commission agreed on a risk sharing mechanism whereby the EU funds will absorb first losses in case of project failure, thereby reducing the credit risk faced by the EIB.

When assessing the EU added value of potential projects, the EIB will investigate not only the contribution to the nature, biodiversity and climate change adaptation objectives, but also the potential for demonstration effect, replicability, transferability and the ability of the investment to leverage additional funding. The aim is to invest in some 9 to 12 operations. The broad geographical coverage is to enhance the effectiveness of the pilot phase.

A technical support facility is provided for capacity building measures to help the development of successful projects. This support will be provided to operations expected to be eligible for receiving finance from the NCFE and will develop competences in preparatory, management, monitoring, evaluation, audit and control activities.

(c) Financial institutions involved in implementation;

European Investment Bank (EIB)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 30 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 11 750 000

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

The Delegation Agreement was signed in December 2014, no operation was signed by the end of 2015.

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

N/A

(g) The balance of the fiduciary account;

A payment of 3 250 000 EUR was made on the 29 December 2014, followed by two additional payments in 2015 (15 January and 7 May).

<i>In EUR</i>	
Balance on the fiduciary account (current account)	11 750 000
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Other assets (if applicable)	
= Total assets	11 750 000

Impact of negative interest on NCFE: no impact as at 31/12/2015.

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

N/A.

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

N/A.

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

N/A.

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

• The target leverage effect.

The EU budget allocation foreseen in the LIFE regulation for the programming period 2014-2017 amounts to EUR 60 million. That amount includes EUR 50 million for the Investment Facility and EUR 10 million for the Technical Support Facility.

The total contribution by the EIB is deemed to reach EUR 100-125 million. An amount of EUR 120-240 million is the target aggregate amount of finance available to eligible final recipients supported by the Financial Instrument. For the avoidance of doubt, this amount does not include the financing that eligible final recipients make available from their own resources.

The target leverage effect as indicated in the Delegation Agreement is 2-4 (EUR 120-240 million divided by EUR 60 million of Union contribution) over the lifetime of the financial instrument (31 December 2019).

- **The achieved leverage effect:** NA for 2015

D - Strategic importance/relevance

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

The Delegation Agreement was signed in December 2014, and no operation was signed by 31/12/2015.

E - Other key points and issues

- **Main issues:**

The key implementation issues to meet the aims and requirements of the facility are:

- to identify and develop financially viable projects which have a positive impact on biodiversity and climate adaptation;
- to ensure sufficient uptake in a broad range of sectors, in view of future replicability;
- to ensure a good geographical spread among Member States, in particular in smaller Member States or where financing constraints are more acute.

- **Main risks identified:**

- low uptake is a risk. Publicity and communication, and the support facility will be important in this context.
- when implementing the NCFE, it will be taken into account that the EIB, financial intermediaries and final recipients may have limited experience with the nature and biodiversity and climate adaptation aspects of investment projects, including the proper monitoring and reporting. This is inherent to the innovative and pilot character of the instrument. The Support Facility may be used to address such issues.
- projects will be closely monitored to ensure that biodiversity and climate adaptation objectives are achieved, in line with the LIFE Regulation.

- **General outlook:**

The first two operations are expected to be signed in the second half of 2016. Both concern indirect operations, one in the form of a loan, the other in the form of an investment in an equity fund. The most recent EIB pipeline received in early 2016 lists five additional potential operations: one indirect loan and four direct loans. Most potential operations cover more than one project category, in particular projects using payments for ecosystem services, Green Infrastructure and Pro Biodiversity and Adaptation businesses. The entities proposing the potential operations come from five different MS but the investments would involve a larger number of MS. This is in line with the aim to have a balanced geographical spread.

3.7. EU SME Initiative (*focus on indirect Commission management part, i.e. COSME/H2020*)²¹⁸

Policy DG in charge:	DGs ECFIN, RTD, GROW, REGIO, AGRI
Implementing DG in charge:	DGs RTD, GROW, REGIO, AGRI
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 175 million (ceiling for contributions from each COSME and Horizon 2020) ²¹⁹
Current Overall Budget:	EUR 1 137 million (ERDF)

A - Summary

SME support is a main focus of the European Structural and Investment Funds (ESIF), and financial instruments play an increasingly important role within ESIF support. The basic act governing ESIF interventions is the so-called Common Provisions Regulation (CPR; see below for more information).

Within the financial instruments "family", the SME Initiative is a real novelty, in that it combines different EU funding resources in one financial instrument – namely resources from ESIF, COSME or Horizon 2020 and EIB Group resources. Thereby, it increases the leverage of (both public and private) additional resources to be mobilised for SME support. Its overall aim is to enhance access to finance for SMEs, to stimulate economic growth and entrepreneurship. Access to finance is a real issue in the economy of at least several Member States in Southern and Eastern Europe: the problem is not so much the lack of liquidity in the market, but the missing transmission of that liquidity into the real economy, so that SMEs have adequate access to finance at reasonable conditions, which enables them to invest, develop their competitiveness and grow. Often, a lack of collateral on the SME side is the main reason why banks are not willing to lend.

There are several crucial elements of the SME Initiative which ensure its contribution to the objectives of better SME access to finance and, thereby, enhanced SME competitiveness, innovativeness and growth – e.g. its unique and targeted products, the enhanced leverage, the early deployment and frontloading of payments, but also the streamlined and comparatively light documentation necessary to implement it. The aspect of geographical diversification in the sense of Cohesion Policy, i.e. the fact that the policy focuses explicitly on less developed regions, is also fully taken into account: the single dedicated national programme (SDNP),

²¹⁸ Article. 46 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council ("Common Provisions Regulation"/"CPR") provides for the reporting framework for financial instruments under shared management including – in connection with Article 39(10) CPR – the SME Initiative. According to Article 111 CPR, each year by 31 May (in 2017 and 2019 by 30 June), Managing Authorities have to provide their Annual Implementation Reports on the preceding year, which must include, as an annex, the information on financial instruments set out in Article 46 CPR. That latter article also stipulates that "each year, starting in 2016, the Commission shall, within six months of the deadline for the submission of the annual implementation reports referred to in Article 111 ... provide summaries of the data on the progress made in financing and implementing the financial instruments." Hence, most of the data relevant with regard to the implementation of financial instruments under shared management will only be available on 30 November each year, and this is true also for 2016.

²¹⁹ There is an aggregate ceiling of EUR 8 500 million for ERDF and EAFRD according to Article 39 CPR.

although being a national Operational Programme, can have regional compartments so that the regional allocations to the SME Initiative remain clearly visible.

Concrete implementation in terms of loans provided to final recipients through financial intermediaries has taken place so far (i.e. as of 31/12/2015) only in Spain. In Malta, the SME Initiative was at the state of ongoing negotiations between the EIF and financial intermediaries responding to the EIF's call for expression of interest. In four other Member States (Bulgaria, Italy, Romania, Finland), preparations for implementing the SME Initiative were underway.

The target volume of new loans to be generated for all Spanish regions is EUR 5 723 million, out of which EUR 2 976 million are guaranteed by the ESIF contribution (at a guarantee rate of 50%).

B - Description

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

The EU SME Initiative may receive funding from the following four programmes.

COSME:

Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 - 2020) and repealing Decision No 1639/2006/EC (OJ L 347/33 of 20 December 2013). The European Commission has established financial instruments that aim to facilitate and improve access to finance for SMEs in their start-up, growth and transfer phases, complementary to the Member States' use of financial instruments for SMEs at national and regional level.

H2020:

Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC (OJ L 347/104 of 20 December 2013) and pursuant to the Decision No 2013/743/EU of the Council of 3 December 2013 establishing the Specific Programme implementing Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020), the European Commission has established financial instruments that aim to ease access to the risk financing for final recipients carrying out research and innovation projects.

ERDF and EAFRD (Article of the 39 CPR):

On 17 December 2013, Regulation (EU) No 1303/2013 of the European Parliament and the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347/320 of 20 December 2013) was adopted.

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

Policy objectives and scope

The SME Initiative has been presented on 27-28 June 2013 in the Commission's and EIB's joint report to the European Council, to complement and utilise synergies between existing

SME support programmes at national and EU level. More specifically, the SME Initiative is a joint instrument, combining EU funds available under COSME and Horizon 2020 and ERDF-EAFRD resources in cooperation with EIB/EIF in view of generating additional lending to SMEs.

Implementation arrangements

Three financial instruments could be implemented under the SME Initiative, and they boil down in substance to two alternative ways of operating, namely:

(*) uncapped guarantees providing capital relief to financial intermediaries for new portfolio of debt finance to SMEs and

(**) securitisation instruments (with two possibilities, i.e. option n°2 securitisation instrument with MS contribution used exclusively for the participating MS and option n°3 securitisation instrument with several MS contributions pooled and used to provide protection on the aggregate exposure, particularly to the mezzanine tranches guaranteed by EIF).

The period of time during which the participating Member State may commit some funds to the EIF shall expire on 31 December 2016. As it will be defined in the funding agreement that shall be signed between the EIB and the participating MS, the selected financial intermediary will originate new debt finance no later than the end of the eligibility period (i.e. 31/12/2023).

In terms of budget, the Common Provisions Regulation foresees a global ceiling (for all Member States) of EUR 8,5 billion of aggregate ERDF-EAFRD to be committed under the SME Initiative, and a ceiling by Member State of 7 % of their allocation from the ERDF and EAFRD. In that scenario, the corresponding maximum COSME and Horizon 2020 contributions would amount to EUR 175 million each over the 2014-2016 period.

As of 31/12/2015, financial intermediaries were selected in Spain²²⁰. The instrument's implementation in Spain and Malta is based on their respective Operational Programmes signed in December 2014 and their Intercreditor and Funding Agreements signed in January and July 2015. Also, in 2015, four other Member States (Bulgaria, Italy, Romania and Finland) confirmed their interest to participate and were preparing the necessary framework and documentation to do so.

Added value

As indicated in the legal base, the added value of the EU contribution results in a minimum leverage effect (of 4 in the cases of Spain and Malta) over the lifetime of the financial instrument for the ERDF contribution. Based on the minimum leverage of the instrument agreed in the Single Dedicated National Programme, it is estimated that the total amount of investments/loan volumes mobilised would be around EUR 6 billion for Spain and Malta (based on all available funds, i.e. ERDF, H2020, EIB/EIF and private (bank) funds).

A portion of the new Debt Finance portfolio equal to at least 20 times the contribution under the COSME Regulation and/or 9 times the contribution under the H2020 Regulation should fulfil respectively the COSME and/or H2020 eligibility criteria. Therefore, the table under point k) is summarising the overall leverage that should be reached for each option. The new debt finance originated by the selected financial intermediary should also include an amount equal to 20 times the COSME and/or 9 times the H2020 contribution.

²²⁰ [The EIF has a dedicated website](http://www.eif.org/what_we_do/guarantees/sme_initiative/smei_signatures.pdf) providing more information on these financial intermediaries [http://www.eif.org/what we do/guarantees/sme initiative/smei signatures.pdf](http://www.eif.org/what_we_do/guarantees/sme_initiative/smei_signatures.pdf)

(c) The financial institutions involved in implementation;

European Investment Bank
European Investment Fund

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015:	14 356 506 ²²¹
Aggregate budgetary payments as at 31/12/2015:	12 531 780 ²²²

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

No data yet available.

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

No amounts returned to the instrument as internal assigned revenue as at 31/12/2015.

(g) The balance of the fiduciary account;

N/A (due to aggregation with other funds under H2020).

(h) Revenues and repayments;

No data yet available.

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

N/A.

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

No impairments of assets, no called guarantees as at 31/12/2015.

(k) The leverage effect;

The target leverage effect

The target leverage may vary between the different national instruments depending the risk sharing arrangement in the Intercreditor Agreements. The following table shows for illustrative purpose the calculation of the target leverage for the SME Initiative in Spain, in accordance with the agreed approach for such calculation. The figures represent the different risk covers/risk takers as defined in the Intercreditor Agreement: in absolute and percentage terms, the loan portfolio will have a senior tranche/risk cover accounting for 69% of its size, an upper mezzanine (4,5%), middle mezzanine (0,5%) and lower mezzanine (3,0%) part as well as a junior tranche (23%). Summing those amounts up, the part of the portfolio that is backed by the guarantee is obtained: EUR 2 862 million.

²²¹ From H2020 only (nota for info: 677,27 million EUR for ERDF; for ERDF, please see comments above).

²²² From H2020 only (nota for info: 457,84 million EUR for ERDF; for ERDF, please see comments above).

Since for the SME Initiative in Spain a guarantee rate of 50% was agreed, the originating banks will retain 50% of the risk, and the overall portfolio is thus double the amount above, i.e. EUR 5 723 million. These are loans to SMEs. Dividing this aggregate amount of EUR 5 723 million by the aggregate support provided through ERDF and Horizon 2020, EUR 816,8 million, provides the leverage targeted, namely 7,0.

Calculation of target leverage for the SME Initiative in Spain

SIUGI Risk Cover	Risk taker	Maximum Risk Cover Size (EUR)	Target Rating (at least)
Senior Risk Cover	EIB	1 974 461 538,46	Aa3
Upper Mezzanine Risk Cover	EIF	128 769 230,77	Baa3
Middle Mezzanine Risk Cover	Horizon 2020	14 307 692,31	Ba1
Lower Mezzanine Risk Cover	ESIF	85 846 153,85	Ba2
Junior Risk Cover	ESIF	658 153 846,15	Not Rated
<i>Guaranteed Portfolio without originator (corresponds to 50% because of a 50% guarantee rate)</i>		2 861 538 461,54	
<i>Originator's risk (bank own risk)</i>		50%	
<i>Total amount of the guaranteed loan portfolio (100%)</i>		5 723 076 923,08	
<i>Total ERDF/COSME/Horizon2020</i>		816 800 000,00*	
Leverage in relation to ERDF (but based on ERDF, H2020, EIB and EIF funds)		7,0	

* EU contribution including management costs and fees

The achieved leverage effect

N/A as at 31/12/2015.

The Expected Leverage for Signed Operations

The expected leverage effect for signed operations over the ESIF contribution is factor 7.

D - Strategic importance/relevance

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

SME support is a main focus of the European Structural and Investment Funds (ESIF). This is reflected by the CPR223's thematic objective 3 "Enhancing the competitiveness of SMEs", under which in 2014-2020 according to preliminary figures about EUR 59 billion will be devoted to supporting SMEs (EUR 32,4 billion by the ERDF and EUR 26,6 billion by the EAFRD). The investment priorities as laid down in the ERDF Regulation (No 1301/2013) illustrate the objectives of the ESIF programmes: promoting entrepreneurship, developing new business models for SMEs, supporting SMEs' growth and innovation capacities.

While much of this support is still provided through grants, financial instruments play an increasingly important role. Within the financial instruments "family", the SME Initiative is a real novelty, in that it combines different EU funding resources in one financial instrument, thereby increasing the leverage of (both public and private) additional resources to be mobilised for SME support.

In the Single Dedicated National Programmes (SDNPs) that Member State have to establish to devote ESIF resources to the SME Initiative, the progress in implementing the SME Initiative is measured against output indicators (e.g. the number of SMEs receiving support, the ERDF amount committed to cover the New Debt Finance portfolio (for the uncapped guarantee option) and the ERDF amount used to cover the existing portfolios of debt finance to SMEs (for the securitisation option)) as well as against result indicators (e.g. reduction in the market failure for debt finance, improvement of SMEs' access to finance, or the minimum leverage that the instrument sets out to achieve).

The Single Dedicated National Programmes for Spain (ERDF contribution of EUR 800 million) and Malta (ERDF contribution of EUR 15 million) were signed at the end of 2014. The Intercreditor and Funding Agreements for Spain were signed on 26 January 2015 and the guarantee agreements between the EIF and the selected financial intermediaries on 1 October 2015. The Maltese authorities signed their Intercreditor and Funding Agreements on 15 July 2015, and the guarantee agreements were close to finalisation and signature as of end-2015.

In 2015, four other Member States confirmed their interest to participate and were preparing the necessary framework and documentation to do so: Bulgaria (ERDF contribution of EUR 102 million), Italy (ERDF contribution of EUR 100 million), Romania (ERDF contribution of EUR 100 million) and Finland (ERDF contribution of EUR 20 million). While the respective Single Dedicated National Programmes committing these ERDF amounts to the SME Initiative were approved in November and December 2015 in case of Bulgaria and Italy, those of Romania and Finland were in a mature draft state as of end-2015.

The aspect of geographical diversification in the sense of Cohesion Policy, i.e. the fact that the policy focuses explicitly on less developed regions, is also fully taken into account: the SDNP, although being a national Operational Programme, can have regional compartments so that the regional allocations to the SME Initiative remain clearly visible and traceable. The

²²³ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006

target volume of new loans to be generated for all Spanish regions is EUR 5 723 million, out of which EUR 2 976 million are guaranteed by the ESIF contribution

E - Other key points and issues

• *Main issues, for the implementation:*

- the firm political will and commitment to implement the SME Initiative with all its novel elements (e.g. the various funds it brings together) is a *conditio sine qua non* for implementing it successfully. This also means that the different services involved within the Government (even more so if national and regional players come in) have to cooperate very effectively and efficiently.
- Moreover, a continuous reality check and reassessment needs to be carried out regarding the two options/financial products – are they really the ones best placed to improve SME access to finance? Are they adequately designed to meet the needs of SMEs (and financial intermediaries)? Is the financial volume dedicated to them appropriate? The SME Initiative has to ensure it complements – through its particular set-up and its specific products – existing financial instruments (and grants) and provides synergies with them.
- While the uncapped guarantee instrument was ready for implementation (e.g. in Spain) at the beginning of 2015, Commission services and the EIF worked together throughout the second half of 2015 to prepare the provisions for the instrument's option 2, securitisation (which is the option Italy has chosen). As at end-2015, these common provisions were in a fairly mature state, but not finalised yet.

• *Main risks:*

- To be seen once more Member States embark on implementation on the ground.

• *General outlook:*

- The central problem of the economy of at least several Member States in Southern and Eastern Europe is not the lack of liquidity in the market, but the missing transmission of that liquidity into the real economy, so that SMEs have adequate access to finance at reasonable conditions, which enables them to invest, develop their competitiveness and grow. Often, a lack of collateral on the SME side is the main reason why banks are not willing to lend. In such a context, products offered by the SME Initiative such as the uncapped guarantee instrument are very well-suited to tackle the main obstacles for SMEs to get appropriate access to finance. Hence, in principle, the main rationale for the SME Initiative remains fully valid.
- The implementation in Spain and Malta as well as the preparations for implementation in four other Member States (Bulgaria, Italy, Romania, Finland) progressed according to plan in 2015, and the Commission was satisfied to see an increased takeup of the instruments. It is expected to continue in 2016 with the outstanding steps to be completed timely in the course of 2016 (i.e. agreement on the Operational Programmes for Romania and Finland and Intercreditor and Funding Agreements for these two countries plus Bulgaria and Italy).

4. Dedicated Investment Vehicles

4.1. The European Progress Microfinance FCP-FIS	
Policy DG in charge:	DG EMPL, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 78 million*
Current Overall (2007-2013) Programme Budget**:	EUR 80 million
Executed Budget since beginning until 31/12/2015:	Commitments: EUR 80 million Payments: EUR 74 million

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

** According to information available as at 01/04/2016, including increase in budget commitments from 2008 to 2013.

A - Summary

The EPMF FCP-FIS is managed by the Management Company (EIF). The specific investment objective of the Fund is to increase access to, and availability of a range of financial products and services in the area of microfinance for:

- Persons starting their own enterprise, including self-employment;
- Enterprises, especially microenterprises;
- Capacity building, professionalization and quality management of microfinance institutions and of organisations active in the area of microfinance;
- Local and regional employment and economic development initiatives.

The Fund provides mainly debt products priced below market for the final benefit of the eligible final recipients.

As of 30/09/2015, EIF had signed 42 loan agreements in 14 member states including a Commission contribution of EUR 74 million while 24 841 micro-enterprises and vulnerable persons had been supported under the Facility for a total microloans volume of EUR 172,94 million and 41 112 jobs²²⁴ supported.

As at 30/09/2015, the entire programme (EPMF-G + EPMF-FCP FIS) provided 45 999 micro-loans to final recipients, reaching the volume of EUR 390,4 million.

²²⁴ EPMF FCP – 2015 Annual Implementation Report

B - Description

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

Decision No 283/2010/EU²²⁵ of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion.²²⁶

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

It is established as an umbrella fund, which may have several sub-funds. The Fund has been launched with an unlimited duration provided that the Fund will however be automatically put into liquidation upon the termination of a sub-fund if no further sub-fund is active at that time. At 31 December 2013, the Fund has had a single sub-fund - the European Progress Microfinance Fund (the “Sub-fund”) - created with a limited duration ending on 30 April 2020.

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

Policy objectives and scope

The Fund is an unincorporated co-ownership of securities and other eligible assets. The Fund does not have legal personality. The Fund is therefore managed in the exclusive interests of the Unit-holders (the European Union, represented by the Commission, and the EIB) by the Management Company (EIF) in accordance with Luxembourg laws and the Management Regulations.

The specific investment objective of the Fund is to increase access to, and availability of a range of financial products and services in the area of microfinance for the following target groups (see also the objectives under the EPMF-Guarantee Facility above):

- persons starting their own enterprise, including self-employment;
- enterprises, especially microenterprises;
- capacity building, professionalization, and quality management of microfinance institutions and of organisations active in the area of microfinance;
- local and regional employment and economic development initiatives.

Implementation arrangements

The FCP-FIS is managed by the Management Company (EIF) which is vested with the broadest powers to administer and manage the Fund and the sub-fund(s) in accordance with the Management Regulations and Luxembourg laws and regulations and, in the exclusive interest of the Unit-holders, to exercise all of the rights attaching directly or indirectly to the assets of the Fund.

The EIF has the exclusive authority with regard to any decisions in respect of the Fund or any sub-fund(s), and shall act with the diligence of a professional management company and in good faith in the exclusive interests of the Unit-holders.

The Fund issues unit classes, which are redeemable at the option of the Management Company on a pro rata basis among existing investors in accordance with the provisions of the management regulations and the commitment agreements.

²²⁵ European Progress Microfinance Facility includes both Guarantees (EPMF-G) and Funded instruments (FCP-FIS).

²²⁶ (OJ L 87/1, 7.4.2010)

Unit classes are issued and redeemed at the option of the Management Company at prices based on the Fund's net asset value per Unit of the related redeemable Unit classes at the time of issue or redemption.

The following classes of Units are available for subscription under the single sub-fund of the Fund:

- Junior Units

Junior Units are subordinated to the Senior Units and shall bear the first net losses in the Sub-Fund's assets. Junior Units are reserved for the European Commission.

- Senior Units

Senior Units are senior to Junior Units and shall only suffer a net loss in the Sub-fund's assets if the cumulated Net Asset Value of all Junior Units together has been reduced to zero.

The financial contribution from the Union budget to the EPMF Fonds Commun de Placement – Fonds d'Investissement Spécialisé (EPMF FCP-FIS) for the period from 1 January 2010 to 31 December 2015 amounts to EUR 80 million. In addition, the European Investment Bank has matched the overall Union contribution into the EPMF. Consequently, the Commission is a founding investor in the Specialised Investment Fund, contributing with 44% (80 million EUR) of the total funding. The EIB is the other investor with a contribution of 100 million EUR. The Commission has subscribed for junior units, thus bearing the first loss.

In accordance with the EPMF FCP-FIS's Management Regulations, the Investment Period ends on 7 April, 2016. However, the Management Company may decide to extend the Investment Period subject to the unanimous approval of the Sub-Fund's Meeting of Investors.

The Facility is implemented via debt and equity instruments (FCP-FIS); the implementation foresees also support measures, such as communication activities, monitoring, control, audit and evaluation which are directly necessary for the effective and efficient implementation of the Decision No 283/2010/EU and for the achievement of its objectives.

Added Value

The Fund constitutes one of the EU core measures to mitigate the consequences of the economic crisis. By providing debt, equity and funded risk sharing instrument to MFIs located within the EU, it aims to increase the access to, and availability of, microfinance for the most vulnerable. The microenterprise segment is the cornerstone of the EU economy: more than 90% of EU businesses and almost all start-ups are microenterprises. Some 66% of business start-ups are made by unemployed people. The Fund enables economic independence for micro-entrepreneurs who might otherwise have difficulties in accessing funds for business start-ups, in the current context of reduced credit supply. It provides concrete support for economic growth, employment creation and social inclusion.

(c) The financial institutions involved in implementation;

The Fund is managed by the EIF as a Management Company. The Management Company has to comply with the requirements of the investors as set out in the legal documentation (Management Regulations and Prospectus) and with the obligations arising from the governing law of Luxembourg.

EIF is vested with the broadest powers to administer and manage the Fund and the sub-fund(s) with the diligence of a professional management company and in good faith in the exclusive interests of the Unit-holders.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 80 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 74 000 000

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

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 390,8 million 60 012 eligible FRs ²²⁷
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 558,3 million ²²⁸
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 172,9 million 24 841 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 247 million ²²⁹

Note: No further budgetary commitments have been made by the Commission since the end of the commitment period on 31/12/2013.

Additional operational information

As of 31/12/2015 the total contributions of the shareholders (Commission and EIB) to the EPMF FCP amounted to EUR 172,66 million (Commission contribution = EUR 74 million to FLP and EIB contribution to second loss piece = EUR 98,66 million) therefore any investment of the Fund (mainly senior loans) was made in accordance to the ratio 1:1,33 between the Commission and EIB.

As of 30/09/2015, 42 Agreements have been signed in 14 Member States including a Union contribution of EUR 74 million, with a clear geographical balance between Eastern and Western Europe.

On 31/12/2015, the signed agreements between EIF and the Intermediaries amounted to some EUR 172,66 million (Commission contribution = EUR 74 million and EIB contribution = EUR 98,66 million) and aimed at leveraging an additional contribution from the intermediaries of EUR 218,14 million, in order to have a total of EUR 390,8 million (expected volume) in micro-loans to final recipients.

²²⁷ Estimate based on an average loan amount per FB as at 30/9/2015 = 6 512 EUR

²²⁸ The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.

²²⁹ The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.

Impact on employment

For the entire period as of 30 September 2015 (latest data available as at writing date), EPMF achievements for the FCP-FIS component of the programme were as follows:

- Total amount of micro-loans: EUR 172,94 million
- Total number of employees (in the supported micro-enterprises): 41 112 ²³⁰

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

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

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

N/A.

(g) The balance of the fiduciary account;

N/A.

(h) Revenues and repayments;

Revenues:	EUR 12,7 million
Repayments:	EUR 31,3 million

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

EUR 71 million²³¹

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

N/A.

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

As of 30/09/2015, based on the signed loan agreements, the total target volumes of micro-loans to final recipients are estimated to EUR 390,8 million, bringing the expected leverage effect to 5,2 (the expected volumes of microloans divided by EUR 74 million of Commission's contribution); this is much higher than the minimum target leverage of 2,33.

As for achieved leverage until 30/09/2015, the Commission's contribution paid of EUR 74 million has supported so far EUR 172,94 million of new micro-loans, implying a leverage of 2,33.

²³⁰ EPMF FCP-FIS Annual Implementation Report – 2015, data as of 30th September, 2015.

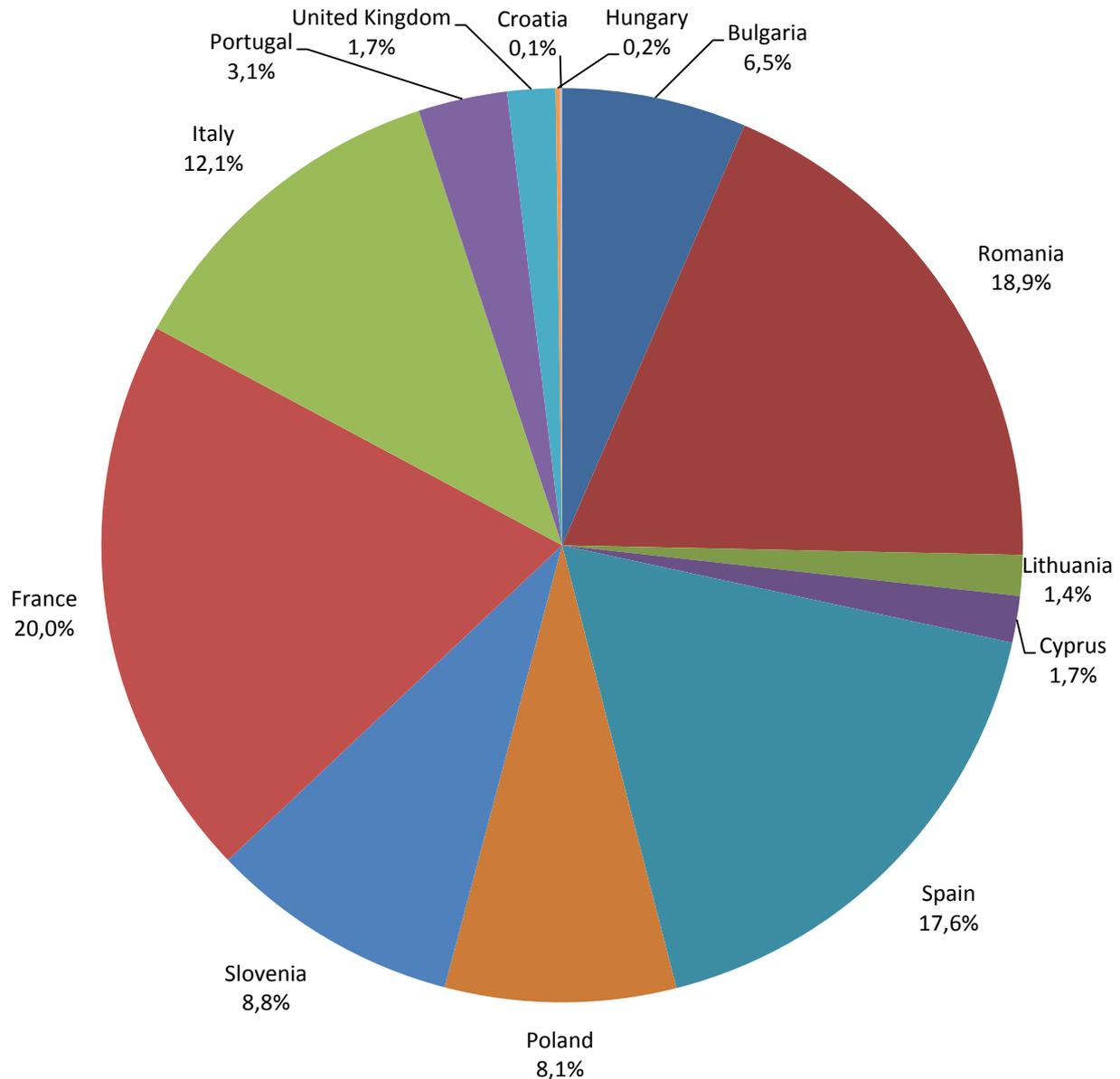
²³¹ NAV, source : 2015 audited accounts EPMF FCP-FIS

D - Strategic importance/relevance

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

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

The share of each participating country in the total amount of financing already provided (EUR 172,94 million as of 30/09/2015) by the FCP instrument to eligible final recipients is presented in the following graph.



E - Other key points and issues

• Main issues for the implementation:

- in terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2015, which is also reflected by the

increased lending activity under EPMF FCP. The Microfinance Institutions' demand for stable access to funding clearly remains as inter-bank lending and other sources of funding have not yet picked up again.

- The continuously decreasing bank lending, the limited capacity and priority of national governments to support microfinance, and the strong market demand for microfinance suggest that there is a clear rationale for intervention at EU-level.
- Despite its positive effects in the area of employment and social inclusion, without access to stable funding and without the necessary capacity building component, the growth and sustainability prospects of the sector, particularly for non-bank MFIs which are focused on social inclusion lending, remain limited.

• **Main risks :**

- risk is inherent in the Fund's activities but is managed through a process of on-going risk identification and measurement, monitoring of the benefited MFIs and other controls regarding the observance of specific portfolio limits and restrictions in order to ensure that the investments are diversified to an extent that an adequate spread of the investment risk is warranted.
- The EIF as Management Company is responsible for the overall risk management approach and for approving the risk strategies and principles.
- The Management Company monitors these investments on an on-going basis by analysing regular reports (i.e. quarterly financial covenants compliance, quarterly financial statements and key performance indicators such as portfolio, liquidity, capitalisation and profitability) and through direct contact with each financial intermediary and site visits.
- The Management Company has in place monitoring process to identify potential deterioration of counterpart creditworthiness and anticipate potential impairments on the portfolio and/or review of the counterpart internal rating.

• **General outlook:**

- based on forecasts subject to variations, a further EUR 12,3 million is envisaged for new deals for the EPMF FCP Facility within 2016.

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

Policy DG in charge:	DG MOVE
Implementing DG in charge:	DG ECFIN
Operating Body in charge:	Marguerite Adviser (the Fund Manager)
Initial Overall Budget Envelope:	EUR 80 million
Current Overall Budget:	EUR 80 million from the TEN-T budget (06 03 03 — Financial support for projects of common interest in the trans-European transport network (in 2013 budget nomenclature))

A - Summary

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

The core sponsors include public long-term investors from France (CDC), Italy (CdP), Germany (KfW), Spain (ICO) and Poland (PKO) as well as the EIB and a key investor, the European Commission. In total, the fund raised EUR 710 million of available capital for equity investments (final close reached in December 2012). The Commission aggregate budgetary commitment is EUR 80 million and sourced through the TEN-T budget.

B - Description

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

Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks (OJ L 162, 22.6.2007, p.1).²³²

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

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

Policy objectives and scope

The Marguerite Fund is a Pan-European equity fund developed in the context of the financial crisis and in recognition of the need for successful long-term infrastructure investment in Europe. It supports infrastructure investment within the transport (TEN-T),

²³² (OJ L 162/1, 22.6.2007)

energy (TEN-E) and renewables sectors in Member States and primarily invests in Greenfield Projects

Expected results:

- at least 3,5 times the EU commitment to be invested into TEN-T eligible projects (at least EUR 280 million),
- 30 to 40 % of the total commitments invested in the Transport sector (TEN-T network),
- 25 to 35 % invested in the Energy sector,
- 35 to 45 % invested in the Renewables Energies sector.

The investment period ends in December 2016 (with a possible extension of two more years) while the end-date/maturity of the fund has been set at a maximum term of 20 years from the start of the initial closing (December 2009) but may be extended for up to two additional one-year periods (up to December 2031).

A working group made of the representatives of the co-investors of the Fund has been organised on January 2016 to analyse the options on the future of structure and in particular, to examine a potential extension of the investment period.

Implementation arrangements

The Commission directly manages its investment in the Marguerite Fund; there is no delegation or sub-delegation agreement to any entrusted entity. The cash contributions are paid directly by the EU hence no trust account is established. The Commission is a pari-passu investor alongside its co-investors, sharing equally with other co-investors both costs and returns.

The Investment Adviser "Marguerite Adviser S.A." employs the Advisory Team and provides investment advisory services to the Fund under an Advisory agreement. As such, it is responsible for the day-to-day management and on-going activity of the Fund. The Advisory Team is in charge of origination, due diligence (appraisal), structuring and execution of the investments as well as of monitoring and asset management.

Added value of the Union contribution

The Union contribution has enabled other equity providers to be attracted in to form a pool of equity aimed at projects with trans-European dimension and/or contributing to the delivery of the EU2020 objectives. That funding pool crowded in other sponsors' equity invested in ten projects as of December 2015 as well as crowding in debt investment from project finance banks. This funding is then made available for investment in TEN-T projects and other policy-driven projects and contributes to filling missing links, reducing fragmentation and creating positive spill-overs in the region in which each project is implemented.

Concretely, the Marguerite Fund has demonstrated that six public financial institutions, along with the EU, can co-invest in an equity fund that operates on market terms and is considered as a credible investor by other players in the market. Furthermore, this cooperation between public financial institutions in launching a single pan-European fund reduces the likelihood of financial instrument duplication.

Also, this experience has increased the EU's in-house capacity to engage with direct investment in equity funds. Finally, the Fund's focus on investing in greenfield projects with a policy dimension has allowed it to close deals in less mature infrastructure markets, like those in Croatia, Poland and Romania. This paves the way for an increase of delivery of infrastructure projects via Project Finance structures in those regions.

(c) The financial institutions involved in implementation;

The Marguerite Fund was established as a Luxembourg SICAV-FIS structure in the legal form of a corporation (Société Anonyme). The management and administration of the Fund is under the responsibility of the Management Board, which is composed of one representative of each core sponsors, two representatives of the Advisory Team and three independent experts.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 80 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 43 720 000

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

As of 31 December 2015 the Marguerite Fund has committed to invest in ten projects: three projects in TEN-T transport and seven in the renewable energy sector. This represents a total equity commitment by the Fund of EUR 295 million supporting a total project cost of EUR 4 922 million.²³³

Out of the EUR 295 million, the Fund committed EUR 66,8 million of equity to the three TEN-T transport projects (23%). The Fund, is progressing towards the target of EUR 280 million equity investment to TEN-T projects (i.e. 3,5x the EUR 80 million committed by the EU) by the end of the investment period. The other EUR 228,2 million (77%) were committed to the seven projects in the renewable sector. The table below shows the detailed list of the projects.

Projects in fund portfolio (as at 31-12-2015), in EUR million⁽¹⁾		
<u>Project name (Country) – year</u>	<u>Sector</u>	<u>Totals</u>
C-Power (Belgium) – 2011	Renewables	
Toul (France) – 2011	Renewables	
Massangis (France) – 2012	Renewables	
Aeolus (Poland) - 2012	Renewables	
Chirnogeni (Romania) – 2012	Renewables	
Autovia Arlanzón (A1) (Spain) - 2012	TEN-T	

²³³ The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-plots of a larger project, the project total was estimated on the basis of the share of megawatts owned. For the projects still under construction, not all of the finance mobilized was invested as of 31-12-2015.

Poznan Waste-to-Energy (Poland) – 2013	Renewables	
Butendiek (Germany) ⁽³⁾ - 2013	Renewables	
Zagreb Airport (Croatia) - 2013	TEN-T	
N17 – N18 motorway (Ireland) - 2014	TEN-T	
TOTAL EQUITY COMMITMENT⁽²⁾		295
TOTAL AMOUNT OF MOBILIZED FINANCE⁽³⁾		4 922

Source: Services calculations based on fund reports as at 31-12-2015

Notes:

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

(2) Includes contingent equity commitment, from the fund i.e. representing 100% of the fund. Net of divestment of 1/3 stake to CDC Infrastructure that occurred in December 2013. (3) The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-plots of a larger project, the project total was estimated on the basis of the share of megawatts owned.

The ten projects in the portfolio are at various stages of development: some are already fully constructed and operating, some are under construction. In the course of 2015, the fund received distributions for an amount of EUR 8,20 million from several projects. This allowed the fund to cover its operating costs without drawing on investors' capital calls to fund them. However, no cash was distributed by the Fund to investors.

In 2015 no deal has been concluded, but two new investments were negotiated and finalised early 2016:

At the very end of 2015, Marguerite Adviser signed an agreement with Uniper to acquire its shares in AS Latvijas Gaze, a vertically integrated Latvian gas company in charge of the transmission, distribution, storage and supply of natural gas in Latvia. The transaction has been finalised in April 2016 for a net commitment of EUR 110,05 million. The EU paid the capital call corresponding to its part in the Fund (EUR 12,4 million) in late December.

In November 2015, the Alsace Region Assembly has decided to award the Project to equip the region with a new high speed fibre-to-the-home network to the NGE/ Altitude Infra consortium which was supported by Marguerite Fund and the Caisse des Dépôts. The total investment of the project amounts to EUR 480m. Marguerite Fund announced the financial close of the project early April 2016, in which it has a 37% shareholding, alongside the partners mentioned above (total ticket for Marguerite EUR 21.5M).

More projects are currently being developed and the investment pipeline for 2016 is expected to translate into further signings and closings before the investment period term scheduled on 31 December 2016 (if no extension of the period is decided by the Supervisory Board before this date).

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 80 million of commitment to a single financial intermediary, the Marguerite Fund
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Amount of financing expected to be provided by financial intermediaries to eligible final recipients , and expected number of eligible final recipients;	Overall, the Fund is expected to invest in full the EUR 710 million into the equity of circa 20 to 30 projects (eligible final recipients). The total amount of finance mobilized across these 20 to 30 projects (Marguerite equity of 710 million, co-investor equity and debt) by the Marguerite equity investment is expected to represent some EUR 10 billion.
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 295 million of equity committed by the Fund to 10 projects (final recipients), which mobilized EUR 4,9 billion of finance in total (Marguerite equity, co-investor equity and debt). ²³⁴
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 4 922 million of finance mobilized ²³⁵

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

N/A.

(g) The balance of the fiduciary account;

N/A, there is no fiduciary account: the Commission makes direct payments to the Fund on the basis of Capital Calls issued by the Fund.

Impact of negative interest on Marguerite: no impact as at 31/12/2015.

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

In the case of the Marguerite Fund, the revenues and repayments consist on the distribution of dividends or redemption of shares (net distributable cash).

Article 20.1 of the Private Placement Memorandum establishing the fund specifies that the Net Distributable Cash will be distributed (either through the payment of dividends or through the redemption of Shares) to Investors pro rata as soon as possible in the reasonable discretion of the Board upon recommendation of the Investment Adviser after the relevant amount becomes available for distribution.

Up to 31/12/2015, no distribution has taken place.

²³⁴ The figure reflects the amount of finance mobilized based on signed commitments at financial close when Marguerite invested in a project. At a given project level, it is the sum of equity investment and contingent equity committed by all investors, the total debt of the project, any pre-completion earnings of the project and any other amounts of finance mobilized. In the case of Massangis and Toul photo-voltaic farms where Marguerite owns sub-plots of a larger project, the project total was estimated on the basis of the share of megawatts owned.

²³⁵ See detailed definition in the previous footnote

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

Compared to the value for 31.12.2014 the Net Asset Value of the Commission investment in the fund has increased from EUR 36,46 million to EUR 37,9 million. Taking into consideration that payments remain the same²³⁶, this implies a change of the non-realized capital gain of the Commission from EUR 5,2 million to EUR 6,6 million representing an increase of EUR 1,4 million over the course of the year 2015.

In EUR	31/12/2014	31/12/2015
Cumulated payments by EC	31 320 000	31 320 000
Fair value (NAV) of EC stake	36 560 756	37 912 657
Non-realized capital gain (loss) of EC	5 240 756	6 592 657

Source of Net Asset Value: *Quarterly report of the Marguerite Fund to 31 December 2015, p.7*

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

Chirnogeni on-shore windfarm project Investment value (EUR 27m) has been fully written down at the end 2015, due to risk of default.

The corresponding loss for the Fund has been compensated by increase of the fair value of the other assets in the portfolio. For that reason, no impairment has been accrued by the European Commission at end of 2015.

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

• The target leverage effect:

No target leverage effect was indicated in the legal base. However, the Commission uses an estimated leverage of 125.

The leverage effect was estimated using the following method: total equity commitment provided by the Marguerite Fund is assumed to represent 7,1% of the amount of finance provided to projects (final recipients). The Commission contribution represents 11,27% of total equity commitment provided by the Marguerite Fund or in other terms 0,8% of the amount of finance mobilised by projects. This means that the leverage is $1/0,8\% = 125$.

Based on this leverage, it is estimated that the total amount of finance mobilised by the instrument (both equity and debt) at the project level (final recipient level) would be around EUR 10 billion across the three sectors (of which circa EUR 4 billion are expected to be allocated to TEN-T transport projects) for the entire duration of the programme compared to the Union contribution of EUR 80 million.

• The achieved leverage effect:

The achieved leverage effect as of 31-12-2015 can be assessed by comparing the amount of finance mobilized to that date (EUR 4 922 million) and the amount of EU budget contribution paid into the fund to that date (EUR 31,3 million – corresponding to the payments made for

²³⁶ Cumulated payments did not include the payment made late December 2015 (EUR 12,4m) to reflect the fact that the corresponding shares acquired in AS Latvijas Gaze have not been included in the portfolio at this date. The NAV of EU stake has been computed on the basis of the non audited NAV statements communicated by Marguerite Fund early 2016.(i.e $80/710 * 336\,474\,832 = \text{EUR } 37\,912\,657$).

the portfolio at end of 2015 which not yet includes the shares acquired in Latvia Gas). This gives a leverage of EU contribution as at 31-12-2015 of 157x.

D - Strategic importance/relevance

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

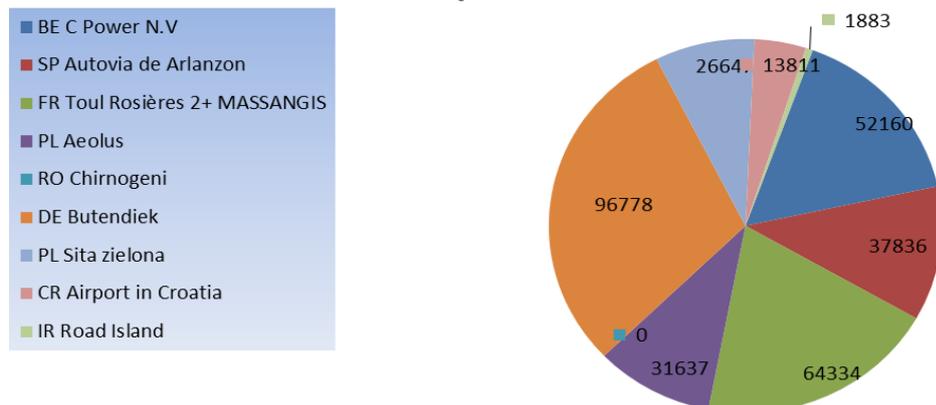
As of 31-12-2015, the Fund has committed to invest in three TEN-T projects a total of EUR 66,8 million. As of today the Commission has paid in EUR 43,7 million. The fund commitment represents a multiple of 2,1x of the amounts paid by the Commission to the fund as of 31-12-2015. This is still shy of the 3,5x target established for the end of the investment period, however the fund is progressing in delivering its investment pipeline in the TEN-T transport sector. A new deal in the transport sector (Pedemontana Veneta) is expected to be achieved in the course of 2016.

As of 31-12-2015, the Fund has been successful in helping the EU to deliver the 2020 targets by a successful financing of seven renewable energy projects in five different Member States. This includes investment in an innovative PPP scheme for the waste-to-energy plant in Poznan, Poland; Butendiek which is one of the largest off-shore windfarms in the German North Sea.

The fund was equally successful in catalysing a transfer of knowledge in terms of financial structuring into new markets: the Poznan Waste-to-Energy project was the first Waste-to-Energy project in Poland to be structured as a Private Public Partnership (PPP) with the use of EU structural funds. Also, the Zagreb Airport transaction has sent an important signal that greenfield PPPs with traffic risk in Eastern Europe can be closed, and bring attractive market-returns. The transaction is considered a benchmark for PPP bankability in the region. Zagreb Airport also was the first PPP in the Western Balkans with debt financing contributed by the EIB. Market participants considered that the expertise of the Marguerite Advisor team was crucial in ensuring the deal's workability as the first PPP to close under Croatia's new concession law. Finally, the N17/N18 motorway deal closed in April 2014 signalled a revival in Irish PPP market.

The Marguerite fund also serves as a role model for innovative financial instruments investing in European infrastructure projects. It is unique in bringing several European Development Banks together to finance a common pan-European investment vehicle. It is successful in attracting private funding (via co-investors and commercial bank lending) while demonstrating the business case behind these investments and creating a credible track record of EUR 295 million of equity commitment to ten projects representing EUR 4,9 billion of mobilized finance (equity and debt).

Value of the portfolio invested in the EU countries (In Keur)



E - Other key points and issues

• Main issues for the implementation:

- The December 2012 payment was subject to a Court of Auditors verification. In its findings, the Court stated that the Commission's participation in the Marguerite fund which invests across three sectors (TEN-T transport, Energy, ICT) violates the principle of *specification* as defined in the Financial Regulation²³⁷. The Commission considers that specification principle needs to be applied only at the end of the investment period and not on a payment-by-payment basis.
- From a risk management perspective a high level of diversification is usually preferred. This is especially true for portfolios which are diversified over different economic sectors (e.g. transport, energy, ICT) and is seen as a way to avoid concentration risk and sectoral correlation.
- However, DG ECFIN has reflected the findings of the Court of Auditors in the design of new financial instruments under the Multi-Annual Financial Framework 2014-2020. The experience from the Marguerite audit case allowed to preserve a maximum grade of diversification and stay at the same time in line with the principle of specification.
- For the Marguerite fund, the decision was made to create a new bespoke fund with a relatively original structure. While this allowed to fully respect the requirements of the initial public sponsors in terms of investment guidelines, the fund was not successful in crowding-in private investors' commitments in the successive fundraising rounds. It has to be underlined that the Fund has however demonstrated a remarkable capability of co-investing with private partners at the projects level. Other investment structures could be explored for future financial instruments with EU participation, such as a co-investment vehicle alongside a privately raised fund, investment in an existing fund, etc.

• Main risks identified:

- The Commission Decision has laid down clearly defined rules, terms and conditions as well as specific investment criteria in the Investment Guidelines to be followed by the Fund. The Investment Committee, as well as the Management and Supervisory boards closely monitor the compliance with these guidelines.

²³⁷ Council Regulation (EC, Euratom) 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, now replaced by Regulation (EU) 966/2012

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

• **General outlook:**

- The Fund constantly develops a pipeline of investment opportunities across the three target sectors (TEN-T transport, renewable energy, energy and ICT). It is in close contact with market participants and actively seeks out new transactions.
- In the near-term, the fund is expected to close:
 - a second transaction in the field of ICT to invest in a fibre network project in Nord Pas de Calais fibre (EUR 25 million), just after the successful closure of the deal in a similar project in Alsace Region early 2016.
 - a transaction in energy (KRK LNG, EUR 70 million).
 - a transaction in the transport filed (Pedemontana Veneta, EUR 150 million).

4.3. European Energy Efficiency Fund (EEEF)	
Policy DG in charge:	DG ENER
Implementing DG in charge:	DG ENER
Operating Body in charge:	Deutsche Bank as Fund manager
Initial Overall Budget Envelope:	EUR 146 334 644,50
Current Overall Budget:	EUR 146 334 644,50

A - Summary

The Fund was established in 2011 with a global volume of EUR 265 million, more than double the direct EU contribution (EUR 125 million), in line with the objective of leveraging²³⁸. In addition a EUR 20 million technical assistance grant to support project development services was made available. The Fund provides tailored financing (both debt and equity instruments) in particular for energy efficiency projects but also for renewable energy and clean urban transport projects. Beneficiaries are local or regional public authorities or entities acting on their behalf.

The fund has an investment manager, Deutsche Bank, which undertakes the pre-selection and due diligence of the projects before the Management Board (in which the Commission seats) approves them. The Fund has also an Investment Committee and a Supervisory Board (in which the Commission holds 2 seats out of 3) to give general orientations and grant derogation from the investment guidelines.

By now, the Fund has progressively established a solid track record of profitable investments (net profit registered from 2013) and is now actively looking for additional investors. It is also

²³⁸ In addition to the EU contribution, i.e. €125m in the form of junior tranches (first loss piece), the EIB invested € 75m, Cassa depositi e prestiti (CDP) € 60m and Deutsche Bank (DB) € 5m in more senior shares of the Fund.

envisaged to further extend the scope of the Fund to SMEs/private sector beneficiaries once additional investors join in²³⁹.

B - Description

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

Regulation (EU) No 1233/2010 of the European Parliament and the Council of 15 December 2010 amending regulation (EC) No 663/2009 establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy²⁴⁰

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

Policy objectives and scope

On 1 July 2011, EUR 146,3 million from the European Energy Programme for Recovery (EEPR) were allocated to a new European Energy Efficiency Fund — EEEF (in the form of a specialised investment fund (SICAV)). The EEEF invests in energy efficiency, renewable energy projects, and clean urban transport particularly in urban settings, achieving at least 20 % energy saving or GHG/CO₂ emission reduction.

The beneficiaries must be public authorities or public or private entities acting on their behalf, including ESCOs²⁴¹.

The Fund was launched on 1 July 2011 with an initial volume of EUR 265 million: in addition to the EU contribution (EUR 125 million in junior ‘C-shares’), the European Investment Bank (EIB) invested EUR 75 million (mainly senior ‘A shares’), Cassa Depositi e Prestiti SpA (CDP) EUR 60 million (mainly senior ‘A shares’); and the designated investment manager (Deutsche Bank) EUR 5 million (mezzanine ‘B shares’).

Finally, a EUR 1,3 million programme has been established to raise awareness of financing methods and options for EE and RE among national and regional authorities managing Cohesion/Structural funds. EPEC²⁴² manages this programme.

In accordance with the amending Regulation, the deadline for allocating EU funds to investment projects and Technical assistance (TA) was 31 March 2014. As of 31 December 2015, 10 projects were approved for EUR 120 million. Apart from this, there is no fixed deadline for proposals. The winding down of the instrument will take place probably after 2024.

Implementation arrangements

Fund/Investment Manager

Deutsche Bank (DB) is responsible i.e. for selecting projects and conducting a due diligence process before submitting the projects to the Fund's Investment Committee for advice and to

²³⁹ The deadline of 31 March 2014 was only applicable for the allocation of funds from the EU Contribution, not from other investors.

²⁴⁰ (OJ L 346, 30.12.2010, p. 5)

²⁴¹ An energy service company (ESCO), via an energy performance contract (EPC), can enable a public authority to implement upfront investments (e.g. to upgrade the performance levels of public buildings or to install efficient street lighting) without taking the financial risk.

²⁴² The European PPP Expertise Centre (EPEC) is a joint initiative of the EIB, the European Commission and EU Member States and candidate countries. EPEC helps strengthen the capacity of its public sector members to enter into Public Private Partnership (PPP) transactions.

the Management Board for approval. DB also manages the TA component, submitting TA propositions to DG ENER for approval.

Investment Committee

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

Management Board

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

Supervisory Board

The supervisory board (SB)'s main duties include a permanent supervision of the management of the Fund, giving strategic advice to the MB, proposing the annual Fund business plan for Shareholder approval, and approving changes in the investment guidelines etc. It is composed of representatives from the European Commission (2), the EIB (1) and the CDP (1).

Added value

The Fund offers a range of non-standard financial products such as senior and junior loans, guarantees, equity participation or forfeiting schemes which can be combined in a flexible way with standard finance. The Fund is also intended to attract further private and public investors (up to a total volume of EUR 700 million).

In addition, about EUR 20 million of the EU funding was available for technical assistance (in the form of grants) to help sponsors make projects bankable for the Fund.

Finally, a EUR 1,3 million programme was established to raise awareness of financing methods and options for EE and RE among national and regional authorities managing Cohesion/Structural funds. The programme was managed by EPEC and was successfully concluded.

(c) The financial institutions involved in implementation;

EIB was entrusted through a Delegation Agreement signed in March 2011 with the Commission to establish the Fund and manage the Union contribution.

Deutsche Bank has been appointed Investment Manager and was sub-delegated the Management of the Technical Assistance facility. CDP is a core investor in the instrument.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015 ²⁴³	EUR 146 334 644,50
Aggregate budgetary payments as at 31/12/2015 ²⁴⁴	EUR 113 203 765,34

²⁴³ Out of which EUR 125 000 000 committed in the Fund, and EUR 21 334 644,50 in Technical Assistance.

²⁴⁴ Out of which EUR 99 829 868,36 paid for the Fund, and EUR 13 373 896,98 for Technical Assistance.

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

The EEE F had successfully disbursed EUR 97 million of EU contribution to the allocated projects by the end of the investment period (31 March 2014), providing innovative financing solutions to energy efficiency projects. The technical assistance support has proved to be also very useful to support public authorities in preparing their projects that will subsequently be financed by the Fund. As of December 31, 2015, EUR 120 million have been allocated to 10 projects which will generate some EUR 340 million of final investments²⁴⁵.

For 2016, the project pipeline contains 9 projects with a total volume of EUR 253 million for which the envisaged EEE F share is EUR 92 million.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 125 million (committed to the EEEF) N/A
Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 265 million not yet determined
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 472 million (based on current investment ratio)
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 120 million (allocated amount) 10 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 219 million for 10 projects signed

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

N/A.

(g) The balance of the fiduciary account;

Balance of Fid. Account as at 31/12/2015 EUR 28,1 million²⁴⁶

²⁴⁵ Out of these, the Fund has signed contracts with 10 projects for EUR 117 million, already generating 219 million final investments.

²⁴⁶ Two Trust accounts have been created but they are not fiduciary accounts as defined in the "Annex 5 Guidelines art. 140.8". The Fund Trust account is credited with the part of the EU contribution to be used for the Fund as well as interest earned and debited with the payments of EU Contribution to the Fund. Its balance on 31/12/2015 was EUR 25 million. The TA Trust Account is credited with the part of the EU Contribution to be used for the Technical assistance, interest earned, funds recovered from Technical Assistance and debited with payments of EU Contribution to eligible costs for Technical Assistance, external audit costs, funds to be returned

Impact²⁴⁷ of negative interest on EEE-F: minor impact as at 31/12/2015

(h) Revenues and repayments ;

In line with the contractual arrangements, no revenues nor repayments are expected to be recovered by the Union budget before the closure of the instrument.

Additional information:

The fund has generated an income of EUR 4,16 million in 2015²⁴⁸ which are distributed along the income waterfall in order to cover direct operating expenditures, distribute target dividends to A and B shares (Commission's C-shares are not entitled to target dividend) and fully replenish the Commission C shares to their original nominal value.

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

The nominal value of the equity investments of the Commission into the Fund is EUR 96,88 million as at 31 December 2015. It was EUR 64,29 million as at 31 December 2014²⁴⁹. There is no difference between the issue price of the Commission's shares (C Shares) and their Net Asset Value (NAV), following the replenishment of the NAV Deficiency amount as of 31/12/2015.

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

N/A.

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

No target leverage effect was indicated in the legal base.

However, the Commission calculated an estimated leverage of 5,6 (based on a contribution of EUR 125 million to the fund, and expected final investment volume up to EUR 700 million over the lifetime of the financial instrument).

The achieved leverage (total investment volume/amount of EU contribution disbursed) at 31/12/2015 is 2,2. This is calculated as the ratio between the total amount of the investments supported by EEEF (EUR 219 million) and the amount of the EU contribution actually disbursed (EUR 97 million).

D - 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 first objective of the Amending Regulation was to establish a specialised investment Fund to reallocate the EEPF uncommitted appropriations leveraging additional contributions. This has been achieved in 2011 with the support of the European Investment Bank to which the establishment of the Fund and the management of the EU contribution were delegated.

to the Commission and the Technical assistance management fee. Its balance on 31/12/2015 was EUR 3,1 million.

²⁴⁷ Even with market conditions deteriorating over time and despite the fact that the bank that holds the fund's account has charged negative interest rates since September 2014, the net interest income generated increased and remained positive in 2015.

²⁴⁸ Source: 2015 Annual accounts.

²⁴⁹ Source: 2015 Annual accounts.

The second objective of the EEE-F was to facilitate the financing of energy efficiency investments (portfolio target of 70%), renewable energy (20%) and clean urban transport (10%). The Fund thus mostly concentrates on alleviating specific financial and non-financial barriers to energy efficiency such as high transaction costs, fragmented and small investments, limited access to credit, complex deal structuring, and low confidence of investors and lack of capacity of project promoters. In order to do so, the Fund supports the development of a credible energy efficiency market through the provision of non-standard project finance and dedicated financial products (both debt & equity) supporting in particular the development of Energy Performance Contracting. The portfolio of the Fund currently consists of 68% senior debt, 21% subordinated debt and 11% equity²⁵⁰. 79% of the financing has been provided directly to beneficiaries, while 21% has been provided through a financial intermediary.

To tackle the lack of financing and the risk aversion of investors, the EEE-F was established as a layered investment Fund, with three classes of shares. The European Commission invested in junior C shares, absorbing the first losses and taking most of the risk to attract additional investors, including private ones.

The EEE- F also serves as a role model for innovative financial instruments investing in cost-effective and mature sustainable energy projects (with payback periods of up to 18 years) that can attract private capital while demonstrating the business case behind these investments and creating a credible track record. For instance, as of December 2015, the Fund's financing of EUR 117 million has allowed the mobilisation of an additional EUR 102 million on Energy efficiency, Renewable Energies and Clean urban transport projects, thereby generating EUR 219 million of total investments.

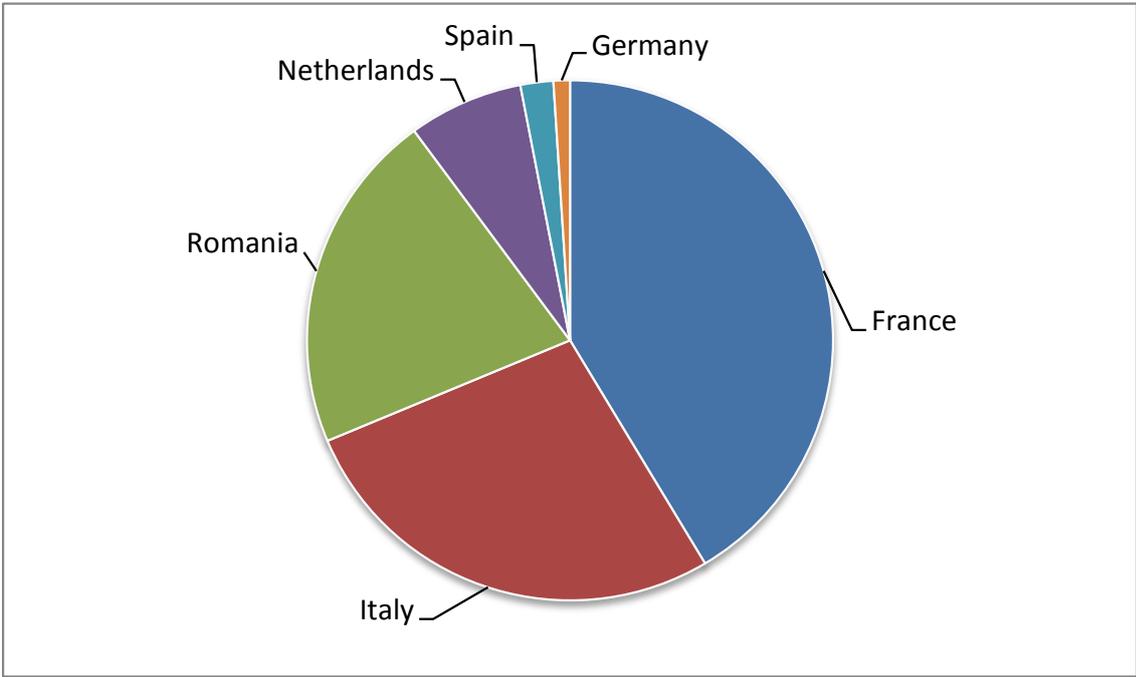


Figure 1 - Investments by country (% of total)

²⁵⁰ The total value (EUR 12,4 million) of the two projects which have an equity investment component has been taken into account.

Investments by country (% of total)	
France	41
Italy	27
Romania	21
Netherlands	7
Spain	2
Germany	1

E - Other key points and issues

• Three main issues for the implementation:

Experience with the EEE-F is very useful to understand the dynamics of the energy efficiency:

- Financing instruments for sustainable energy need to be flexible, reflecting local market needs;
- The gap in capacity to develop and finance energy efficiency investments can be effectively tackled by the provision of project development assistance, which would enable the creation of a verified track record of the impacts of energy efficiency investments, building the sector's credibility and investor confidence;
- EU-level instruments should address common barriers, market failures and impacts of the financial crisis, while complementing national or regional schemes in place, avoiding duplication and avoiding crowding out private investments.

• Main risks identified:

- In line with the requirements of the amending regulation (EU 1233/2010), the Commission has laid down clearly defined rules, terms and conditions as well as specific investment criteria in the Investment Guidelines to be followed by the Fund Manager and closely monitored by the governing boards.
- Significant changes to the founding documents of the fund, the Issue Document and Articles of Incorporation need to be approved by all core investors, so that the Commission cannot be overruled.
- In addition, the Investment Guidelines of the EEE F may only be amended by resolution of the Management Board and the Supervisory Board. In the Supervisory Board, the Commission has two of four members, including the Chairperson who has a casting vote in case of a tied vote.
- From an operational perspective, governing boards hold meetings frequently to exert regular control on the fund's investment manager and its operations.
- It is essential to stress that the investment manager is charged to comply with requirements, in particular procurement rules, and that the fund put in place its own "risk management function" and a "conflict of interest policy".
- As regards performance, the Investment Manager's fees are calculated on disbursed amount²⁵¹ and against key performance indicators to allow for an alignment of interests.

²⁵¹ The Investment management fee is calculated as a percentage of the average total outstanding amount of performing investments in Partner Institutions and Investments in Partner Institutions under active restructuring and/or collection within the quarter.

• **General outlook:**

For 2016, the project pipeline contains 9 projects with a total volume of EUR 253 million for which the envisaged EEE F share is EUR 92 million.

By now, the Fund has progressively established a solid track record of profitable investments (net profit registered from 2013) and is now actively looking for additional senior investors to leverage further the Union contribution.

5. Financial Instruments in the Enlargement Countries

5.1. Guarantee Facility under the Western Balkans Enterprise Development and Innovation Facility (EDIF GF 1)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund
Initial Overall Budget Envelope:	EUR 21,9 million
Current Overall Budget:	EUR 21,9 million

A - Summary

The WB EDIF GF I guarantees SME loan portfolios issued by commercial banks for new SME lending. It will, therefore, improve SME access to lending and potentially lowering the cost of borrowing in the Western Balkans, where access to loan finance remains one of the biggest difficulties for SMEs.

The Facility is implemented under indirect management, with the implementation tasks entrusted to the EIF. The budget for the instrument amounts to EUR 21,9 million (of which EUR 1,9 million is a provision for fees to the EIF as the Manager and EUR 20 million is the guarantee capital).

The financial intermediaries have been selected through an open call for expression of interest published in 2013 and the entire amount of the capital had been allocated to guarantees in the course of 2014 and 2015. The achieved leverage effect of the Facility is 5,4, which means that the budget of EUR 21,9 million mobilises some EUR 117,9 million of new loans.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

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

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

Its major objectives are the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument guarantees SME loan portfolios issued by commercial banks for new SME lending. This will entail improving SME access to lending and potentially lowering the cost of borrowing.

Under the instrument, guarantees of first loss of new loans to targeted SMEs with a guarantee rate of up to 70 % and a guarantee cap of up to 25 % in the overall loan portfolio can be used. Exact guarantee rate and cap is being determined on a case-by-case basis.

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

Implementation Arrangements

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation (through a Fiduciary and Management Agreement). Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF).

Added value

Under the respective guarantee agreements, the intermediary banks, commit to a range of benefits to be transmitted to the final beneficiaries, which is determined on a case-by-case basis. These include: lower interest rates, lower collateral requirements or longer loan maturities. Under the EU guarantee, a new SME loan portfolio is to be created reaching out to those companies that would otherwise not be served by the intermediary.

(c) The financial institutions involved in implementation;

European Investment fund (EIF)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 21 900 000
Aggregate budgetary payments as at 31/12/2015	EUR 21 900 000

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

The first three operational agreements with the banks were signed on the 18th and 19th of December 2013. Two further agreements were subsequently signed in 2014 with UniCredit Serbia (in August) and CKB Montenegro (September). The sixth Guarantee Facility agreement was signed in April 2015 with Raiffeisen Bank Croatia (RBA). In total, they will make EUR 117,9 million available to SMEs in these countries, allowing them to benefit from reduced collateral requirements for new loans for investment and/or working capital.

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

N/A.

(g) The balance of the fiduciary account;

<u>For Risk-sharing and Guarantee Instruments</u>	
Balance on the fiduciary account (current account)	4 600 997
Term deposits/Bonds (if applicable)	15 514 813
Term deposits < 3 months (cash equivalent)	4 500 156
Term deposits > 3 months < 1 year (current assets)	11 014 657
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Other assets (if applicable)	930
= Total assets	20 116 740

Impact of negative interests on EDIF GF: no impact as at 31/12/2015.

(h) Revenues and repayments;

N/A.

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

N/A.

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

EUR 127 711

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

The financial envelope of EUR 21,9 million leveraged a total financing of EUR 117,9 million, implying the leverage factor of 5,4. The target leverage effect as indicated in the project application form for EDIF Guarantee Facility over the lifetime of the financial instrument was 7.

D - Strategic importance/relevance

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

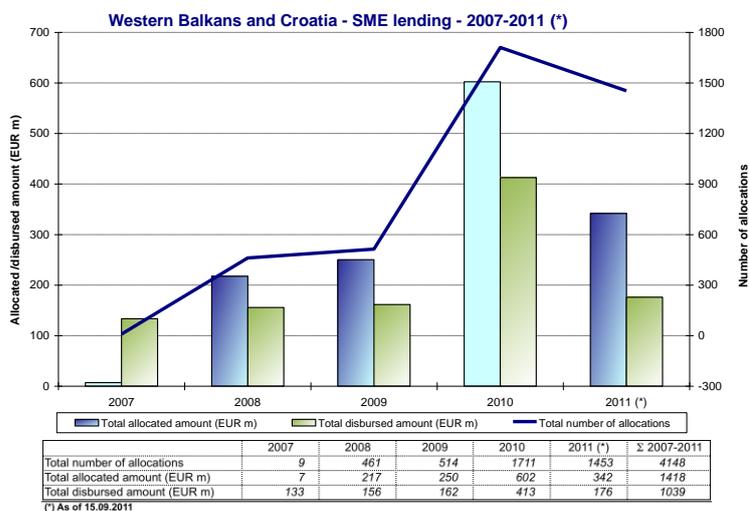
As at the end of 2015, the EDIF already contributed to provide EUR 117,9 milion of financing to 247 eligible Final Recipients.

The financial intermediaries selected through an open call for expression of interest in 2013, with whom guarantee agreements were signed in 2014 and 2015 (Croatia) include:

WB Economy	Beneficiary	Loan supported volume	Guaranteed Portfolio	Guarantee Cap
Albania		20	14	3.5
Bosnia & Herzegovina		20	14	3.3
Kosovo		20	14	3.2
Serbia		30	21	5.3
Montenegro		7.9	5.5	1.4
Croatia		20	14	3.1
Total		117,9	82,5	19,8

Access to loan finance remains one of the biggest difficulties for SMEs in the Western Balkans. Additionally, access to bank financing for SMEs in their early stage is almost impossible due to the lack of financial history of the SMEs.

In recent years access to finance of Western Balkans SMEs has increased a lot, in particular thanks to the rapid development of EIB SME loans:



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

The benefits from the GF could take a number of forms and thus respond to the key constraints in each beneficiary. However, all of the benefits will improve the investment climate by:

- reducing collateral requirements;
- creating lower cost of borrowing for SMEs;

- resulting in longer loan maturities.

In the case of innovative companies, the availability of public sector supported guarantees is usually a precondition for access to credit. Thus the GF is looking to bolster lending into start-up firms in the medium term.

GF is managed by the European Investment Fund (EIF). EIF is the European Union body specialised in SME risk financing and is member of the EIB Group. As Europe's leading developer of risk financing for entrepreneurship and innovation, EIF delivers a wide spectrum of SME financing solutions through selected intermediaries. By sharing the risk in SME development, EIF promotes the implementation of EU policies, particularly in the field of entrepreneurship, technology, innovation and regional development.

E - Other key points and issues

• Main issues for implementation:

- **Provision of regulatory capital relief:** the provision of regulatory capital relief under the Guarantee Agreements has been identified as a pivotal characteristic and its importance in the pooling of a sufficient number of qualified applicants and the selection of the most suitable for the deployment of the instrument cannot be overemphasised. What is more, in individual cases of Intermediaries that have been pre-selected and entered legal negotiations with EIF, it has been presented as sine qua non condition for the conclusion of negotiations with the signature of a Guarantee Agreement if the benefit transferred to the SMEs includes pricing reduction. This should be viewed in the context of the implementation of the Third Basel Accord that strengthens bank capital requirements. Against that background, in 2014, DG Enlargement consented to the granting of the regulatory capital relief to the intermediaries under the Guarantee Facility. This was done on the basis of the provisions of the Fiduciary and Management Agreement that stipulates that “in order to further the objective of the Action, Guarantees should aim to provide regulatory capital relief for Intermediaries”.
- **Increase of budgetary allocation:** the budgetary allocation of EUR 20 million has been fully committed to operations by the end of 2014. Under the current call for expression of interest, the aggregate amount under the applications received exceeded the budget available. It should also be noted that even under the signed operational agreements, the allocated budget per intermediary is less than the one requested by the intermediary, thus, leading to the deployment of portfolios of lower volume. The build-up of the loan portfolio of EUR 117,9 million should be seen in the broader framework of more than 300 thousand SMEs of the region that contributed approximately EUR 22 billion to the GDP of the Western Balkan Beneficiary Economies in 2012. Hence, the multi-country IPA 2014 allocated a further EUR 17,5 million to the instrument. This additional allocation was contracted under a new delegation agreement with the EIF and bears the name EDIF Guarantee Facility II and is reported separately. While the contract for the GF II was signed before year end 2015, the first instalment was not disbursed before January 2016. The EDIF GF II will be reported separately.

• Main risks identified:

Contractual and process compliance is ensured through continuous reporting and monitoring after the signature of the operational agreements in accordance with the

EIF internal procedures. In order to encourage utilisation, a commitment fee will be charged if not at least a contractually set percentage of the Agreed Portfolio Volume (the maximum loan portfolio volume that should be supported) is reached. Furthermore, a trigger event shall occur if halfway through the availability period the committed amount of loans in the portfolio is less than a contractually set percentage of the Agreed Portfolio Volume – in such a case, EIF may forbid the inclusion of more loans in the portfolio.

• **General outlook:**

The current (EDIF GF I) call for expression of interest expired on 30 June 2014. EIF has received nine applications (more than one for some of the WB Beneficiary Economies) and two expressions of interest. On this basis the 2014 McP IPA allocation of EUR 17,5 million was made and was contracted in 2015 with an intention to serve the existing pipeline. In 2015, the EIF provided the Commission with a market test that assessed further needs on guarantee facilities (beyond the EUR 39,4 million of the GF I and II). The market test showed existing needs and appetite from the local banks. From the 6 beneficiaries, Serbia has expressed the interest to further commit from their IPA national envelope for 2016 EUR 20 million (earmarked for Serbia). However, any further commitment to the Guarantee Facility beyond 2016 will be decided after additional prior assessments and after the results of the second call (EDIF GF II), which was launched in March 2016.

5.2. Guarantee Facility II under the Western Balkans Enterprise Development and Innovation Facility (EDIF GF 2)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund
Initial Overall Budget Envelope:	EUR 17,5 million
Current Overall Budget:	EUR 17,5 million

A - Summary

The WB EDIF GF 2 is the direct continuation and replenishes the WB EDIF GF. The product and objectives are identical but funds are committed in a separate mandate because the WB EDUF GF2 is compliant to the new Financial Regulation of 2014 and Funds are coming from IPA II. Under the WB EDIF GF funds were coming from IPA I and were complying to the old Financial Regulation.

Just like the EDIF GF, the EDIF GF 2 guarantees SME loan portfolios issued by commercial banks for new SME lending. It will, therefore, improve SME access to lending and potentially lowering the cost of borrowing in the Western Balkans, where access to loan finance remains one of the biggest difficulties for SMEs.

The Facility is implemented under indirect management, with the implementation tasks entrusted to the EIF. The budget for the instrument amounts to EUR 17,5 million (of which

EUR 1,05 million is a provision for fees to the EIF as the Manager and EUR 16,45 million is the guarantee capital).

The financial intermediaries will be selected through an open call for expression of interest that will be published in Q1 2016. Based on the EDIF GF 1 achieved leverage of 5,4 (see above sub. 5.1), the budget of EUR 17,5 million could mobilise some EUR 94,5 million of new loans.

B - Description

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

Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II) (OJ L 77, 15.3.2014, p. 11).

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

The Financial Instrument of the European Union for the Guarantee Facility (both EDIF GF and EDIF GF 2) contributes to achieving the objectives of enhancing socio-economic growth of the Western Balkans.

Its major objectives are the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument guarantees SME loan portfolios issued by commercial banks for new SME lending. This will entail improving SME access to lending and potentially lowering the cost of borrowing.

Under the instrument, guarantees of first loss of new loans to targeted SMEs with a guarantee rate of up to 70 % and a guarantee cap of up to 25 % in the overall loan portfolio can be used. Exact guarantee rate and cap is being determined on a case-by-case basis.

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

Implementation Arrangements

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation (through a Fiduciary and Management Agreement). Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF).

Added value

Under the respective guarantee agreements, the intermediary banks, commit to a range of benefits to be transmitted to the final beneficiaries, which is determined on a case-by-case basis. These include: lower interest rates, lower collateral requirements or longer loan maturities. Under the EU guarantee, a new SME loan portfolio is to be created reaching out to those companies that would otherwise not be served by the intermediary.

(c) The financial institutions involved in implementation;

The European Investment Fund (EIF)

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 17 500 000
Aggregate budgetary payments as at 31/12/2015	EUR 10 000 000

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

The budgetary commitment of this instrument was signed on 23/12/2015 and the implementation did not start before early January 2016. Therefore for this reporting period there is no relevant information on the performance.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 17 500 000 N/A
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	N/A N/A
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	N/A

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

N/A.

(g) The balance of the fiduciary account;

A first payment of EUR 10 000 000 was effectuated at the end of 2015 but only reached the EIF accounts in January 2016. Therefore there is not further information to be reported on the fiduciary account for the current reporting period.

<u>For Equity Instruments</u>	
Balance on the fiduciary account (current account)	10 000 000
Term deposits/Bonds (if applicable)	N/A
Term deposits < 3 months	

Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)	N/A
Other assets (if applicable)	N/A
= Total assets	10 000 000

Impact of negative interests on EDIF GF 2: no impact as at 31/12/2015.

(h) Revenues and repayments;

N/A.

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

N/A.

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

N/A.

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

Target leverage effect is between 4 and 5,2.

D - 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 diversification²⁵²;

The WB EDIF GF2 is the direct continuation of the WB EDIF GF and therefore the two instruments share the same objectives. Following the very positive uptake of the EDIF GF, the EIF performed a market research in order to assess whether there was more appetite of guarantees in the Western Balkans. The market test showed that the initial allocation of the EDIF GF was not sufficient to cover all the demand under the Call for Expression of Interest. By the time the call was closed, the EIF had received a total of 10 applications from banks in the eligible region, of which only 6 it was able to service – notably thus not being able to service all 7 economies (Croatia was a beneficiary country under the EDIF GF 1 but not under the EDIF GF 2 as this was signed post accession), and therefore to date no Guarantee Facility has been made available in the former Yugoslav Republic of Macedonia. The Call for the Expression of Interest for the EDIF GF 2 will be launched in all 6 beneficiary countries,

²⁵² No geographical breakdown as at 31/12/2015 is yet available (the facility having been launched very recently only).

Albania, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia. However, signature of portfolios happen at a first come first served basis.

As at June 2015, the utilisation figures (loans extended to SMEs) were extremely positive across all the transactions, with some banks reaching full utilisation as further detailed by the table below. Indeed some banks are already asking if further replenishment would be possible. It was further expected that at least some of the existing banks would apply for further funding if a new Call for Expression of Interest were to be published.

The market search which provided the basis and justification for the replenishment of the EDIF GF with the signature of the EDIF GF 2 for EUR 17,5 m confirmed that the additionality features of the signed agreements are very strong; and that the continuation of the product would allow the banks to extend financing to even more SMEs that were not served before, mainly due to collateral requirements. Just like in the EDIF GF, in the EDIF GF 2 financing is going to be offered to the SMEs with substantially reduced collateral requirements. In addition, the pricing shall be reduced. The presence of this guarantee may also contribute to financing investments with longer maturities.

E - Other key points and issues

Same as for WB EDIF GF 1 (please see section E under the chapter 5.1 WB EDIF GF 1).

5.3. Enterprise Expansion Fund (ENEF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)	
Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 11,0 million
Current Overall Budget:	EUR 11,0 million

A - Summary

ENEF targets SMEs with high growth potential located in the Western Balkan countries, with the objective of achieving long-term capital growth. The strategy envisaged for ENEF is a continuation of the one successfully developed by EBRD with the existing LEF facility throughout the region.

- Sector: Generalist – investing in all eligible economic sectors
- Stage: Expansion and development capital. The team will adopt a hands-on approach to foster the implementation of best market practices as promoted by EBRD and EIF.

- Geographical focus: Western Balkan countries (Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, Serbia and Kosovo).
- Capital deployment: Minority investments in c. 15-20 portfolio companies, with sales between EUR 5m and EUR 20m. Typical investment tickets will be in the range of EUR 1-7,5m, potentially doubled through the LEF co-investment. Investments will be structured using a broad range of instruments, including equity and quasi-equity securities such as preferred shares, convertible bonds, mezzanine or subordinated debt on a selective basis. Such strategy is closely related to the immaturity of the exit markets, where the scarcity of financial and strategic buyers forces investors to use mainly self-liquidating instruments.

ENEF was formally incorporated under Luxembourgish Law on 14 February 2014 with EIF (Acting as a trustee of the EC and committing own funds), DEG and EBRD subscribing a total of EUR 38,5m in the first closing.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

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

The Financial Instrument of the European Union for the Enterprise Expansion Fund (ENEF) contributes to achieving the objectives of enhancing socio-economic growth of the Western Balkans. Its major objectives are the creation of preconditions for the emergence and growth of innovative and high-potential companies. The instrument will finance development and expansion capital in established SMEs with high-growth potential in their respective markets through equity participation. Under the instrument, equity and quasi-equity investment can be used.

Implementation arrangements

The Commission is implementing the instrument under indirect management in accordance with Article 139 of the Financial Regulation. Under indirect management, the Commission may entrust implementation tasks to the European Investment Bank (EIB) Group, including the European Investment Fund (EIF). The instrument is implemented under indirect management with the implementation tasks entrusted to the EIF. ENEF Management: the European Bank for Reconstruction and Development (EBRD) is the Investment Advisor responsible for origination, structuring, executing and monitoring investments. An Independent Investment committee decides on investment and divestment proposals. The fund is supervised by the Board of Directors, comprised of EIF, EBRD and DEG.²⁵³ EBRD manages ENEF through its offices in each beneficiary country. ENEF was formally incorporated under Luxembourgish Law on 14th of February 2014 and in the course of the year concentrated on deal origination. The investments under the instrument will start in 2015. Following an investment period of maximum 5 years, its portfolio will be wound up in

²⁵³ *Deutsche Investitions- und Entwicklungsgesellschaft*

a subsequent period of maximum 5 years (duration until 2025). The geographical coverage will be the Western Balkans in line with the Common Implementing Regulation.

EU added value

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

(c) The financial institutions involved in implementation;

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

Nota : ENEF has received commitments from the following investors:

- *The European Commission (EC) with a contribution of EUR 9,5m invested via the European Investment Fund by means of a Trusteeship,*
- *The European Investment Fund (EIF) with a contribution of EUR 5 million*
- *The European Bank for Reconstruction and Development (EBRD) with a contribution of EUR 19 million (including EUR 3 m from the Italian Investment Special Fund ("IISF")),*
- *The Deutsche Investitions- und Entwicklungsgesellschaft (DEG) with a contribution of EUR 5 million*
- *The Oesterreichische Entwicklungsbank AG (OeEB) with a contribution of EUR 5 million*

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 11 000 000
Aggregate budgetary payments as at 31/12/2015	EUR 10 400 000

Additional Information:

Out of the EUR 11,0 million in the financial envelope envisaged for the instrument, EUR 1,1 million is a provision for fees to the EIF as the Trustee for the Commission, EUR 0,4 million is a provision for technical assistance and EUR 9,5 million is the equity. EUR 10,4 million was paid out to the EIF in its function as a trustee in December 2012.

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

Two investments achieved as at 31/12/2015.

Amount of EU Contribution committed to financial intermediaries*, and the corresponding number of financial intermediaries; * the only financial intermediary here is the EIF	10 400 000 EUR
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for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	NA
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , And expected number of eligible final recipients;	77 000 000 EUR (fund size after first closing to be leveraged 1:1 with EBRD co-investment) approx. 15
Amount of financing already provided by financial intermediaries to eligible final recipients*, and the corresponding number of eligible final recipients; <i>* (2 investments signed in total, but as of 31/12/2015 only one disbursement made altogether)</i>	3 000 000 EUR 1 FI
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	NA

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

N/A.

(g) The balance of the fiduciary account;

<u>For Equity Instruments</u>	
Balance on the fiduciary account (current account)	8 569 546
Term deposits/Bonds (if applicable)	1 000 726
Term deposits < 3 months	
Term deposits > 3 months < 1 year	1 000 726
Term deposits > 1 year	
Bonds current	
Bonds non-current	

Equity investment (see also point i)²⁵⁴	320 602
Other assets (if applicable)	
= Total assets	9 891 142

Impact of negative interests on ENEF : no impact as at 31/12/2015.

(h) Revenues and repayments;

N/A.

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

As at 31/12/2015 EUR 320 602 from the entire EU contribution to ENEF is reported as equity investment. The rest of the funds are in cash.

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

N/A.

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

After the first closing, the EU financial envelope of EUR 11,0 million leveraged another EUR 27,5 million leading to a total Fund size of EUR 38,5m. Given the association of ENEF to EBRD's co-financing facility (Local Enterprise Facility) which will always match ENEF investment at a ratio of 1:1, the total estimated leverage could reach 77 million. The total estimated leverage factor is then 7. That figure is expected to change after the second closing, which will take place in 2016. The target for the second closing is EUR 55 million. Following the 1:1 pari passu principle the ultimate target leverage can reach up to 10 (after the second closing achieves EUR 55 million).

D - Strategic importance/relevance

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

In the course of 2015, ENEF had its second closing, which marked the end of the fund raising stage. The size of the fund as of end 2015 is EUR 47,5 million.

A solid pipeline of more than 300 companies will be targeted in Q1-2 2016. Until the end of 2015, more than 360 companies were met for assessment of potential deals. Conversion rate is low but started to pick up towards the end of 2015. From the first contract, at least 12- 18 months are needed to close a deal. The fund manager aims at a realistic rate of 3-4 investments per year.

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

²⁵⁴ Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.

On 1 June 2015, the first investment of the fund was signed. The recipient is Viva Fresh, a retail chain operating in Kosovo. The total amount of the investment is EUR 6 500 000 (tranche 1 for EUR 3 000 000 was committed and disbursed before end 2015 and there is an uncommitted tranche 2 for EUR 3 500 000, which will be disbursed later) to be shared between ENEF and EBRD on 50:50, pari passu basis. The instrument is a loan with performance related remuneration upon a liquidity event and the proceeds will be used to fund the expansion of the retail operations of Viva Fresh.

On 28 December 2015, the second investment of the fund was signed. The recipient is the Bosnian company. The total amount of the investment is EUR 2 000 000 in two equal tranches to be shared between ENEF and EBRD on 50:50, pari passu basis. The instrument is a loan with some performance related remuneration and the proceeds will be used to fund the expansion of the operations of Krajina Klas. The disbursement of tranche 1 is expected in the second half of February or in March 2016.

As of 31 December 2015, the Fund had drawn down EUR 1 972 001 (EUR 303 001 on 19 June 2014 and EUR 1 669 000 on 16 June 2015, to cover the ongoing expenses of the Fund and the first investment), equivalent to 4,1% of the committed capital. The balance of accounts as of 31 December 2015 was EUR 144 618,71.

Further drawdowns will depend on the approval of new investments and potentially the commitment of the second tranches to Viva Fresh and Krajina Klas.

E - Other key points and issues

• Three main issues for the implementation:

- **Quality Deal flow:** The sufficient deal flow of potential investees is necessary to allow ENEF to invest in viable companies with high growth prospects within the defined Investment Period. Traditionally the economies in the WB region are characterised by companies that are less innovative with low value added products which naturally makes it more difficult to identify viable investee companies.
- **Lack of knowledge / access to alternative funding instruments in the target region:** the predominant reliance of entrepreneurs on traditional banking products is an inherent characteristic of less developed economies. Such reliance, however, makes entrepreneurs less educated and willing to consider alternatives to traditional funding such as equity funds considering them as “too complicated”; Therefore it could be expected to take more time from deal identification to deal closure in the region than in more developed economies. Indeed, since the launch of the Fund, the EBRD has done the due diligence on a large number of companies, however the mortality rate has been high as only 2 investments were made in the course of 2015. This is the result of lack of knowledge but also due to the often non conform reporting and accounting methods SMEs are using. Under EDIF, the technical assistance service includes actions that aim at harmonising accounting and reporting standards (REPARIS programme by the World Bank) and developing the venture capital environment (Small Business Support programme by the EBRD and Venture Capital Environment programme by the World Bank).
- **Lack of exit routes:** Due to the characteristics explained above and the remote interest of equity funds in the WB region, it will be substantially more difficult to realise exits than in other economies. Thus it is considered more appropriate to

use quasi-equity instruments which naturally pre-empt an exit route in their structure. Another consideration with a view of future instruments, is that they could act as a catalyst and attract the attention of regional and pan-European equity players to the WB region by co-investing with them on a deal-by-deal basis while providing certain incentives for the participating investors. The latter could be used to efficiently address both, the shortage of private capital and the difficulties of realising exits due to lack of critical mass of follow-on equity investors.

• **Main risks identified:**

- **Fund Management expertise:** The local expertise in structuring and managing equity funds is largely underdeveloped in the WB Region leading to a very compressed group of individuals that can adequately make and subsequently manage venture capital investments. In order to address such a shortfall, involvement of specialised investors (International Finance Institutions) is sought to ensure a responsible lay-out and implementation of best industry practices in fund management and selection of the right combination of experts and skill sets for management of such instruments. In the case of ENEF, EBRD has been selected as Investment Adviser responsible for sourcing and structuring deals which are approved by an independent Investment Committee. The overall control and ultimate responsibility of ENEF rests within its Board of Directors comprising the representatives of EIF, DEG and EBRD.

• **General outlook:**

Fund performance: the service provider, led by the COO of ENEF has been actively working together with the Board of Directors with regards to improving the investment pace of the fund which has been sluggish in its start due to adverse market conditions. It is expected that with certain measures of flexibility the investment pace during 2016 shall improve and EIF is following the situation closely both with regards to its own investment as well as that of the EC.

As at end 2015, over 360 companies in the entire WB region were visited by the Service Provider to discuss financing, the mortality rate remains high however at due diligence stage.

5.4. Enterprise Innovation Fund (ENIF) under the Western Balkans Enterprise Development and Innovation Facility (EDIF)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 21,2 million
Current Overall Budget:	EUR 21,2 million

A - Summary

ENIF focuses on investing in the WB technology companies with high growth potential.

- Stage focus: ENIF invests in companies from seed and early stage to later stage across a spectrum from pre-revenue and very early revenue through companies with established revenues and close to profitability. ENIF aims to invest about 30% of the Fund in SMEs with tickets ranging EUR 500k- EUR 1m, however without limiting the possibility for follow-on investments as well as the overall profit-oriented character of ENIF.
- Sector focus: ENIF targets innovative SMEs in all technology sectors with potential for high growth. In addition, the Fund pays special attention to the ICT sectors (software, telecom, consumer electronics, mobile technologies, Internet and media) due to their high innovation potential in the WB Region.
- Geographical focus: ENIF focuses on the Western Balkans countries, i.e.: Albania, Bosnia & Herzegovina, Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia and Croatia (all qualifying for EU or Accession Countries). All of the Fund's investments will be in SMEs (EU SME definition).
- Capital Deployment: At target size, the ENIF Manager expects to build a diversified portfolio of around 20-25 companies from the entire WB geography. The average investment per company should be in the range of EUR 1 – 1.5m (provided in several tranches), targeting a stake at entry of ca. 30%.
- Seed Pocket: EIF has proposed and the ENIF Manager has agreed to dedicate an amount of EUR 1.5m within ENIF to be invested exclusively in 25-30 companies in pre-seed and seed companies across the entire WB Region. Together with the Seed Pocket, the total number of companies to be supported through ENIF at minimum fund size is expected to be 45-55.

The main development in 2015 has been the final incorporation of the Fund in the Netherlands as per the legal structure approved by the EDIF governing body, the Project Advisory Group (PAG) in July 2015 and, subsequently, its first closing (September 2015). The total fund size was at the end of 2015 EUR 25 million.

B - Description

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

Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA), and in particular Article 14(3) thereof (OJ L 210, 31.7.2006, p. 82).

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

Implementation Arrangements

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation, while entrusting the implementation tasks to the European Investment Fund (EIF).

The instrument started in 2015. Following an investment period of maximum 5 years, its portfolio will be wound up in a subsequent period of maximum 5 years (up to 2025). The

geographical coverage is the Western Balkans in line with the Common Implementing Regulation.

EU added value

At the level of the finance-pooling, ENIF attracts private sector investors to what is perceived as a risky and complex SME market (the Western Balkans) with small, fragmented economies. Furthermore, ENIF diversifies sources of financing for the innovative companies, enabling growth and employment creating investments. ENIF is particularly innovative in that it is to finance the riskiest segments of the SME population, innovative SMEs and start-ups/early stage development, typically of interest to venture capital investors, who have so far avoided the region. Hence, ENIF also serves as a market test for the venture capital investment potential in the region.

(c)The financial institutions involved in implementation;

- EU Commission- EUR 12,5 million (plus EUR 6,2 million direct contribution to the Fund Managers expenses only during the investment period)
- EIF – acting as a trustee on behalf of DG NEAR’s contribution as well as investor in ENIF- EUR 5 million
- EBRD – Investor in ENIF- EUR 5 million
- KfW – Investor in ENIF EUR 8 million
- Beneficiary countries- Investros in ENIF- EUR 5 million

It should be noted that the EU contribution has not been fully commitment yet because the EIF/ EU contribution could not exceed 50 % of the fund's size. Therefore the remaining EU contribution (EUR 1,6 million) will be incorporated into the fund once its size reaches EUR 40 million.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 21 200 000
Aggregate budgetary payments as at 31/12/2015	EUR 21 200 000

Additional Information:

Out of the EUR 21,2 million financial envelope envisaged for the instrument, EUR 0,9 million is a provision for fees to the EIF as the Trustee for the Commission, EUR 6,2 million is a provision for technical assistance (Fund manager) and EUR 14.1 million is earmarked for the equity investments. Out of the EUR 14,1 million, EUR 12,5 million were committed in the first closing, while the rest will be committed in the second closing.

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

ENIF was incorporated in 2015.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	21 200 000 EUR 1 FIs
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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; <i>*after first closing. This amount is calculated on the 1:1 basis ENEF- EBRD</i>	50 000 000 EUR NA
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	0 million EUR 0 FIs
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	NA

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

N/A.

(g)The balance of the fiduciary account;

Balance on the fiduciary account (current account)	8 662 115
Term deposits/Bonds (if applicable)	12 100 000
Term deposits < 3 months	
Term deposits > 3 months < 1 year	12 100 000
Term deposits > 1 year	
Bonds current	
Bonds non-current	

Equity investment (see also point i)²⁵⁵	
Other assets (if applicable)	1 156
= Total assets	20 763 271

Impact of negative interests on ENIF: no impact as at 31/12/2015.

(h) Revenues and repayments;

N/A.

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

N/A; as at 31/12/2015 the EU contribution has not been used for the acquisition of equity.

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

N/A.

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

The financial envelope of EUR 21,2 million shall leverage a total investment of approximately EUR 40 to 50 million (equalling a total fund size), implying the expected leverage factor of around 2.

D - Strategic importance/relevance

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

As at the end of 2015, ENIF completed its first closing at EUR 25 million. The second closing of the Fund is envisaged for H1 2016. New investors are expected to come on board, namely KfW (+ EUR 8 million) and certain additional beneficiaries (+ EUR 1,9 million) from the region. These commitments will automatically increase the commitment from the EIF/EC (+ EUR 1,6 million), which is currently capped at 50% so that the aggregate fund size is expected to increase up to EUR 40 million.

During the reporting period, proposals were screened and on 10 December the Investment Committee approved the first investment in a Serbian tech startup entitled “Drytools” for an amount of EUR 300k. Drytools is a “Backend as a Service” (BaaS) software startup which focuses on developing tools for software development companies which reduces development time and increase efficiency. The BaaS industry is projected to grow rapidly and reach USD 7,7 billion by 2017 from an estimated \$216m in 2012. The demand for applications and software is rising and developers and software designers are one of the fastest growing job sectors. Several studies point to double digit growth in the next several years, making ENIF’s investment in Drytools especially promising

²⁵⁵ Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) ‘the value of equity investments’.

Overall, the fund manager has screened more than 135 deals, and has brought another five investment opportunities at term sheet level, with a good geographical distribution and diversification, while continuing to focus on seed and early stage companies in tech-driven companies active in various sectors. Most of the mature investment opportunities have come from Croatia. A significant number of opportunities are coming from Serbia, though they have tended to be in earlier stages, with zero to EUR 750 000 in annual revenues and the funding sought of up to half a million EUR per investment. Very few potential investments were identified with more mature organizations that would satisfy SCV's main criteria about the teams, growth and exit potential. Moving forward, more focus will be placed on finding more mature companies with more than EUR 1M in revenue and a developed organization already in place. The situation in the Former Yugoslav Republic of Macedonia has been similar to that of Serbia; where the numbers of potential investment opportunities are significant, but most of them were not developed enough to be considered for investment.

E - Other key points and issues

• The three main critical issues for the implementation:

- **Insufficient Deal flow:** the sufficient deal flow of potential investees is necessary to allow ENIF to invest in innovative and viable companies with high growth prospects within the defined Investment Period. Traditionally, the economies in the Western Balkans region are characterised by companies that are less innovative with low value add products which naturally makes it more difficult to identify viable investee companies which is even more applicable to companies in seed / start-up phase. To partially address such a problem and ensure building sufficient and quality deal flow to the Fund, it has been envisaged to allocate exclusively EUR 1,5 million under ENIF to be invested in up to 30 pre-seed/seed companies. The latter should be used to test the pre-seed / seed market in the Western Balkans Region with a view of designing and implementing a dedicated facility in the future;
- **Anchor investor participation:** Fundraising for venture capital has been extremely difficult in Europe following the crisis with 2010 and 2011 seeing the bottom of investor participation in such asset class. The situation in the Western Balkans Region is even more difficult stemming from the underdeveloped market, insufficient deal flow and lack of fund management expertise and track record on the market. Against that background, participation of an anchor investor (such as International Finance Institution) is a catalyst of other private capital by ensuring expertise and implementation of best industry practice. This is the approach taken by ENIF to attract private capital and achieve leverage;
- **Lack of other venture capital investors** to make follow-on / co-investments: Generally, venture capital investors seek the participation of other such investors (syndication) in follow-on rounds as a company develops more and requires further capital injections and expertise. Due to the characteristics explained above and the remote interest of equity funds to the Western Balkans region, it will be substantially more difficult to attract follow-on investors that are normal for venture capital funds, than in more developed markets. To address that problem future instruments could be contemplated to act a catalyst and attract the attention of regional and pan-European equity players to the Western Balkans region by co-investing with them on a deal-by-deal basis while providing certain incentives for the participating investors. The latter could be used to efficiently address both the shortage of private capital and the difficulties of co-investing stemming lack of sufficient and sizeable follow-on venture capital investors in the region.

• **Main risks identified:**

- **Fund Management expertise:** as outlined above the expertise in the venture capital industry is largely underdeveloped in the Western Balkans region leading to a very compressed group of individuals that can adequately make and subsequently manage venture capital investments; In order to address such a shortfall, involvement of specialised investors (International Finance Institutions) is sought to ensure the layout and implementation of best industry practices in fund management and selection of the right combination of experts and skill sets for management of such instruments. In the case of ENIF, EIF has been appointed to select appropriate fund manager and provide support in setting up the fund;
- **Investors in the fund:** ENIF was initially structured so that each of the IPA beneficiary governments will make financial contribution in ENIF corresponding to its GDP. Given the pioneer nature of such investments by the beneficiary governments, it remains to be seen how they will be able to mobilise funds and participation modalities in ENIF. EIF works closely with all of them with a view to mitigating these risks. In addition, KfW identified investment constraints related to the ODA eligibility requirements linked to their participation.

• **General outlook:**

Progress so far confirms forecasts at the launching of the equity funds under EDIF, namely that in the Western Balkans, venture capital market is in an embryonic stage in terms of experience and best market practices. Currently, only small financial allocations have been made into equity investment instruments. They are mainly made available by IFIs for specific sectors in a sporadic manner and without them, most companies in the Western Balkans will continue to face difficulties in accessing finance needed to develop and market their innovative products. Companies in the seed stage find themselves in even more difficult situation as no structured means of access to finance are available thus either discouraging entrepreneurship or making innovative entrepreneurs relocating to more developed markets in order to seek finance and mentorship.

ENIF has had a slow start, but is expected to generate a satisfactory number of investments within 2016.

5.5. European Fund for Southeast Europe (EFSE)	
Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund as trustee for the European Commission
Initial Overall Budget Envelope:	EUR 26 234 995
Current Overall Budget:²⁵⁶	EUR 87 684 935

²⁵⁶ For the South-East Europe (includes Albania, Bosnia and Herzegovina, Croatia, FYROM, Kosovo, Montenegro, Romania, Serbia)

A - Summary

EFSE is a public-private-partnership, attracting private capital and thereby leveraging public donor funds. EFSE extends loans to local commercial banks and micro-finance institutions in the Western Balkans, Turkey and Eastern Neighbourhood for on-lending to micro and small enterprises and households.

The fund has performed well despite the economic crisis and the overall financial sector situation. ROM and monitoring "on situ" confirms that the fund has a very high penetration down to the end borrowers. NPLs are limited and frequently monitored.

In 2010, the Group of 20 (G-20) selected EFSE as the best worldwide model of catalysing finance for small and medium enterprises (SME) through the online competition "G-20 SME Finance Challenge".

EFSE is at the "cruising speed" and while Commission should not withdraw or transfer its shares, on which the financial construct lies, it remains to be assessed whether the EU participation in EFSE would need to be increased.

B - Description

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

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

European Fund for Southeast Europe (EFSE), Community Assistance for Reconstruction, Development and Stabilisation (CARDS) 2006/018-264, IPA 2007/019-344, IPA 2008/020-300 and IPA 2009/021-373.

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

Policy objectives and scope

The EFSE is a form of public-private-partnership. The Fund aims at fostering economic development and prosperity primarily in the Southeast Europe region but also in the European Eastern Neighbourhood region through the sustainable provision of additional development finance. Its objective is to attract capital from the private sector thereby leveraging public donor funds that will assist the development of the private sector in the region. EFSE extends loans to local commercial banks and micro-finance institutions in the Western Balkans for on lending to micro and small enterprises and households.

Implementation Arrangements

European Investment Fund (EIF) manages the EFSE.

Furthermore, the EFSE operates through financial intermediaries in the region of Southeast Europe, including the European Eastern Neighbourhood Region. These include commercial banks, microfinance banks, microcredit organisations and non-bank financial institutions such as leasing companies. They on-lend funds received from EFSE to the Fund's ultimate target group: micro and small enterprises and low-income private households. All of EFSE's partner lending institutions are carefully selected: In addition to being financially stable, the institutions must treat their clients fairly and in a transparent manner.

The EFSE also has a Development Facility endowed with grants and replenished with reflows to enable technical assistance, consulting and training measures to strengthen

financial institutions in the region. It aims to enhance the long-term development impact of the Fund's investments. The EU contribution does not cover the Development Facility funding.

Added value

The EFSE generates impacts at three different levels:

- supporting micro and small enterprises as the backbone of the local economies, thereby contributing to generating income and creating employment,
- satisfying the basic need of adequate shelter,
- strengthening local financial markets.

(c) The financial institutions involved in implementation:

- European Investment Fund as Trustee for the European Commission
- International Financial Corporation (IFC)
- European Bank for Reconstruction and Development (EBRD)
- KfW Development Bank (KfW)
- Netherlands Development Finance Company (FMO)
- Oesterreichische Entwicklungsbank (OeEB)
- European Investment Bank (EIB)
- Sal. Oppenheim
- BN&P Good Growth Fund
- Credit Coopératif
- ESPA VINIS Microfinance
- Steyler Bank
- Versorgungsfonds des Landes Brandenburg
- Finance in Motion
- Deutsche Bank

C - Implementation of the financial instrument

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

Aggregate budgetary commitments as at 31/12/2015	EUR 26 234 995
Aggregate budgetary payments as at 31/12/2015	EUR 26 029 558

Additional information: The total amount of the EU contributions to the instrument, i.e. EUR 87 684 935, includes share and cash transfers from pre-existing EU-financed instruments during the period 2006 – 2011.

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

EFSE was subject for Result Oriented Monitoring (ROM) in 2012. Their performance was considered very good in all aspects. EFSE has been an international role model for

microfinance funding²⁵⁷. The performance so far has been very good with key figures steadily growing and the number of NPLs insignificant.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	113 524 561 EUR (NAV of the EU contribution for Southeast Europe) 1 FI
for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	NA
Amount of financing expected to be provided by financial intermediaries to eligible final recipients * , And expected number of eligible final recipients; <i>* only for Southeast Europe</i>	NA (this is an evergreen fund with unlimited horizon and would therefore be inaccurate to define any total financing amount expected to be provided) NA
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients* <i>*active end borrowers (Southeast Europe only)</i>	EUR 3,8 billion 598 735 loans
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	NA

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

N/A.

(g) The balance of the fiduciary account;

N/A.

(h) Revenues and repayments;

N/A.

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

EUR113 524 561 (at the level of the EFSE)

²⁵⁷ At the 2010 G20 summit in Seoul, EFSE was presented with the G20 SME Finance Challenge Award. A determining success factor of the Fund's award-winning concept was its public-private partnership structure as one of the most effective models worldwide to catalyse private capital for micro, small and medium enterprises.

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

N/A.

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

For the Southeast Europe, the financial envelope of EUR 87,6 million has so far leveraged a total amount of financing available to the final recipients of EUR 3,8 billion implying the leverage factor of 43.

D - Strategic importance/relevance

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

Overall, in the Southeast region, EFSE performance has been the following:

Outstanding Amount Invested in Partner Lending Institutions	EUR 632.1 ²⁵⁸ million
Outstanding Loan Amount Disbursed to End-Borrowers	EUR 629.5 million
Number of Active End-Borrowers	122 767
Average Size of Loans Outstanding to End-Borrowers	EUR 5 128
Micro and Small Enterprise Loans Disbursed to End-Borrowers below EUR 20,000	94%
Cumulated Amount of Approved Investments in Partner Institutions since inception in December 2005	EUR 1.9 billion
Cumulated Amount of Loans Disbursed to End- Borrowers/ final recipients since inception in December 2005	EUR 3.8 billion
Cumulated Number of Loans Disbursed to End-Borrowers since inception in December 2005	598,735

E - Other key points and issues

• *Three main issues for the implementation:*

- At present EFSE is up and running under stable conditions. To make the fund more robust (following relevant regulations, in particular IPA) the trend has been to move from National allocations to further Regional allocations.
- At present, the C share allocation of the Commission seems sufficient compared to the Fund's exposure.
- The Fund Manager has indicated however, that additional EU participation may need to be considered in the future, including specific allocations for Turkey, the country being a market in its own right.

- ***Main risks:*** According to the last reports, EFSE is being implemented successfully and there is need to grow its operations. In order for EFSE to expand its operations more C shares cushion is needed, which is habitually provided by the EU funds. Turkey is the

²⁵⁸ For the SEE region only

region where additional subordinate shares are needed. The fund manager informed the Commission that operations can be kept up at current level for another year or two and after that replenishment would be necessary for smooth implementation. However, at the moment and with competing budgetary priorities, a replenishment of EFSE is definitely not foreseen in 2017, while it is totally unknown for the following years. The EU contribution and further commitment is vital for the future implementation of the Fund.

• **General outlook:**

- The Fund has a revolving nature and has an undetermined duration.
- Any additional C-share investment beyond 2018 will need to be based on a market assessment and weighed against the potential implications of the new Financial Regulation, which introduces new rules applicable to the financial instruments.
- In addition, before any further commitments in capital, the European Commission and the EIF will have to agree on the provisions of a new delegation agreement (trusteeship agreement) that is compliant to the financial regulation (the current trusteeship is based on the old financial regulation). Negotiations on the new agreement have been ongoing in 2015 and are expected to be finalised in 2016.

5.6. Green for Growth Fund (GGF)	
Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Operating Body in charge:	European Investment Fund (as Trustee of the European Commission)
Initial Overall Budget Envelope:	EUR 19,6 million (*)
Current Overall Budget:	EUR 38,6 million (**)

(*) *appropriations approved by the Budgetary Authority in the Basic Act.*

(**) *including changes in the course of the programme, as included in the multi-annual financial programming 2014-2020.*

A - Summary

The Green for Growth Fund has continued to foster economic development and prosperity in South East Europe and Turkey by providing additional development finance for Energy Efficiency (EE) and Renewable Energy (RE) projects to broaden the financial base for these kinds of investments. Critical milestone of private investor funding was achieved in 2015, and additional private investment is in the pipeline. Private sector investment in GGF is expected to leverage Commission's investments into the region for the development of the EE and RE projects, and is expected to constitute around 25% of the total size of the Fund. The Fund continued achieving much more than the required 20% energy savings and/or 20% CO2 savings across the energy efficiency and renewable energy portfolio.

The current portfolio of projects is EUR 289 m, invested in 32 Partner Institutions (“PI”) in 11 Target Partners, with 18 203 final recipients.

From the perspective of the participating country Partner Institutions (PI), adequate financing for the particular purpose of EE and RE is important in terms of a growing demand at the level of households and Small and Medium-size Enterprises (SME) and a shortage of funds available to lend to these groups in the countries.

B - Description

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

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

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

General presentation

The Green for Growth Fund (GGF) is an innovative fund initiated in 2009 by the European Investment Bank (EIB) and the KfW Entwicklungsbank (KfW) with the support of the European Commission. The Fund provides dedicated financing for energy efficiency and renewable energy projects to help the target countries reduce CO2 emissions and energy consumption.

This is achieved by lending to businesses and households via financial institutions and through direct funding. The Commission is investing in the GGF on behalf of the beneficiaries, to support the stabilisation of financial markets and economies. These investments are made in the Fund's first-loss tranche ensuring that finance remains available to the public and private energy sector and countries keep high their potential to achieve the Energy Community's energy efficiency and renewable energy targets. The activities of GGF are complemented by a Technical Assistance Facility.

Programming 2014–2020:

- The Financial Instrument of the European Union for energy efficiency and renewable energies (Green for Growth Fund) contributes to achieving the objectives of the Multi-country Indicative Strategy Paper (MCISP) 2014-2020, i.e. support for investments in energy efficiency as a potential key driver of recovery from the economic crisis and sustained economic growth.
- Its major objectives are to contribute in the form of a public-private partnership with a layered risk/return structure, to enhancing energy efficiency (EE) and renewable energies (RE) in South-East Europe, Turkey, and Neighbourhood East regions predominantly through the provision of dedicated financing to businesses and households via partnering with financial institutions and direct finance.
- The instrument finances Financial Institutions (commercial banks and non-bank financial institutions, such as leasing companies) to finance mainly EE and RE investments in private households and small and medium-sized enterprises; direct financing of Energy Service Companies (ESCOs), small renewable energy projects as well as companies and municipal entities.
- Under the Instrument, medium to long-term senior loans, subordinated loans, syndicated loans, letters of credit, guarantees, mezzanine debt instruments, local debt securities and equity can be used.

Implementation arrangements

The Commission implements the instrument under indirect management in accordance with Article 139 of the Financial Regulation. Under indirect management, the Commission may entrust implementation tasks to the following multilateral Development Financial Institution: European Investment Fund (EIF). In 2015, critical milestone of private investor funding was achieved with the Gemeinschaftsbank für Leihen und Schenken (GLS) Bank note issuance of EUR 22 million, representing a significant step towards achieving a true PPP structure; additional EUR 32 million are in the pipeline.

Added value of the European Union contribution

C-shares bought by the European Union and the German Government are of highest risk and lowest gains, in order to incentivize the IFIs to buy B and A shares, and private sector to buy Private Notes which are, vice versa, of lower risk and higher gains. In this way, the European Union leverages additional IFI and private sector investments.

(c) The financial institutions involved in implementation;

The main investors in the Fund, besides the Commission (with the European Investment Fund - EIF as Trustee), are the European Investment Bank (EIB), KfW, European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), German Federal Ministry for Economic Cooperation and Development (BMZ) (with KfW as Trustee), and the Netherlands Development Finance Company (FMO).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015	EUR 38 633 232
Aggregate budgetary payments as at 31/12/2015	EUR 38 633 232

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

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

Fund Portfolio

The European Commission committed 38,6 million for South East Europe and Turkey, leveraging the total size of the Fund of 367,7 million as of end December 2015. This amount corresponds to the amount of loans expected to be provided to the end beneficiaries.

The current portfolio of projects is EUR 289 million, invested in 32 Partner Institutions (“PI”) in 11 Target Partners, with 18 203 final recipients.

84% of the Fund’s committed capital has already been disbursed, committed or approved for investments in PIs. Taking into account schedules repayments and pending new investments in the Fund itself, GGF has sufficient capital to meet these obligations.

The number of Partner Institutions has increased from 26 to 32.

New Investments & Pipeline

By end December 2015, six investment proposals for the amount of around EUR 60 million were approved:

- Halkbank RS (Serbia),
- Ohridska banka (former Yugoslav Republic of Macedonia),
- Procredit bank (Serbia),
- M2 (Georgia)
- TBC Bank GE (Georgia), and
- Burgan Leasing (Turkey).

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

GGF has a self-revolving character – revenue is reinvested, according to the same criteria as for the initial budget envelope. It has indeed been reinvested so.

(g) The balance of the fiduciary account;

N/A.

(h) Revenues and repayments;

N/A.

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

EUR 39 324 943 (at the level of GGF)

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

N/A.

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

The target leverage effect of the Fund at present is in the order of 9,5 (total size of the Fund 367,7 million, divided by EU Contribution). It is estimated that the leverage will generate in excess of EUR 367,7 million of loans to eligible final recipients.

The achieved leverage is in the order of 7,5 (disbursements/loans to end beneficiaries of 289 million divided by EU contribution).

The expected leverage for signed operations is in the order of 8 (disbursements/loans to PIs of 307,1 divided by EU contribution).

D - 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;

2.5. SUB-LOAN PORTFOLIO MONITORING³

DISBURSEMENT ANALYSIS AS OF 31 DECEMBER 2015

Subloan portfolio		Subloans disbursed since inception*		Amounts in Euro		
				GGF disbursements to PI*	Disbursement percentage	Remaining ramp-up period (months)
Country	Partner Institution	Number	Amount	Amount	%	
FIs in ramp-up period		371	50,240,930	148,555,174	34%	
Albania	BKT	60	15,660,515	25,000,000	63%	24
Armenia	ACBA Leasing	52	3,076,980	3,483,581	88%	2
Azerbaijan	Muganbank	-	-	4,130,525	0%	4
Croatia	Zagrebacka Banka	3	6,700,750	20,000,000	34%	0
FYR Macedonia	Ohridska Banka	-	-	2,000,000	0%	9
Georgia	Bank of Georgia	146	7,511,730	15,000,000	50%	8
Georgia	TBC Bank GE	-	-	13,812,155	0%	18
Serbia	ProCredit Bank RS	97	3,585,302	20,000,000	18%	18
Turkey	Finans Leasing	3	1,901,834	15,000,000	13%	9
Turkey	Burgan Leasing	-	-	5,000,000	0%	12
Turkey	Odea Bank	-	-	10,128,913	0%	11
Turkey	Fibabanka	10	11,803,819	15,000,000	79%	2
FIs out of ramp-up period		17,825	221,350,492	215,262,024	103%	
Armenia	Araratbank	54	1,171,415	3,819,036	31%	-
Armenia	ACBA	-	-	3,629,501	0%	-
Armenia	Inecobank	3,767	5,393,094	7,678,292	70%	-
Azerbaijan	AccessBank	45	5,550,681	10,956,903	51%	-
Bosnia and Herzegovina	NLB Razvojna Banka	441	3,717,484	5,000,000	74%	-
Bosnia and Herzegovina	Partner	2,198	5,613,924	5,500,000	102%	-
Bosnia and Herzegovina	UniCredit Bank Banja Luka	45	4,364,073	10,000,000	44%	-
Croatia	Privredna Banka Zagreb	22	4,212,631	25,000,000	17%	-
FYR Macedonia	Halkbank MK	1,993	10,301,015	15,000,000	69%	-
Moldova	Microinvest	295	176,601	1,000,000	18%	-
Serbia	Komercijalna Banka	893	19,559,424	23,000,000	85%	-
Serbia	Banca Intesa RS	2,253	7,115,285	7,000,000	102%	-
Serbia	Halkbank RS	978	6,283,408	5,000,000	126%	-
Serbia	Intesa Leasing Beograd	2	7,628,000	5,000,000	153%	-
Turkey	AK Lease	9	10,782,473	20,000,000	54%	-
Turkey	Sekerbank	4,435	49,211,191	25,000,000	197%	-
Turkey	Yapi Kredi Leasing	325	71,490,906	35,000,000	204%	-
Ukraine	Megabank	70	8,778,887	7,678,292	114%	-
NFIs		7	18,116,878	18,114,907	100%	
Albania	Lengarica	3	9,133,685	9,133,685	100%	n.a.
Georgia	Dariali Energy	4	8,983,193	8,981,222	100%	n.a.
Georgia	M2	-	-	-	0%	n.a.
Total		18,203	289,708,300	381,932,104	76%	

Source: FIM Management Information System (MIS)

* Cumulative since inception until to date

³ The subloan monitoring based on data received by the PIs includes primarily information on subloans disbursed and outstanding, subloans by economic sector, region and currency, and environmental impact data such as energy savings measures.

The current portfolio of projects is EUR 289 m, invested in 32 Partner Institutions (“PI”) in 11 Target Partners, with 18 203 final recipients.

Measures financed through GGF funding have produced annualized energy savings of 1 275 780 MWh/year and annualized CO2 reduction of 330 741 tons/year. On average, these measures are 49% and 52% more efficient in terms of emissions and energy consumption respectively. That figure is well in excess of the Fund's minimum of 20% for each category.

CO2 REDUCTION AND ENERGY SAVINGS AS OF 31 DECEMBER 2015

Measure	Cumulative disbursement amount (EUR)	share of disbursements	CO2 reduction (tCO2/year)	CO2 reduction (%)	Energy Savings (MWh/year)	Energy Savings (%)
Agri-equipment	10,642,794	4%	24,054	24%	103,076	26%
Buildings	89,618,072	31%	164,460	61%	669,562	55%
Complex heat supply and distribution systems	3,591,433	1%	7,789	52%	30,325	45%
Energy service and supply business	20,219,257	7%	-	0%	-	0%
Household devices	100,570	0%	290	34%	804	33%
Improvements in processes, process related equipment	95,096,389	33%	54,866	33%	206,594	35%
Lighting	425,345	0%	77	40%	213	40%
Vehicles	4,886,062	2%	2,558	20%	7,305	12%
Sub-total EE	224,579,922	78%	254,095		1,017,879	
Use of RE by households and businesses	9,713,817	3%	12,838	93%	49,466	95%
Use of RE for commercial energy generation	55,414,561	19%	63,808	100%	208,435	99%
Sub-total RE	65,128,378	22%	76,646		257,901	
Total	289,708,300	100%	330,741	52%	1,275,780	49%

Source: FIM Management Information System (MIS)

E - Other key points and issues

• Main issues for the implementation:

1) Additional buying of C-shares – ongoing discussions on how to contract the additional Commission's purchase of C-shares regarding the stipulations of the new Financial Regulation present a concern. Without the resolution of the "trusteeship issue", the Commission cannot subscribe additional C-shares. It is a cross-cutting issue, and expected to be resolved as such. In addition, with focus on WBIF co-financing of big infrastructure projects within the Connectivity Agenda, the challenge is to secure appropriate continuation of funding of the GGF and, overall, energy efficiency and renewables.

2) Coordination of GGF with other Commission mechanisms – GGF has since late 2014 participated at the regular meetings of the Energy Community's EE Coordination Group (EECG). In that way, the instrument is being coordinated with the other main Commission facility, the Regional EE Programme (REEP), and with other non-Commission EE stakeholders in the region, as well as with the Energy Community. The GGF started reporting on its contribution to the EE and RE targets of the Energy Community. The challenge remains to properly address the EE and RE needs via our two main mechanisms.

3) Additional funding for Turkey – it is the position of the Regional Programmes unit that any additional purchase of C-shares for the GGF's Turkish operations needs to be

financed from the national IPA exclusively. The discussion is ongoing, and it remains a challenge if, how, and when this will be possible.

• **Main risks identified:**

None detected on part of the Trustee and the Fund. However, new Financial Regulation has reporting requirements that are beyond either the date or the scope as agreed in the contracts between the Commission and the IFIs. This discrepancy would need to be addressed appropriately.

• **General outlook:**

The perspective of the sustainable development of GGF is positive, but its full adoption depends on the pace of development and the quality of EE/RE policy and the regulatory frameworks. Equally important is the establishment of the institutional framework which will ensure implementation of these policies and the legislative provisions (independent regulators and enforcement agencies that can guarantee implementation of these common rules).

The policy framework varies across countries. In Bosnia-Herzegovina and Serbia the environmental policy framework is at different stages of development. Important progress in the policy driven agenda in Serbia is evident, while some improvements in Bosnia's policy framework are expected to enable the fund to operate in a more sustainable manner. The necessary liberalisation of the retail electricity price in Albania, BIH and Serbia would create favourable conditions to the fund operations and investments in EE and RE.

Both the quality of lending to the PIs and the quantity of energy and CO₂ savings are good and contribute to the achievement of the goals of the Fund, and towards the Energy Community targets. The main purpose of the EC contribution to the Fund, (to support the beneficiary countries in the stabilisation of financial markets and economies in the WB and Turkey, thereby alleviating the impact of the global financial and economic crisis in the region) has been achieved, through establishment of the full functionality of the GGF.

The particular structure where the EC takes up C shares is to make the Fund attractive to the private investors. Critical milestone of private investor funding was achieved in 2015, with the Gemeinschaftsbank für Leihen und Schenken (GLS) Bank note issuance of EUR 22 million, representing a significant step towards achieving a true PPP structure; an additional EUR 32 million is in the pipeline. As the first 4-6 years of implementation are seen as an early stage of the GGF existence, it is expected that the interest of private investors will progressively grow as the results from the increase in disbursements in the last years are made public.

The description of the action provided for an interaction with municipalities, but this is not yet taking place. The municipalities in the region have limited technical capacity and chronically limited budgets, but it is expected that they should in the future be more proactive in taking advantage of funds such as the GGF to achieve common goals, like a better integration of the EE/RE solutions within their local development strategies. For the time being, they are State/donor dependent and fragmented. The small, rural municipalities should pursue EE and RE objectives in partnership with neighbouring larger, better off ones. The awareness of the municipalities should be progressively built up and in the long-term they should become the main promoter of the EE benefits to their citizens, following the example of the more advanced EU countries.

5.7. SME Recovery Support Loan for Turkey (RSL)

Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	EIB (EUR 120 million)
Initial Overall Budget Envelope:	EUR 30 million
Current Overall Budget:	EUR 30 million

A - Summary

The SME Recovery Support Loan Facility for Turkey (RSL) is a joint European Union (EU) /European Investment Bank (EIB) action consisting of blending €120 million EIB loan funds allocated with EUR 30 million EU funds, aiming at enabling Turkish banks to expand their SME lending and provide more attractive and longer term lending to SMEs. The Turkish intermediary banks match the amount of finance made available to the final beneficiaries 1:1, hence doubling the final total amount of loans. Up to date the amount of financing provided by the instrument to eligible final recipients is EUR 299,64 million. The project has a “recovery” nature, as part of IPA 2009 Crisis Response Package but is also in line with EU policies for SME sector development and supports Turkey's efforts for preparation in view of EU accession.

From a strategic perspective, the RSL is consistent with the objectives of the Multi-Annual Indicative Planning Document (MIPD) 2008-2010 for Turkey, the Turkish SME Strategy and Action Plan 2007-2009 and the general objective to develop synergies between IPA initiatives and EIB lending activities. The SME Action Plan identified access to finance as one of the main problem for SMEs, which prevents their further growth and harms their competitiveness.

B - Description

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

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

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

The overall objective of the SME Recovery Support Loan for Turkey is to mitigate the crisis impact for SMEs and contribute to the development of the Turkish economy and employment sector. The main objective is to support SMEs with concrete productive investments by providing access to attractive and longer-dated debt financing. The co-financing of loans is to be provided to local commercial banks operating in Turkey (the ‘Financial Intermediaries’) for the benefit of eligible investments carried out by SMEs. In the context of the Action, the European Investment Bank (EIB) shall extend loans from its own resources together with the Union Contribution loans. The SME Recovery Support Loan amounts to EUR 150 million, including EUR 120 million of EIB funds and EUR 30

million of the EU Contributions financed from the IPA funds. EIB contributes with EUR 120 million in lending to the two intermediary banks, Halkbank and Akbank.

Individual SMEs are eligible for financing from a Financial Intermediary using funding available through the Action (each a 'Sub-Loan') up to a maximum amount of EUR 5 million and a minimum amount of EUR 200 000 and with a minimum maturity of 4 years.

The Union contribution does not benefit from any guarantee or other security, nor does it bear a higher risk to guarantee/secure the EIB lending. The Union resources are however provided on an interest-free basis to the Financial Intermediaries. The EIB resources and the Union resources will be clearly dissociated from each other but will be disbursed in parallel in order to maintain the ratio of 4/1 between EIB resources and Union resources, hence ultimately reducing the cost of borrowing for all end beneficiaries.

(c) The financial institutions involved in implementation;

EIB is the Commission's risk-sharing partner.

The two intermediary banks are Halkbank and Akbank.

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2015:	EUR 30 000 000
Aggregate budgetary payments as at 31/12/2015:	EUR 30 000 000

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

The intermediary banks in Turkey for this financial instrument are two:

- Halkbank: Its share of the Facility (EUR 74,82 million) is fully allocated since the end of 2011. The average size of allocation is EUR 0,51 million. The number of jobs created through the financed investments is 2 340;
- Akbank: Its share of the Facility (EUR 74,82 million) is fully allocated since the end of June 2012. The average size of allocation is EUR 0,8 million. The total number of jobs created through the financed investments is 1 780.

The Turkish intermediary banks contribute according to a 1:1 proportion to the loan to the final beneficiaries.

Although there were no set indicators to measure the Recovery Support Loan (RSL) expected outcomes (job creation/maintenance and growth for the beneficiary SMEs) there was an EIB requirement that the SMEs report, at application stage, contained the expected number of jobs to be created following the implementation of the RSL supported projects.

Accordingly, the 265 loans allocated to date are expected to help create more than 4 000 new jobs, which represent a 42% increase of the number of employees of the beneficiary SMEs, compared to the situation before receiving the loans. The average sub-project value is EUR 1,53 million, the average sub-loan size (EIB loans + loans from other FI resources) is EUR 0,67 million and the average individual EIB sub-loan is EUR 0,56 million. Average maturity of loans is 4,4 years, slightly higher than the minimum tenure of 4 years imposed.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 299,64 million 265 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	N/A
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 299,64 million 265 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	N/A

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

N/A.

(g) The balance of the fiduciary account;

EUR 19 381 308

<i>In EUR</i>	
Balance on the fiduciary account (current account)	9 408 837
Term deposits/Bonds (if applicable)	N/A
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Loans	9 972 471
= Total assets	19 381 308

*Impact of negative interest rates on SME for Turkey Facility : no impact as at 31/12/2015.*²⁵⁹

²⁵⁹ For the Turkish Loan the account is in Turkish lira and is paying positive interest of between 9% and 10%. The euro account balance is around EUR 50 000 and interest is hardly an issue. The reflows in this case were (almost) all in Turkish lira and were received in the third quarter of 2015 and nothing had been done with them (apart from the accrued interest) by the year-end

(h) Revenues and repayments;

Revenues & repayments as at 31/12/2015

EUR 9 408 837

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

N/A.

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

There are no impairments. The balance sheet value of the instrument at 31/12/2015 is the result of exchange losses and actuarial adjustments as follows:

In EUR	Cumulative	2015
Initial Capital	29 640 000	
Exchange Gain/(Loss) (Turkish lira/euro)	(10 187 886)	(2 373 247)
Interest received	9 386 773	2 722 550
Actuarial Adjustment increase/(decrease)	(9 457 579)	(12 247 449)
Current Value	19 381 308	

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

The target and achieved leverage effect is 1:10 over the lifetime of the financial instrument.

D - Strategic importance/relevance

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

As at the end of 2015, the Recovery Support Loan contributed to provide nearly 300 million EUR of financing to 265 eligible Final Recipients (SMEs), helping create more than 4 000 new jobs, a 42% increase of the number of employees of the beneficiary SMEs.

The RSL was highly relevant at the time it was proposed but the immediate need had passed by the time it became operational. Attractive, very efficiently implemented and benefiting of reliable credit recipients, the facility has resulted in successful projects, able to produce positive impact at micro level, but unlikely to produce any relevant impact at sector level. The main benefits stem from lessons learned and the opportunity to better shape similar future interventions.

The amount available under the facility is very small compared to the size of the Turkish SME market and to the size of the EIB lending in Turkey. There were no logframe or indicators of achievement set for the facility. The only measurable targets set were the number of financial intermediaries to be employed (2-3), the minimum number of SME loans to be achieved (100) and the minimum additional volume of SME loans to be achieved by the

financial intermediaries during the initial RSL allocation period (at least twice than the RSL loans). All these could be considered implicit given the features of the facility and the business profile of the Turkish banks envisaged as financial intermediaries.

The geographical scope of the Facility is Turkey only.

E - Other key points and issues

• Main issues for the implementation:

- as already foreseen in the Contribution Agreement signed with the EIB in 2009, the possibility to continue the action for a second round of projects is being explored, after the approval of the Steering Committee. The second round of the action would use the Union contribution which has been repaid to EIB by financial intermediaries together with new resources of EIB. A second round is likely to entail an extension of the termination date of at least 3 years. This second round would target the least developed regions in the South-Eastern Turkey. The EIB is currently exploring the potential new intermediary banks operational in this part of the country.

• Main risks identified:

- well managed project. Risks are only subject to market conditions.

• General outlook:

- no further engagement planned under IPA II.

6. Financial Instruments in Neighbourhood and Countries covered by the DCI

6.1. Neighbourhood Investment Facility (NIF)	
Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	Eligible Finance Institutions
Initial Overall Budget Envelope:	EUR 50 million
Current Overall Budget:	EUR 1 454,14 million

A - Summary

In general terms, the NIF has proven to be an effective instrument within the European Neighbourhood Policy in particular by leveraging significant financial resources through financial instruments. For the period 2008-2015, the Union contribution of approximately EUR 1,45 billion has leveraged EUR 13,8 billion in loans from European Financial Institutions (EFIs), with total project costs estimated at EUR 28,8 billion.

The **NIF strategic objectives** are: (1) to improve energy and transport infrastructure and interconnectivity, energy efficiency, energy security and use of renewable energies in the region; (2) to address climate change as well as threats to the environment ; and (3) to promote socio-economic growth and development through support to SMEs, the social sector and to municipal infrastructure.

The independent **Mid-Term Evaluation report of the NIF** (see under C[e]) confirms the relevance of NIF funded projects in relation to the NIF strategic objectives. The report notes the steady increase in the number of projects presented and volume of operations, and confirms that the NIF is an efficient instrument which has contributed to increased co-ordination and co-financing among Finance Institutions.

The Mid-Term Evaluation of the NIF also recommends that more attention be devoted to **interconnectivity** issues as well as to its **crosscutting objectives**, including a more structured policy dialogue and consultation with civil society.

The Review of the European Neighbourhood Policy of 2015²⁶⁰ announces that the EU, in order to further maximise the impact of its support, will seek to leverage considerable additional funding by further enhancing its cooperation with major International Financial Institutions and through the Neighbourhood Investment Facility (NIF).

²⁶⁰ http://eeas.europa.eu/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf.

B - Description

The breakdown of the Current Overall Budget (in EUR million) is as follows:

Commission Decision No	Initial Decision	East	South	Top up East	Top up South	Total
C(2007) 6280	50,00	25,00	25,00			50,00
C(2008) 2698	50,00	25,00	25,00			50,00
C(2009) 3951	70,00	25,00	45,00			70,00
C(2009) 8985	15,00		15,00			15,00
C(2010) 4400	85,00	40,00	45,00			85,00
C(2010) 7989	25,00	22,00	3,00			25,00
C(2011) 5547	100,00	33,30	66,70			100,00
C(2012) 4533	150,00	50,00	100	12,70	9,20	171,90
C (2013) 1276	200,00	66,70	133,30	10,50		210,50
C(2013) 5300	12,30	12,30				12,30
C(2014) 5750	361,70	96,40	265,30	7,70		369,40
C(2015) 2748	295,04	105,54	189,50			295,04
TOTAL	1 414,04	501,24	912,80	30,90	9,20	1 454,14

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

- Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.²⁶¹
- Regulation (EU) N° 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument.²⁶²
- Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action, (OJ L 77, 15.04.2014, p. 95).

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

Policy objectives and scope

The Financial Instrument of the European Union for the Neighbourhood Region contributes to achieving the objectives of the European Neighbourhood Policy (ENP) or related EU thematic policy priorities by leveraging additional financing for the region.

The NIF overarching objective is to mobilise additional investments to support the establishment of an area of prosperity and good neighbourliness involving the EU and neighbouring countries. In complementarity with other EU-funded programmes, the NIF can foster a sustainable, inclusive growth and a favourable investment climate in our partner countries.

²⁶¹ (OJ L 310/1, 9.11.2006)

²⁶² (OJ L 77, 14.03.2014)

Within this framework, the NIF pursues three strategic objectives, notably:

- establishing better and more sustainable energy and transport interconnections between the EU and neighbouring countries and between the neighbouring countries themselves, improving energy efficiency and demand management, promoting the use of renewable energy sources and strengthening energy security;
- addressing climate change mitigation and adaptation, as well as threats to the environment more broadly; and
- promoting smart, sustainable and inclusive growth through support to small and medium size enterprises, to the social sector, including human capital development, and to municipal infrastructure development.

NIF operations focus on five main sectors: Energy, Environment/Climate, Transport, Social sector and Small and Medium Enterprise development. They support investments related to the implementation of EU agreements, including Deep and Comprehensive Free Trade Area Agreements (DCFTAs), as set out notably in the European Neighbourhood Policy (ENP) Association Agendas / Action Plans.

Geographical coverage and final recipients

European Neighbourhood Policy partner countries directly eligible to the NIF are neighbourhood countries having signed an action plan, except for those that do not qualify because of their level of development. Currently, this encompasses Armenia, Azerbaijan, Georgia, Moldova and Ukraine in the Neighbourhood East region, and Egypt, Jordan, Lebanon, Morocco and Tunisia in the Neighbourhood South region. On a case-by-case basis, other countries, which are not directly eligible, may benefit from NIF interventions taking into account regional or specific circumstances. Their eligibility will have to be decided unanimously by Member States and the Commission.

Other final recipients will be the private sector in the partner countries and, in particular the SMEs.

Both multilateral and national European Development financial institutions may be direct partners and important stakeholders of the facility. They will be eligible as lead partners to propose lending operations that could benefit from a NIF support.

Implementation arrangements

The NIF finances different types of operations such as risk capital (equity and quasi-equity investments), risk-sharing instruments, guarantees, loans, investment grants, interest rate subsidies and technical assistance.

Until 2014, implementation of the NIF was possible through the following management modes: centralised management (direct and indirect), joint management, and partially decentralised management. From 2014 onwards, implementation is made according to the modalities foreseen in the new Financial Regulation, mainly through Delegation Agreements with European Financial Institutions (EFIs).

The NIF has, since the beginning of 2011, included a Climate Change Window (CCW) under the Programme on the Environment and the Sustainable Management of Natural Resources including Energy Thematic Programme (ENRTP) of the Development Cooperation Instrument to support the implementation of projects, helping partner countries tackle climate change through mitigation and/or adaptation measures. The NIF CCW is managed in a streamlined way and has in general the same rules and the same financing and implementation modalities as the NIF.

Duration and impact on the budget

The decisions relating to this instrument are valid for the two Multiannual Financial Frameworks of 2007-2013 and 2014-2020 and may be extended further following decisions on the next Multiannual Financial Framework.

The final date for contracting is 31 December 2016 relating to decisions from 2015. This is not the date of duration of the facility but the final date for contracting of the individual decisions financing the facility. The duration of individual projects is established on a case-by-case basis, depending on the type of instrument, with an indicative maximum of 180 months from the date of entry into force of the financing agreement or, when none is concluded, from the adoption of the Annual Action Document financing the NIF.

The budgetary breakdown of EUR 1 454,14 million between the two Neighbourhood sub-regions is as follows:

CRIS reference	Cumulated amount of global commitment in EUR	Budget line
Neighbourhood South		
ENPI/2007/019548	158 000 000,00	19 08 01 01
ENPI/2011/023086 ²⁶³	309 220 334,34	19 08 01 01
ENI/2014/037510	265 300 000,00	21 03 01 02/03
ENI/2015/038303	189 500 000,00	21 03 01 02
Total South	922 020 334,34	
Neighbourhood East		
ENPI/2007/019549	137 000 000,00	19 08 01 03
ENPI/2011/023087	173 200 000,00	19 08 01 03
ENI/2014/037515	104 085 901,58	21 03 02 02
ENI/2015/038314	105 540 000,00	21 03 02 02
Total East	519 825 901,58	
<u>Sub-total</u>	1 441 846 235,92	
<i>ENPI/2013/024746 (SUDeP, cf. note under "Current Overall Budget")</i>	<i>12 300 000,00</i>	19 08 01 03
<u>Total</u>	1 454 146 235,92	

Added value

The NIF provides a simple, clear, structured mechanism to examine and approve blending projects to the benefit of Neighbourhood countries. Through the use of the NIF for the examination of all blending projects in the Neighbourhood, the Commission ensures that:

- equal treatment is given to all projects and all partner financial institutions,
- competition is promoted between projects in terms of their value for money,
- all projects are examined according to an agreed set of fundamental parameters, notably regarding their leverage, additionality and compliance with EU principles and EU policy objectives.

²⁶³ An endowment with EUR 17,3 million was adopted by the Commission in 2011 [C (2011)9538], to be shared between the NIF and the Latin America Investment Facility (LAIF). Finally, this endowment was integrally used for two projects under the Latin America Investment Facility (LAIF).

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

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

(c) The financial institutions involved in implementation;

- **Multilateral European Finance Institutions:** the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB) and the Nordic Investment Bank (NIB);
- **European bilateral development finance institutions from one of the Member States:** currently, the Agence Française de Développement (AFD), the Agencia Española de Cooperación Internacional para el Desarrollo (AECID), the KfW Entwicklungsbank (KfW) and the Società Italiana per le Imprese all'Estero (SIMEST).

In addition, budget-implementation tasks may be entrusted to the partner countries in accordance with Article 53c of the 2002 Financial Regulation (Regulation 1605/2002, partially decentralised management)²⁶⁴.

C - Implementation

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

Aggregate Budgetary Commitments as at 31/12/2015	EUR 1 454 146 235,92 ²⁶⁵
Aggregate Budgetary Payments as at 31/12/2015	EUR 545 675 801,00 ²⁶⁶

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

The NIF has demonstrated to be a successful operation throughout the eight years of its existence so far. It has fully delivered on its objectives, detailed in section B), by creating a favourable environment for investments to be made on its priority sectors and countries to a scale never achieved in previous years and which would be difficult to achieve without the Facility.

Between 2008 and 2015, a grand total of 112 projects have received final approval for NIF financing. About EUR 1,5 billion (from EU budget and NIF Trust Fund) have been blended with about EUR 12,3 billion of funding by European Financial Institutions to projects approved during this period. This amounts to a financial leverage of around 11,41. The total investment cost of these projects is estimated at about EUR 28,81 billion.

²⁶⁴ Article 58 of the current Financial Regulation (No 966/2012) applicable to the general budget of the Union for the methods of implementation of the budget applying to commitments made as of 01-01-2014.

²⁶⁵ of which: Aggregate budgetary commitments invested in financial instruments (legal commitments) = EUR 62 800 000 (EUR 47 500 000 for the South and 15 300 000.00 for the East).

²⁶⁶ of which: Aggregate budgetary payments for financial instruments = EUR 0.

In 2015, the Board of the NIF gave positive opinions on contributions to 16 new projects and 4 ongoing projects. About EUR 367,10 million (from EU budget and NIF Trust Fund) have mobilised mobilising EUR 2,17 billion from eligible EFIs, with a leverage rate of around 5,91. The total investment cost of those projects is estimated to exceed EUR 5,38 billion.

In addition to the financial leverage, the NIF has also given projects considerable qualitative leverage. Although these are not financially measurable, the benefits are both socio-economic and environmental in nature.

Because of that mobilisation capacity, the Commission is increasingly channelling ENI funds through the NIF, as portrayed in the steady increase of the annual NIF funding.

The Mid-Term Evaluation (MTE) of the NIF under the European Neighbourhood and Partnership Instrument 2007-2013²⁶⁷ was finalised in May 2013. It focussed on the analysis of the mechanism and its procedures since its inception until the end of 2011. The evaluation was carried out based on the following OECD/DAC evaluation criteria: relevance, effectiveness, efficiency, impact, and sustainability.

The MTE report stated that the NIF has proven to be an effective instrument within the European Neighbourhood Policy and highlights that the NIF achieved its goal of leveraging significant financial resources through grants. The executive summary notes “a steady increase in number of projects and volumes of allocations” and “effective coordination amongst Financial Institutions.”

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

Not yet applicable

(g) The balance of the fiduciary account;

GGF:	EUR 2 148 124
SANAD:	EUR 1 034 832

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

(h) Revenues and repayments;

Reflows in 2014:	EUR 0
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(i) The value of equity investments, with respect to previous years;

SANAD fund for MSME-Debt Sub Fund in USD

Market Value as of 31/12/2013:	9 311 447 USD
Market Value as of 31/12/2014:	7 826 972 USD
Market Value as of 31/12/2015:	6 928 299 USD

SANAD fund for Equity Sub Fund in USD

Market Value as of 31/12/2013:	722 234 USD
Market Value as of 31/12/2014:	1 973 318 USD

²⁶⁷ Mid-Term Evaluation of the Neighbourhood Investment Facility under the European Neighbourhood and Partnership Instrument (ENPI) 2007-2013, May 2013; Evaluation for the European Commission by Development Researcher's Network, European Centre for Development Policy Management and Ecorys (Research and Consulting).

Market Value as of 31/12/2015:	2 666 474 USD
EFSE-SICAV SIF Fund in EUR	
Market Value as of 31/12/2013:	5 061 483 EUR
Market Value as of 31/12/2014:	4 981 305 EUR
Market Value as of 31/12/2015:	4 904 127 EUR
Green for Growth Fund, SICAV-SIF in EUR	
Market Value as of 31/12/2014:	10 198 244 EUR
Market Value as of 31/12/2015:	10 427 646 EUR

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

N/A.

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

Commission Implementing Decision C(2015)2748 has been adopted on 23 April 2015 for a contribution of EUR 295,04 million. The target leverage effect indicated in that Decision for NIF contributions is 4 to 5 over the lifetime of the NIF. This target leverage effect has been kept (or exceeded, notably for SME support projects) throughout the different NIF Commission Decisions since 2008.

The NIF expected leverage for the period 2008-2014 is estimated at around 11,41 (see details under C[e] above).

The NIF expected leverage for 2015 is estimated at around 5,91 (see details under C[e] above).

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

D - Strategic importance/relevance

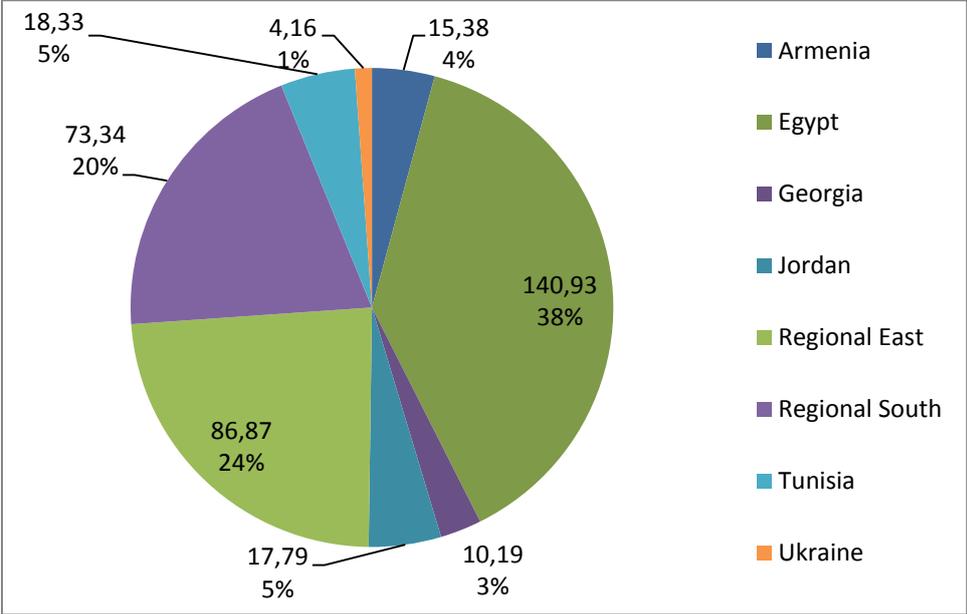
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

The NIF has proven to be an effective instrument within the European Neighbourhood Policy and achieved its goal of leveraging significant financial resources through financial instruments: as at the end of 2015, the NIF has provided nearly EUR 1,5 billion (from EU budget and NIF Trust Fund) of financing for a grand total of 112 projects and has had thus an important impact on the real economy of the EU's partner countries (see details on figures under C[e] and on beneficiaries under B[b] above).

NIF projects are overall relevant to NIF strategic objectives. Following recommendations of the Mid-Term Evaluation report, establishing better and more sustainable energy and transport interconnections has become a special focus area for the use of NIF funds. The related policy dialogue within a more strategic approach to EU support in the respective sector needs further strengthening.

The NIF in has significantly contributed to the development of partnerships and increased co-ordination between the Financial Institutions and the Commission, as well as amongst the Financial Institutions themselves.

NIF investments in 2015 by country/region - in EUR millions



There is a relatively balanced geographical and sectorial distribution of projects. A two-thirds/one-third principle is applied with a view to repartition of funds between Neighbourhood South and Neighbourhood East. Also following an MTE recommendation, work is ongoing to establish a system which could allow for prioritisation of projects according to their relevance and expected impact, thus making the project pipeline process more strategic and predictable.

E - Other key points and issues

Main issues:

- Co-ordination with the EU Delegations, although steadily improving over the last years, could still be further improved. Finance Institutions should strengthen their liaison with EU Delegations during early stage definition of the projects; this will allow room for the creation of synergies and efficiency. Delegations and Headquarters need to undertake further efforts to send concurring messages to IFIs, both on strategic priorities and specific projects.
- There is also still room for improvement for the monitoring and evaluation functions. The MTE recommended introducing a results-based monitoring system to be applied to all NIF projects. Currently, blending projects undergo general ROM monitoring. However, a method taking into account blending project specificities is currently being developed by DG DEVCO. An evaluation on blending is currently being carried out where project results will be examined. The draft final report of this evaluation is expected by mid-2016.
- The Financial Regulation introduces rules specific to financial instruments. These rules are applicable from 2014 onwards. The Financial Regulation

provides an important improvement in the legislative framework through the definition of concepts and principles, the simplification of the management modes used for blending and the possibilities created for using innovative financing tools.

- **Main risks:**

- Framework Agreement and contracting templates have been negotiated in a cumbersome process with the European Financial Institutions throughout 2015 and before. A further revision will take place in 2016, and it is essential that the contracting of approved projects be not held up by this process, as it was the case in 2015.

- **General outlook:**

- It is expected that **financial allocations to the regional investment facilities will substantially increase** over the next years.
- NIF funds might also be increased by channelling funds from the National or Regional Indicative Programs through the blending mechanisms. The expected raise in funds is not only due to the fact that, in times of ever tighter budget, blending operations can substantially enhance the impact of EU support.
- Also, in the context of the ongoing refugees crisis blending operations may usefully contribute to stabilisation responses in crisis or post-crisis situations, especially when it comes to economic recovery or concerning local infrastructure investments and reconstruction needs.

6.2. Investment Facility for Central Asia (IFCA) & Asian Investment Facility (AIF)	
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Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	Eligible Financial Institutions
Initial Overall Budget Envelope:	EUR 50 000 000
Current Overall Budget:	EUR 287 567 000
Envisaged overall budget for IFCA and AIF concerning the period 2014-2020:	EUR 480 000 000 (out of which EUR 140 000 000 for IFCA and EUR 340 000 000 for AIF)

A - Summary

In general terms IFCA and AIF have proven to be effective instruments, in particular by leveraging significant financial resources through the Union contributions under both Facilities.

Key investments are essential to implement reform strategies in line with the EU-Central Asia policy framework. Blending loans supported by the European Financial Institutions and by the Commission will be an important tool in the post 2015 financial perspective to address the

investment needs in energy efficiency, environment, water, climate change mitigation, and SME development.

For IFCA the Commission contributions of EUR 119 million supported a total investment volume of EUR 828 million, including also other public and private investments.

For AIF the Commission contributions of EUR 89 million supported a total investment volume of EUR projects amounting to EUR 2 631 million, including also other public and private investments.

B - Description

The breakdown of the current overall budget is as follows:

Decision Reference	Cumulated amount of global commitment (maximum envelope)	Budget line
Investment Facility for Central Asia (IFCA)		
DCI-ASIE/2010/021-627	20 000 000	19 10 02
DCI-ASIE/2011/023-117	45 000 000	19 10 02
DCI-ASIE/2013/024-950	20 567 000	19 10 02
DCI-ASIE/2014/037-538	20 000 000	21 02 03
DCI-ASIE/2015/038-116	40 000 000	21 02 03
TOTAL	145 567 000	
Asia Investment Facility (AIF)		
DCI-ASIE/2011/022-036	30 000 000	19 10 01 01
DCI-ASIE/2013/024-917	30 000 000	19 10 01 01
DCI-ASIE/2014//037-548	26 000 000	19 10 01 01
DCI-ASIE/2014/037-548	31 000 000	21 02 02
DCI-ASIE/2014/038-088	25 000 000	21 02 02
TOTAL	142 000 000	

In comparison to the 2014 for IFCA the budget has increased with EUR 60 000 000 during 2015 whereas the budget for AIF has increased with EUR 56 000 000 during 2015. AIF has been recreated in 2014 for the Multi-annual Financial Framework (MFF) 2014-2020, with an initial financing decision of EUR 26 million, whereas IFCA was recreated by the end of 2014 through a new financing decision of 20 000 000 under the budget 2015. A total amount of EUR 140 million for IFCA and of EUR 340 million for AIF are foreseen for the current MFF.

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

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation, (OJ L 378, 27.12.2006, p. 41).

Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020, (OJ L 77, 15.04.2014, p. 44), Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action, (OJ L 77, 15.04.2014, p. 95).

Based on the first results from the Neighbourhood Investment Facility (NIF), the Commission proposed to set up investment facilities targeting countries under the Development Cooperation Instrument (DCI) Regulation, initially in Central Asia, Asia, and Latin America. Two facilities were set up for Asia: the Investment Facility for Central Asia (IFCA) in 2010 and the Asian Investment Facility (AIF) in 2011. Those two facilities have been modelled based on the NIF and have the same types of objectives and scope as those defined in the NIF General Framework agreed in March 2008 (cf. section of this report on NIF)

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

Policy objectives and scope

The IFCA's main objective is to promote sustainable regional development and economic growth by providing funding for key infrastructures with a priority focus on energy, environment, SME development and social infrastructure. The AIF's main objective is the promotion of a green economy through the leverage of additional investments and key infrastructure with a priority focus on climate change relevant and "green" investments in areas of environment, energy as well as in SME's and social infrastructure. In addition, capital may be provided in particular to small and medium sized enterprises (SMEs) and to social sector investments.

Geographical coverage and final recipients

The final recipients of these two facilities are the countries of those two regions. Other final recipients will be the private sector and, in particular SMEs.

Main technical characteristics

The types of operations to be financed can be the following:

- investment co-financing in public infrastructure projects,
- loan guarantee cost financing,
- interest rate subsidy,
- technical assistance,
- risk capital operations,
- any other risk-sharing instruments.

As regards risk capital operations, guarantees or any other risk sharing mechanisms, the risk-sharing involves the utilisation of financial resources by the Commission (from the EU

contribution) and the entrusted entity and the sharing of losses and gains primarily from underlying debt assets, while in some cases from equity assets as well, in the implementation

Implementation arrangements at Blending framework level

In order to improve the effectiveness of blending operations (including the ones for IFCA and AIF) in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of their management including a reduction of transaction costs, it was agreed in the context of the EU Platform for Blending in External Cooperation (EUBEC) to organise four blending "frameworks" according to the financing instruments (EDF – ENI – DCI – IPA)²⁶⁸. At the same time, in order to be able to address the different regional strategic priorities, to increase policy leverage and effectively use blending operations for policy dialogue, and for reporting purposes, it was agreed to designate under each framework geographically defined "facilities". The financing comes essentially from the regional programmes defined under the different instruments, in accordance with the priorities and objectives defined in the programming documents, in dialogue with partner countries and relevant regional organisations. Where relevant and appropriate, financing could also come from specific national/regional programmes, in support of priorities and objectives in these countries/regions as defined in the relevant programming documents. Should there be an interest from Members States or other donors to contribute to blending operations, this will be done through dedicated fund(s). There is one single governance structure for each blending framework, governing Commission funds as well as EU Members States or other donor's contributions through dedicated funds. Decision making is organised in a two-level structure. Opinions on projects proposals are formulated at the Board level. Such opinions are prepared by a technical level assessment. Boards, chaired by the Commission, include the EEAS, the EU MS as voting members, and Financial Institutions as observers. They are responsible for formulating opinions on individual blending operations, providing guidance to participating institutions, monitoring and reviewing the project pipeline, examining project related results and monitoring the portfolio of approved projects, as well as drawing on the specific expertise of the Financial Institutions as appropriate, ensuring division of labour. The technical assessment of project proposals includes regular technical meetings chaired by the Commission (involving relevant DGs as appropriate) with the participation of EEAS and Financial Institutions that discuss the pipeline and assess the projects to be submitted to the Boards.

Implementation arrangements

Individual projects financed under IFCA and AIF are implemented through indirect management mode. This means that the Commission delegates budget implementation tasks to eligible Financial Institutions which have successfully undergone an ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012.

Budget implementation tasks consist of the launch of public procurement and grant award procedures and of concluding and managing the resulting contracts as well as execution of payments. The entrusted Member State agency or international organisation shall also monitor and evaluate the project and report on it.

In addition, budget-implementation tasks may be sub-delegated by the entrusted entity to the partner country in accordance with Article 4(7) of Regulation (EU) No 236/2014. The

²⁶⁸ EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

entrusted budget-implementation tasks shall be carried out according to the rules assessed and approved by the Lead Financial Institution.

Climate Change Window

Addressing climate change issues, both mitigation and adaptation, will require a huge amount of funds. According to the Commission Communication of September 2009²⁶⁹ "Stepping-up international climate finance," the financial needs for developing countries could reach about USD 100 billion per year by 2020. Hence, that Window is applicable to all the EU Blending Facilities.

Added value

EU added value of IFCA and AIF can occur at different levels e.g:

- i. at the strategy and policy level, IFCA and AIF provide policy leverage, enhance the supply of public goods, increase EU visibility, assist in managing debt sustainability thresholds and contribute to aid effectiveness;
- ii. at the financial level, IFCA and AIF provide financial leverage, help mitigate risks and lower borrowing costs and provide flexibility to tailor assistance to financing needs;
- iii. at the operational level, IFCA and AIF stimulate financial discipline, efficient administration and monitoring, enable the acceleration of projects, improve project quality and increase donor coordination.

In addition, the expected results for both facilities are increased investments in the following sectors contributing inter alia to:

- 1) better energy infrastructure, notably:
 - improved transit connections between Asian countries, thus increasing security of energy supply for Asian countries;
 - improved safety and security of energy infrastructure;
 - improved energy efficiency and energy savings;
 - increased production and use of renewable energy (wind, solar energy).
- 2) Increased protection of the environment and better focus and control of climate changes impacts, notably:
 - introduction of integrated water management, including necessary related infrastructure;
 - reduction of air, soil and water pollution including monitoring infrastructure when needed;
 - increased forest protection including by strengthening forest governance;
 - promotion of climate change related investments, i.e. renewable energy, energy saving and cleaner production and other environment friendly techniques;
 - promotion of integrated waste management (household, municipal and industrial) including necessary related infrastructures.
- 3) Creation and growth of SMEs and improvement of the employment situations:
 - better access to financing for SMEs (availability of a larger range of financial products than currently available) at the different stages of enterprise creation, restructuring, modernisation, etc.;
 - creation of technological poles, enterprise incubators, etc.

²⁶⁹ SEC(2009) 1172

4) Improved social services and infrastructures:

- better access to health care and improved health services installations in urban and rural areas;
- better education facilities, increased access to education in urban and rural areas;
- improve vocational training facilities.

And in addition for the AIF:

5) better transport infrastructure, notably in the area of climate change relevant and "green" investments:

- better (faster, cheaper and safer, environmental friendly) transport infrastructure within beneficiary countries and between them;
- better interconnection between Asian countries;
- faster and cheaper movement of people and goods within Asia.

Expected results and impacts are further specified at individual project level for each proposal submitted for examination under the facility.

(c) The financial institutions involved in implementation

The main entrusted entities to which the Commission delegates the implementation of the projects financed under IFCA and AIF are multilateral and national European financial institutions. They are eligible to ensure the role as a Lead financial institution to propose lending operations that could benefit from AIF and IFCA support.

Multilateral finance institutions such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) are eligible for both Facilities. Regional financial institutions active in Asia, like Asian Development Bank, may be associated in projects supported by AIF. For IFCA, the Nordic Investment Bank (NIB) is also eligible. Eligibility of other multilateral finance institutions will be examined on a case-by-case basis.

National European development finance institutions such as the Agence Française de Développement (AFD), the Kreditanstalt für Wiederaufbau (KfW), SIMEST (Società Italiana per le Imprese all'Estero) and the Spanish Agency for International Development Cooperation (AECID) are already eligible under the AIF and IFCA.

C - Implementation

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

Aggregate Budgetary Commitments as 31/12/2015:	
IFCA:	EUR 145 567 000
AIF:	EUR 142 000 000
TOTAL:	EUR 287 567 000
Aggregate Budgetary Payments as 31/12/2015 EUR	
IFCA:	EUR 52 739 232

AIF:	EUR 28 808 425
TOTAL:	EUR 81 547 657

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

Through IFCA the Commission has until the end of 2015 approved funding for 20 new projects (corresponding to 22 proposals) amounting to EUR 119 million of EU contribution. These have mobilised another EUR 553 million from European financial institutions and reached a total investment volume of EUR 828 million, including also other public and private investments. Four of the projects are implemented in Kazakhstan, seven the Kyrgyz Republic, two in Tajikistan, two in Turkmenistan, one in Uzbekistan and four have a regional implementing dimension.

In 2015, five new projects (corresponding to six proposals) were approved trough a Commission Decision following positive opinion of the DCI Blending Framework for IFCA and totalling to EUR 37 million. The overall investment cost of these projects reached EUR 364 million, mobilising another EUR 211 million from eligible European Finance Institutions.

AIF

AIF has until the end of 2015 committed a total of 89 million for 18 projects thereby mobilising EUR 1 436 million from European financial institutions. The total investment costs of these projects amount to EUR 2 631 million. The countries where those projects are implemented are Bangladesh (three), Pakistan (two), Indonesia (two), Nepal (one), Cambodia (one), Vietnam (one), Philippines (one), Sri Lanka (one), Myanmar (one), Laos (one) and Mongolia (one). In addition to these, three projects are of regional character.

In 2015, five new projects were approved trough a Commission Decision following positive opinion of the DCI Blending Framework for IFCA totalling EUR 27 million. The total investment cost of these projects reached more than EUR 585 million, mobilising EUR 394 million from eligible European Finance Institutions.

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

N/A for IFCA and AIF.

(g) The balance of the fiduciary account

N/A for IFCA and AIF.

MIFA Debt Fund (“Microfinance Initiative for Asia” funded under both IFCA and AIF).

<u>MIFA</u> (in EUR)	
Balance on the fiduciary account (current account)	0
Term deposits/Bonds (if applicable)	N/A
Term deposits < 3 months	
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	

Equity investment (see also point i)²⁷⁰	8 865 838
Other assets (if applicable)	
= Total assets	8 865 838

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

(h) Revenues and repayments

N/A for IFCA and AIF.

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

MIFA Debt Fund (“Microfinance Initiative for Asia” funded under both IFCA and AIF)

Equity investments in USD*	31.12.2015	31.12.2014
C2 shares	6 833 522	6 616 717
C3 shares	2 818 715	2 786 904

* The value in USD is the equivalent of the EUR 8 865 838 equity investment in point g (see above).

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

N/A for IFCA and AIF.

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

For 2007-2015:

IFCA

The achieved leverage effect based on historical leverage experience during the period 2010-2015 (since the Facility was only created in 2010) for the IFCA was 6,96 (total project cost = EUR 828 million/IFCA contributions = EUR 119 million).

AIF

The achieved leverage effect based on historical leverage experience during the period 2011-2015 (since the Facility was created only in 2011) for the AIF was 29,4 (total project cost = EUR 2 631 million/AIF contributions = EUR 89 million).

For 2015-2020:

IFCA

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

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

²⁷⁰ Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) ‘the value of equity investments’.

divided by the total amount of the EU blending facility contribution relating to the investment leverage.

AIF

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

On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 340 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 1,4 billion to 1,7 billion for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost) divided by the total amount of the EU blending facility contribution relating to the investment leverage.

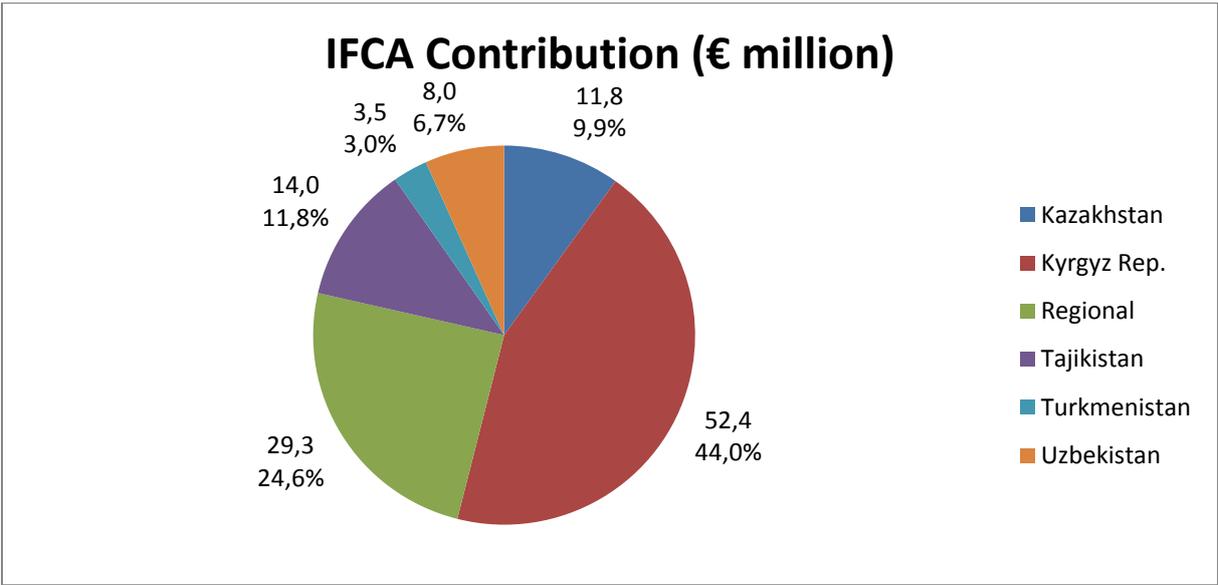
The facility cannot accurately report yet on achieved leverage, since the number and size of projects concluded so far are not enough to provide a sizeable sample to the achieved leverage of the instrument. However, we expect the final achieved leverage not to be too far from the expected leverage mentioned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

D - Strategic importance/relevance

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

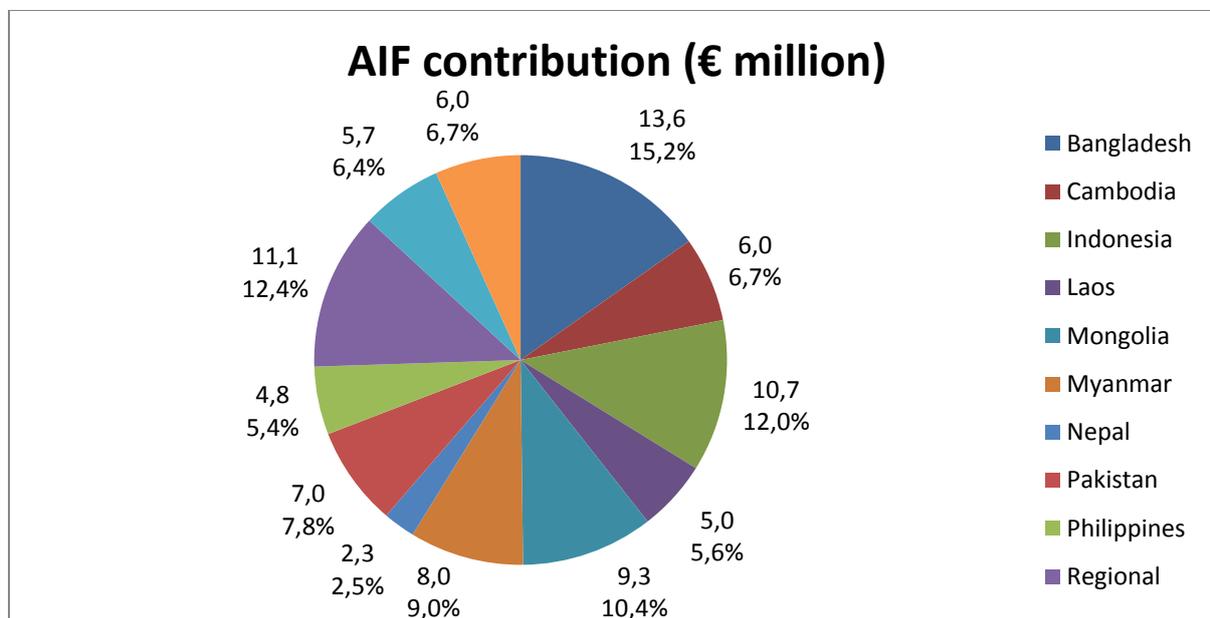
IFCA

As at the end of 2015, IFCA already contributed to provide nearly 828 million EUR of financing to 20 eligible Final Recipients and had thus an important impact on the real economy of our partners as described below. IFCA contributions during the same period amounted to EUR 119 Million.



AIF

As at the end of 2015, AIF already contributed to provide nearly EUR 2 631 million of financing to 18 eligible Final Recipients and had thus an important impact on the real economy of our partners as described below. AIF contributions during the same period amounted to EUR 89 million.



Operations financed by financial institutions pooling their loan resources in consortia with AIF support has allowed an increase in risk and credit ceilings to the benefit of Asian countries and promote the financing of categories of investments which at present cannot be financed either by the market or by the development finance Institutions separately. AIF has until the end of 2014 supported the total investment costs of projects amounting to EUR 2 631 million.

Climate Change Window:

Addressing climate change issues, both mitigation and adaptation, will require a huge amount of funds. According to the Commission Communication of September 2009²⁷¹ "Stepping-up international climate finance," the financial needs for developing countries could reach about USD 100 billion per year by 2020.

E - Other key points and issues

- **Main issues for implementation:** for both Facilities
 - A stable political and security climate at the regional level in general and at the country level in particular is needed to promote and secure investments. Partner countries must be ready to increase the level of investments through their own resources as well as through loans. The pipeline of operations must be of sufficient quality and volume and supply sufficient EU additionality. Strong commitment is

²⁷¹ SEC(2009) 1172

- needed from recipients (for IFCA). Finance Institutions' capability to provide sufficient loan amounts also depends on the availability/accessibility of financial guarantees/grant resources in countries with a concessionality requirement (for AIF).
- The financial allocation to the regional investment facilities will substantially increase during the ongoing programming period. For IFCA, an amount of EUR 140 million is foreseen whereas the expected allocation for AIF amounts to EUR 340 million. To these amounts, funds from the National Indicative Programmes may be added. The management of such an increase represents a significant challenge for the Commission.
 - One of the priorities for the current programming period, in line with the Agenda for Change, is a higher share of EU aid to be channelled through facilities for blending grants and loans. A greater use of financial instruments such as guarantees, equity and other risk-sharing instruments is one way to use the catalytic effect of blending in crowding in more private financing.
 - The Facilities will continue to operate by providing support for loans to partner countries from EIB, and from other multilateral and national development financial institutions. By financing technical assistance and providing complementary grants, the Facility will encourage the recipient governments and institutions to make essential investments, which would otherwise be postponed due to lack of resources.
 - AIF will also provide better access to finance for Small and Medium Enterprises, and include investments in the transport sector, as well as contributing to the ASEAN Connectivity Master Plan
 - **EUBEC Platform:** in 2012, the EUBEC Platform was launched to further increase the effectiveness of blending. The Platform is led by a Policy Group which makes recommendations based on work carried out in technical groups. It is chaired by the Commission and involves representatives from Member States, the European Parliament (EP) and the EEAS. In the technical groups the Commission works together with experts from EFIs and Member States. In 2015, the technical groups of the Platform continued their work on reviewing the existing blending mechanisms with focus on the following aspects:
 - Improving and updating the Grant Application Form to be used by the various EU blending facilities together with detailed Guidelines as well as new results measurement framework;
 - providing guidance for the harmonisation of contractual arrangements between the Commission and the FIs as well as formulate best practices for the monitoring and reporting of blending operations;
 - how blending can increase the mobilisation of private sector resources (including a joint AU-EU Side event on Private Sector and Blending held in July 2015 during the Financing for Development International Conference in Addis Ababa); and
 - reviewing best practices and opportunities in terms of mainstreaming Climate Change financing.

- **Main risks:**

- The European Court of Auditors published a special report²⁷² on the EU blending facilities in October 2014. The Court of Auditors concluded that blending had been generally effective. The investments facilities are well set up but the potential benefits of blending were not fully realized due to Commission management shortcomings. All the projects examined by the Court of Auditors were judged to be relevant. However, the auditors considered that the approval process was not sufficiently thorough and the justification for awarding grants for blending during the appraisal process was not always evident. The recommendations covered the following aspects: need to improve the documentation on additionality of the grant and its level, produce guidelines, ensure more pro-active role of EU Delegations, simplify the decision making process, improve Commission's monitoring of the projects and ensure appropriate visibility for EU funding.
- Most of the recommendations made by the CoA in the special report of blending published in October 2014 have already been dealt with by the Commission in the context of the EUBEC Platform with the development of a harmonised and improved project application form and its guidelines, the development of a results measurement framework including standard indicators, the adoption of a Guidelines document on blending operations, a more proactive and closer role of the EU Delegations in identifying and selecting the blending projects, a revised new Governance of the EU blending facilities, a streamlined and shorten approval process and the publication of a short description of each blended project in the blending website for visibility purposes. The Commission is discussing the necessary points to adapt the ROM methodology to the specific characteristics of blending.

- **General outlook:**

- For AIF, the 2015 indicative pipeline of operations includes 12 projects for a total amount of approximatively EUR 856 million with an indicative potential for AIF budget contribution of EUR 41,3 million. Increased involvement of the Asian Development Bank and other partners in the region could expand this pipeline further.
- Concerning IFCA, the 2015 indicative pipeline of operations includes 12 projects for a total amount of EUR 669 million with an indicative potential for IFCA budget contribution of almost EUR 66,5 million.

6.3. Latin America Investment Facility (LAIF)	
Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	Eligible Financial Institutions

²⁷² European Court of Auditors' Special Report no. 16/2014 on "The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies".

Initial Overall Budget Envelope:	EUR 10 850 000
Current Overall Budget:	EUR 270 042 737 ²⁷³
Envisaged overall budget for the period 2014-2020:	EUR 320 000 000

A - Summary

In general terms, the LAIF has proven to be an effective instrument within the European External Policy in particular by leveraging significant financial resources through grants. For the period 2009-2015, LAIF grant contributions of EUR 232 million supported a total investment volume of circa EUR 6 877 million.

Building on the success of the several regional facilities so far, blending, including LAIF will be an increasingly important tool for the EU in the current Multiannual Financial Framework (2014-2020).

B - Description

The breakdown of the current overall budget is as follows:

CRIS Decision reference	Cumulated amount of global commitment	Budget line
DCI-ALA/2009/021-734	180 400 000	19 09 01
DCI-ALA/2014/037-570	72 342 737	21 02 12 / 21 02 01
DCI ENV/023-403	17 300 000	21 04 01

In comparison to the 2014 overall budget, there has been an increase of EUR 42 342 737 during 2015.

LAIF was recreated in 2014 for the Multiannual Financial Framework (MFF) 2014-2020, through an initial financing decision of EUR 30 million. A total indicative grant amount of EUR 320 million is foreseen for the current MFF 2014-2020.

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

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation, (OJ L 378, 27.12.2006, p. 41).

Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020 (OJ L 77, 15.04.2014, p. 44), Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action (OJ L 77, 15.04.2014, p. 95).

²⁷³ Including EUR 17 300 000 from the Climate Change Window

Based on the first results from the Neighbourhood Investment Facility (NIF), the Commission proposed to set up investment facilities targeting countries under the Development Cooperation Instrument (DCI) Regulation, initially in Central Asia, Asia, and Latin America. The LAIF was set up in 2009. The Facility has been modelled based on the NIF and has the same types of objectives and scope as those defined in the NIF General Framework agreed in March 2008.

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

Policy objectives and scope

The LAIF was officially launched by the Commission and the Spanish Presidency of the European Union during the VI EU-Latin America and the Caribbean (EU-LAC) Summit in 2010.

The LAIF's main purpose is to promote additional investments and infrastructures in the transport, energy, and environment (including water and sanitation as well as agriculture and rural development) sectors and to support social sector such as health and education, and private sector development in the Latin American countries. The Facility will support the growth of SMEs, by making available a range of financial instruments in Latin America. LAIF interventions should focus indicatively on the following sectors:

- Improving interconnectivity between and within Latin American countries, in particular establishing better energy and transport infrastructure, including energy efficiency, renewable energy systems and the sustainability of transport and communication.
- Increasing the protection of the environment and supporting climate change adaptation and mitigation actions.
- Promoting equitable and sustainable socio-economic development through the improvement of social services infrastructure and support for small and medium-sized enterprises (SME).

Financing and implementing large infrastructure projects requires considerable amounts of finance. The aim of LAIF is to create a partnership, pooling together grant resources from the Commission and using them to leverage loans from European and Latin American Finance Institutions as well as own contributions from partners countries in Latin America. The LAIF has also included, since the beginning of 2011, a Climate Change Window to support the implementation of projects helping partner countries tackle climate change through mitigation and/or adaptation measures. An endowment of EUR 17,3 million was approved by a Commission Implementing Decision in 2011 (C (2011) 9538) under DCI-ENV shared with the NIF, although it was finally entirely used under the LAIF.

The final recipients will be the Latin American countries foreseen in the DCI Regulation (EC) No 1905/2006 and the DCI Regulation (EU) No 233/2014. Other final recipients will be the private sector and in particular SMEs for categories of operations dedicated to private sector development. Eligible finance institutions will be the entrusted entities and important stakeholders of the financial instrument's operations.

Main technical characteristics

The types of operations to be financed under the LAIF can be the following:

- investment co-financing in public infrastructure projects,
- loan guarantee cost financing,
- interest rate subsidy,

- technical assistance,
- risk capital operations,
- any other risk-sharing mechanisms.

Implementation arrangements at Blending framework level

In order to improve the effectiveness of blending operations (including the one for LAIF) in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of their management including a reduction of transaction costs, it was agreed in the context of the The Platform for Blending in External Cooperation (EUBEC) to organise four blending "frameworks" according to the financing instruments (EDF – ENI – DCI – IPA²⁷⁴).

Implementation arrangements at individual project level

Individual projects financed under LAIF are implemented through indirect management mode. This means that the Commission delegates budget implementation tasks to eligible Financial Institutions which have successfully undergone an ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012.

Added value

The added value of LAIF can occur at different levels e.g.:

- i. at the strategy and policy level, LAIF provides policy leverage, enhances the supply of public goods, increases EU visibility, assists in managing debt sustainability thresholds, and contributes to aid effectiveness;
- ii. at the financial level LAIF, provides financial leverage, helps mitigate risks and lower borrowing costs and provides flexibility to tailor assistance to financing needs;
- iii. at the operational level, LAIF stimulates financial discipline, efficient administration and monitoring, enables the acceleration of projects, improves project quality and increases donor coordination.

The expected results of the LAIF would be increased investment in key sectors of the economy contributing inter alia to:

- 1) better transport infrastructure,
- 2) improved energy infrastructure,
- 3) increased protection of the environment,
- 4) improved social services and infrastructures,
- 5) creation and growth of SMEs and improvement of the employment situations.

Moreover, in order to ensure the EU added value, the following criteria will be considered for giving preference to an operation which support the EU strategy in the region:

- investments addressing environmental threats or climate change mitigation and adaptation, with cross border effects (land, river and sea);
- investments focusing on renewable energy, energy efficiency and on promoting the use of clean energy technologies;
- investments in sustainable social infrastructure with a particular focus on social inclusiveness and on less developed areas, helping to reduce disparities in access to social infrastructure within and between the countries;
- operations supporting the access to finance, including for higher risk activities, in particular for the micro, small and medium enterprises;

²⁷⁴ EDF (European Development Fund), ENI (European Neighbourhood Instrument), DCI (Development Cooperation Instrument) and IPA (Instrument for Pre-accession Assistance)

- operations in which two or more countries from the region are cooperating;
- investments identified in national, sub-regional or regional priority plans;
- investments in sectors with limited borrowing capacity.

Special attention will be paid to a balanced involvement of the different sub-regions and countries in LAIF, while ensuring support for quality operation proposals and keeping in mind the absorption capacity of individual countries and regions.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

European Bank for Reconstruction and Development (EBRD)

Agence Française de Développement (AFD)

Kreditanstalt für Wiederaufbau (KfW)

Società Italiana per le Imprese all'Estero (SIMEST)

Agencia Española de Cooperación Internacional para el Desarrollo (AECID) .

Latin American Development Banks: the Central American Bank for Economic Integration (CABEI); (CAF) Development Bank of Latin America, and the Inter-American Development Bank (IDB).

C - Implementation

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

Aggregate Budgetary Commitments²⁷⁵ as 31/12/2015:	
LAIF:	EUR 252 742 737
Aggregate Budgetary Payments²⁷⁶ as 31/12/2015 EUR	
LAIF:	EUR 114 368 000

In addition:

Climate Change Window:

Aggregate Budgetary Commitments as at 31/12/2015 EUR 17 300 000

Aggregate Budgetary Payments as at 31/12/2015 EUR 15 800 000

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

The LAIF has served its purpose well during its first five years of operation. By adding a grant element to loan funding from leading European development finance institutions and Latin American development banks, LAIF has helped to secure and mobilise funds for major infrastructure projects at national and regional level in Latin America. It has helped consolidate the position of the European Union and its member states as leading supporters of economic growth and social progress in the region. A key factor in the success of the LAIF has been the participation of the regional Latin American

²⁷⁵ From LAIF line only (excluding the climate change window additonnal transfers)

²⁷⁶ Idem above

development finance institutions which has boosted partnership and cooperation between them and European finance institutions.

LAIF contributes to achieving the objectives of the EU's Development Cooperation Instrument and its Regional Strategy for Latin America.

The total Union budget of the LAIF by the end of 2015 is EUR 252 742 737 and it includes EUR 202 342 737 from the Union budget Regional Latin America and EUR 50 000 000 earmarked for Nicaragua. The allocation of EUR 17 300 000 for the Climate Change Window, initially planned to be shared with the NIF, was finally entirely used for LAIF projects.

Until the end of 2015, 28 projects have been approved, which represent a total LAIF contribution of EUR 232 million. The total amount of investments supported was approximatively EUR 6 877 million, out of which the eligible European Finance Institutions mobilised circa EUR 3 270 million. In 2015, four new LAIF projects were approved through a Commission Decision following positive opinion of the Board of the DCI Blending Framework. The total LAIF contribution to those four projects amounts to EUR 45,2 million.

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

N/A.

(g) The balance of the fiduciary account;

N/A.

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

(h) Revenues and repayments;

N/A

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

N/A.

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

N/A.

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

For 2007-2015 instruments:

The achieved leverage effect based on historical leverage experience during the period 2010-2015 for the LAIF was 29,6 (total project cost = EUR 6 877 million/LAIF contributions = EUR 232 million).

For 2015-2020 instruments:

The target leverage effect as indicated in the ex-ante evaluation is at least for 4 to 5 over the lifetime of the LAIF (2014-2020) as included also in the financing decision of the LAIF.

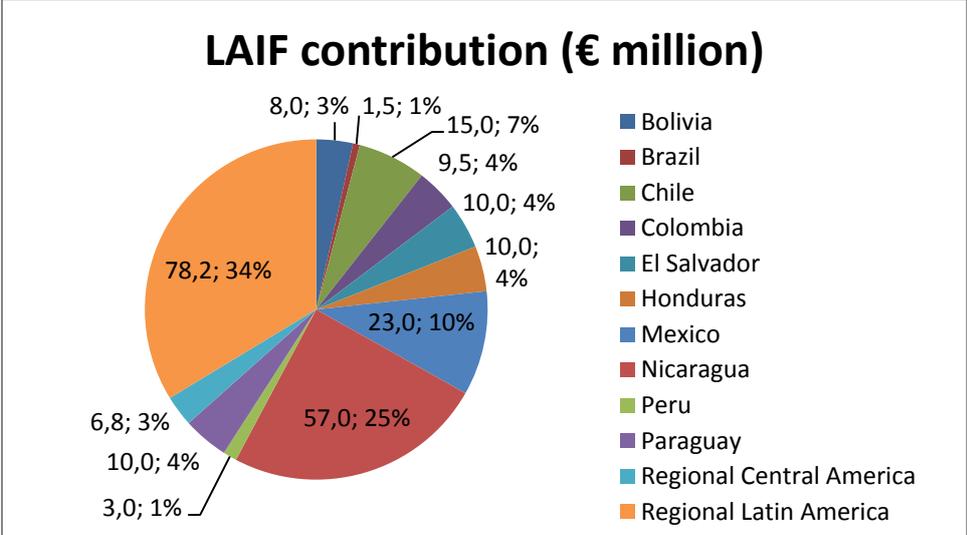
On the basis of the target leverage of the instrument, it is estimated that the total amount of EUR 320 million foreseen for the concerned period, investments/loan volumes mobilised would range from EUR 1,3 billion to 1,6 billion for the entire duration of the Facility. Thus, the investment leverage ratio used is equal to the value of investment (total project cost)

divided by the total amount of the EU blending facility contribution relating to the investment leverage.

D - Strategic importance/relevance

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

As at the end of 2015, LAIF already contributed to provide approximately EUR 6 877 million EUR of financing to 28 eligible Final Recipients and had thus an important impact on the real economy of our partners as described below. LAIF contributions during the same period amounted to EUR 232 million.



The LAIF has proven to be an effective instrument within European External Policy and achieved its goal of leveraging significant financial resources through grants.

LAIF projects are overall relevant to LAIF strategic objectives, which are: to promote additional investments and infrastructures in the transport, energy, and environment sectors and to support social sector such as health and education, and private sector development in the Latin American countries. It also supports the growth of SMEs, by making available a range of financial instruments in the region. There is a relatively balanced geographical and sectorial distribution of projects.

The LAIF has significantly contributed to the development of partnerships and increased co-ordination between the financial institutions and the Commission, as well as amongst the financial institutions themselves. So far, it mobilized the total estimated amount of investments of EUR 6 877 million.

Building on the success of the several regional facilities so far, blending will be an increasingly important tool for the EU in the current Multiannual Financial Framework (2014-2020).

E - Other key points and issues

• Main issues for the implementation:

- attention must be paid to the aspects of the regional interconnectivity, as well as to the crosscutting objectives including the policy dialogue.
- As stated in the context of the current Multiannual Indicative Programme and priorities for 2014-2020, and based on the experience on the LAIF, blending will be a major mechanism of implementation, in particular to support investments complementing the objectives of each priority area, and clearly linked to the overall EU objectives and policy priorities in the region.
- The financial allocation to the regional investment facilities will substantially increase during the ongoing programming period. For LAIF an amount of EUR 320 million is foreseen to which funds from the National Indicative Programmes may be added. The management of such an increase represents a significant challenge for the Commission.
- **EUBEC Platform:** in 2015, the TGs of the Platform continued their work on reviewing the existing blending mechanisms with focus on the following aspects:
 - Improving and updating the Grant Application Form to be used by the various EU blending facilities together with detailed Guidelines as well as new results measurement framework;
 - providing guidance for the harmonisation of contractual arrangements between the Commission and the FIs as well as formulate best practices for the monitoring and reporting of blending operations;
 - how blending can increase the mobilisation of private sector resources (including a joint AU-EU Side event on Private Sector and Blending held in July 2015 during the Financing for Development International Conference in Addis Ababa); and
 - reviewing best practices and opportunities in terms of mainstreaming Climate Change financing.

• Main risks:

- The European Court of Auditors published a special report on the EU blending facilities in October 2014. The Court of Auditors concluded that blending had been generally effective. The investments facilities are well set up but the potential benefits of blending were not fully realized due to Commission management shortcomings. All the projects examined by the Court of Auditors were judged to be relevant. However, the auditors considered that the approval process was not sufficiently thorough and the justification for awarding grants for blending during the appraisal process was not always evident. The recommendations covered the following aspects: need to improve the documentation on additionality of the grant and its level, produce guidelines, ensure more pro-active role of EU Delegations, simplify the decision making process, improve Commission's monitoring of the projects and ensure appropriate visibility for EU funding.
- Most of the recommendations made by the Court of Auditors in that special report have already been dealt with by the Commission in the context of the EUBEC Platform with the development of a harmonised and improved project application form and its guidelines, the development of a results measurement framework including standard indicators, the adoption of a Guidelines document on blending operations, a more proactive and closer role of the EU Delegations in identifying and selecting the blending projects, a revised new Governance of the EU blending facilities, a streamlined and shorten approval process and the publication of a short description of each blended project in the blending website for visibility purposes. The Commission is discussing

the necessary points to adapt the ROM methodology to the specific characteristics of blending.

• **General outlook:**

- The indicative pipeline of potential projects for 2015-2016 includes 19 projects for a total investment cost of EUR 3 873 million with an indicative potential LAIF contribution of EUR 168,5 million.
- Projects to be funded under the 2014-2020 programming are subject to the availability of funds and subsequent commitment in 2014-2015.

6.4. Support to the Facility for Euro-Mediterranean Investment Partnership (FEMIP)	
Policy DG in charge:	DG NEAR
Implementing DG in charge:	DG NEAR
Implementing Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 32 million*
Current Overall Budget:	EUR 224 million**

*Appropriations per the Basic Act

**Under the ENPI Regulation

A - Summary

In line with its objectives and scope, the Support to FEMIP has provided capital to the ENP South partner countries and invested directly or indirectly in private sector, i.e. enabled the creation, restructuring or growth of enterprises. It has strengthened the role of the local financial sector by supporting the creation of new institutions or the establishment of new activities for the benefit of the private sector.

With EUR 33 million allocated to technical assistance, the Support to FEMIP backed investment activities in several southern Mediterranean countries, assisting promoters during different stages of the project cycle and encouraging the modernisation and opening-up of the partner countries' economies. Technical assistance funds were used inter alia to prepare environmental investments in the region under the Mediterranean Hot Spot Investment Programme (MeHSIP), to prepare various transport projects in Tunisia, to assist the Palestinian water authorities in the preparation of a seawater desalination project, to support the transformation process of the Arab Centre for Agricultural Development (microfinance), to participate in the rehabilitation programme of 17 Moroccan hospitals and to promote the use of space technology applications under the Space for Med Acceleration Program. Several sectors have benefited so far from the Technical assistance with significant contribution to the transport and water distribution sector.

As far as risk capital operations are concerned, the Support to FEMIP has played a strong catalytic role for other borrowers and investors. The Support to FEMIP helped to foster private sector activity in various sectors and assisted SMEs operating in any of the eligible sectors: agribusiness sector, financial sector, ICT sector and in particular the industry and the

healthcare sectors, these latter currently being the most highly represented sectors. The overall investment amount supported by 2015 amounted to EUR 6 714 million.

The Support to FEMIP has also generated employment opportunities. It is estimated that thanks to the risk capital investments in equity funds, aggregate direct jobs of historical companies supported have increased by more than 1,2 times over the EIB holding period. This is equivalent to an average growth annual rate of circa 5% over the EIB holding period. It is further estimated that a notable share of the portfolio companies (more than 68%) have witnessed an increase of their employment figures over the EIB holding period.

As regard the overall performance, the European Court of Auditors carried out a Follow-up audit of the recommendations made in its Special Report No 1/2009 “Banking measures in the Mediterranean context of the MEDA programme and the previous protocols” in 2013 and further to that follow-up audit, the Court of Auditors informed the Commission that all recommendations have been assessed as fully implemented. In particular, the Commission is currently working on the last recommendation, i.e. the final evaluation of the Facility.

B - Description

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

The current act for the FEMIP is the European Neighbourhood and Partnership Instrument²⁷⁷ (ENPI for 2007-2013) for which the legal basis is Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.²⁷⁸

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

Policy objectives and scope

The objective of the support to FEMIP is to provide capital to the private sector of Mediterranean partner countries pari passu with other commercial investors in the region, in the form of risk capital, technical assistance and microfinance.

a) Risk capital is invested directly or indirectly in order to (i) support the private sector, i.e. enable the creation, restructuring or growth of enterprises (ii) strengthen the role of the local financial sector by supporting the creation of new institutions or the establishment of new activities for the benefit of the private sector. The Risk Capital operations consist of private equity and microfinance operations.

The EIB obtained the Commission’s prior agreement for each Operation that it intended to carry out.

Geographical coverage and final recipients

Support to FEMIP covers the nine Southern Mediterranean States.²⁷⁹ The recipients of the Risk Capital Facility are the private sector in general and SMEs as well as financial intermediaries.

²⁷⁷ The previous act (not included in this report) was the MEDA (*Mesures D’Accompagnement*) programme ended in 2006. The 2013 annual accounts include FEMIP MEDA loans (EUR 115 000 000), investments (EUR 93 000 000) and fiduciary accounts (EUR 356 000 000 including reflow account).

²⁷⁸ (OJ L 31/1, 9.11.2006).

²⁷⁹ Note: At this stage, the support to Syria is suspended.

Implementation arrangements

This action with the objective of financing Risk Capital and micro-finance. Operations will be implemented in indirect centralised management with the European Investment Bank. The EIB is entrusted to carry out the implementation of these Operations.

Duration and impact on the budget

There has been an annual budgetary commitment of EUR 32 million against budget line 19 08 01 01. The final date for signature under the 2013 envelope was 31 December 2014.

Added value

Support to FEMIP provided a much-needed capital supply in a region where risk capital operations are the exception. Access to finance in the region is very limited and is one of the most serious hindrances to development facing especially small and medium-sized enterprises in the region. EIB's capacity to supply capital targeted at reducing this problem is therefore a direct response to this development cooperation challenge.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB)

C - Implementation

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

Aggregate Budgetary Commitments as at 31/12/2015	EUR 224 000 000
Aggregated Budgetary Payments as at 31/12/2015	EUR 224 000 000

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

- EUR 180,3 million was allocated to 28 risk capital operations of which EUR 55,0 million has been cancelled and returned to the Commission.
- EUR 10,62 million have not been used to finance projects, mostly as a consequence of the instable situation in the region following the events of the "Arab Spring" and the difficulty to arrive to the project signature stage during that period.
- The balance (EUR 33,08 mio) was allocated to technical assistance operations.
- All FEMIP investments had been completed by 31 December 2014.

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

N/A, see explanation below.

(g) The balance of the fiduciary account;

The amount of EUR 9,8 million referred to below has been and will be partly reused to pay for management fees of the instrument. Of that total, EUR 6,7 million have been used already and EUR 2,5 million of the remaining EUR 3,1 million is still under reserve for this purpose.²⁸⁰ The balance of EUR 0,6 million will be recovered by the Commission and returned to the general budget, except for capital reflows from operations signed in 2014 which will be returned as assigned revenue ;

Cash balances

ENPI RCO account in EUR as of 31/12/2015	EUR 25 112 491
ENPI RCO account in USD as of 31/12/2015	EUR 22 251 228
ENPI RCO capital reflow in EUR as of 31/12/2015	EUR 2 473 914
ENPI RCO revenue reflow in EUR as of 31/12/2015	EUR 25 242
Support to FEMIP TA account in EUR as of 31/12/2015	EUR 12 511 057
TOTAL as of 31/12/2015	EUR 62 416 060

Loans and receivables:

Nominal loans and receivables as at 31/12/2015	EUR 12 855 670
Accrued Interest at 31/12/2015	EUR 202 341
TOTAL as of 31/12/2015	EUR 13 058 011

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

(h) Revenues and repayments;

To date, EUR 9,8 million has been earmarked as revenues and repayments from investments made under the Support to FEMIP envelope.

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

Cost of Direct Equity Investment as of 31/12/2014	EUR 8 237 280
Value of Equity Investment as of 31/12/2014	EUR 7 222 866
Cost of Direct Equity Investment as of 31/12/2015	EUR 8 237 280
Value of Equity Investment as of 31/12/2015	EUR 8 030 464

Venture Capital Fund

Cost as of 31/12/2014	EUR 41 141 807
Cost as of 31/12/2015	EUR 57 466 137
Value of Venture Capital Funds as of 31/12/2014	EUR 46 167 594 ²⁸¹
Value of Venture Capital Funds as of 31/12/2015	EUR 69 221 696

²⁸⁰ The remaining amount will be returned to the general budget as soon as the management fee will be entirely paid.

²⁸¹ Direct equity operations include only direct investments while VC funds refer to participations in funds

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

For equity instruments:²⁸²

Impairment as at 31/12/2014	EUR 7 730 717
Impairment as at 31/12/2015	EUR 7 918 838

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

The leverage effect for the risk capital operations as estimated by the EIB is 6,0 for the period 2007-2014 and 26,8 for 2014.²⁸³ EIB has calculated this estimated leverage on the basis of total amounts committed to equity funds, divided by amounts committed by EIB to those funds.

D - Strategic importance/relevance

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

With EUR 36 million of TA funding, the European Investment Bank (EIB) has supported investments amounting to EUR 4 376 million. The EIB co-financing of these investment projects amounted to EUR 2 338 million.

The EIB has committed EUR 143 million under the European Neighbourhood and Partnership Instrument (ENPI) (2007-2013) for risk capital operations. As far as private equity funds are concerned, the EIB had budgetary resources at work in over 150 companies across the Mediterranean Partner Countries, which employed about 78 000 persons, of whom 24% are women. The portfolio also includes 13 investments in 11 Microfinance Institutions (totalling around 1 000 000 active micro-borrowers).

The Support to FEMIP has generated employment opportunities: it is estimated that thanks to the risk capital investments in equity funds, aggregate direct jobs of historical companies supported have increased by more than 1,2 times over the EIB holding period.

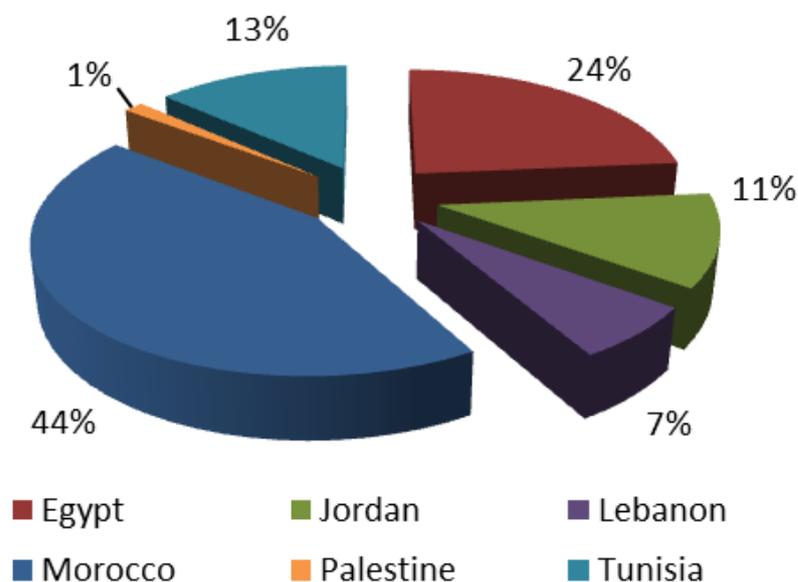
The Union budget allocated a funding of EUR 32 million to the EIB each year from 2007 to 2013 (i.e. EUR 224 million in total). The annual budget has been consistently used, other than in 2011/12, when the political situation in the region led to approximately EUR 10,62 million not being used.

The geographical distribution of the investments made by the FEMIP under ENPI is the following:

FEMIP Investments by country – ENPI

²⁸² With reference to financial instruments classified as 'available for sale'. Such financial assets consist of venture capital fund + direct equity investment.

²⁸³ There was only one investment in fund signed in 2014, EIB participated with EUR 5 million in the fund size of EUR 134,4 million; thus it results in 26,9 leverage.



E - Other key points and issues

• *Main issues for the implementation:*

- risk capital operations depend on mobilising third party resources, particularly when investing in funds. The political instability in the region has frequently made this difficult, particularly in Egypt, Tunisia, Lebanon, and Jordan, as commercial investors have been reluctant to commit.
- It is crucial to link TA operations with concrete investments to be financed as a result of the TA work.
- The activities targeting Risk Capital Operations in the region implemented by the EIB need to be closely coordinated with the activities carried out by other donors in the region.

• *Main risks:*

- the transposition of the requirements relies on the Bank, which shall apply them irrespective of the size of the investment. Possible applicability of Commission requirements to small investments may appear more challenging. In the Financial Regulation, the selection of the FIs has been regulated and the capacity of the bank to select the FI has been assessed as required.
- As regard the overall performance, the European Court of Auditors carried out a Follow-up audit of the recommendations made in its Special Report No 1/2009 “Banking measures in the Mediterranean context of the MEDA programme and the previous protocols” in 2013 and further to that follow-up audit, the Court of Auditors informed the Commission that all recommendations have been assessed as fully implemented. In particular, the Commission is currently working on the last recommendation, i.e. the final evaluation of the Facility.

• *General outlook:*

- the requirement for risk capital in the region remains evident, as demonstrated by the low levels of SME access to finance and private equity in the region. Mediterranean Partner Countries (MPC) need more economic growth to improve living standards and

create jobs as well as to stabilise the transition towards democracy started with the Arab Spring.

- According to the demographics, however, a large number of young people will enter the labour market in the coming years, which is likely to create a great pressure on the market and on the political environment.

It is generally assumed that governments in MPCs need to implement structural reforms to increase labour productivity. This includes public investment to improve the quality of infrastructure, better-quality education, labour market reforms (in particular increasing female labour force participation), and a better business environment, which should encourage exports and investment. A dynamic private sector could provide more and better jobs for the MPCs, which suffer from a persistent high unemployment.

6.5. Global Energy Efficiency and Renewable Energy Fund (GEEREF)	
Policy DG in charge:	DG DEVCO
Implementing DG in charge:	DG DEVCO
Operating Body in charge:	EIB and EIF
Initial Overall Budget Envelope:	EUR 25 million
Current Overall Budget:	EUR 81,1 million*

** The EUR 81,1 million also include an amount for Technical Assistance of 5 million. In addition, EUR 20 million are financed under EDF.*

A - Summary

GEEREF is an innovative financing vehicle aiming at promoting energy efficiency and renewable energy in developing countries and economies in transition. Structured as a Fund-of-Funds, GEEREF's strategy is to invest in – and thus help develop – regional private equity funds whose investments will target small and medium sized energy efficiency and renewable energy projects. GEEREF aims to improve the economic and social circumstances of underserved or disadvantaged populations, encourage sustainable development, and promote environmental protection by increasing access to low carbon, secure and affordable energy. Its objective is to contribute to the expansion of renewable energy, energy efficiency and other related clean energy technologies in developing countries and economies in transition. As of end 2015, the total investment supported with Union contribution in GEEREF was EUR 892 million.

B - Description

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

Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation²⁸⁴;

²⁸⁴ (OJL 378/41, 27.12.2006)

Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020;

Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action²⁸⁵;

The GEEREF was approved in the annual action plans (AAPs) of the four-year Thematic Programme for Environment and Sustainable Management of Natural Resources including Energy (ENRTP2007-2010)²⁸⁶;

Legal basis for the Regional Fund Support Facility (RFSF): preparatory action within the meaning of Article 49(6) of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

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

Policy objectives and scope

The GEEREF is an innovative financing vehicle aiming at promoting energy efficiency and renewable energy in developing countries and economies in transition. Structured as a Fund-of-Funds, GEEREF's strategy is to invest in – and thus help develop – regional private equity funds whose investments will target small and medium-sized energy efficiency and renewable energy projects.

GEEREF aims to improve the economic and social circumstances of underserved or disadvantaged populations, encourage sustainable development, and promote environmental protection by increasing access to low carbon, secure and affordable energy. Its objective is to contribute to the expansion of renewable energy, energy efficiency and other related clean energy technologies in developing countries and economies in transition.

Geographical coverage and final recipients

The scope of GEEREF is to support regional sub-funds for Sub-Saharan Africa, Caribbean, and Pacific Island States, the countries of the European Neighbourhood Policy and Russia, Latin America, and Asia (including Central Asia and the Middle East). There is a special emphasis on serving the needs of the African Caribbean and Pacific (ACP) countries.

Implementation arrangements

The GEEREF is managed by a Board of Directors comprising delegates appointed by its shareholders and advised by the EIF and the EIB. DEVCO has appointed one Board member. Additionally, GEEREF investment decisions are taken by an Investment Committee, also comprising delegates appointed by its shareholders. The Commission is represented in the Investment Committee by DG DEVCO.

The Union contribution is being made available via centralised indirect management (Financial Regulation No 1605/2020, Article 54 (2) (b)) with implementing tasks delegated to the EIF. In 2007 the EIF received a delegation of powers from the Commission to subscribe shares to the GEEREF, hold those funds in a separate trust account on behalf of the Commission, take part in the decision making organs of the GEEREF (except in the

²⁸⁵ (OJ L 77, 15.3.2014, p. 44)

²⁸⁶ (OJ L 77, 15.3.2014, p. 95)

Investment Committee), monitor the progress of the GEEREF and report to the Commission. Those tasks have been detailed in an agreement concluded between the Commission and the EIF, which was subject to the provisions and the conditions provided for in the Financial Regulation for indirect centralised management based on existing cases.

Added value/Expected results

The Fund contributes to the expansion of renewable energy, energy efficiency and other related clean energy technologies to markets and services by increasing access to financing.

It is also expected that the GEEREF will lead to an increased engagement of the private sector in the energy efficiency and renewable energy business in the areas of investments. The provision of “patient capital” provided on a long term and subordinated return basis will buy down the cost of capital for renewable energy and energy efficiency projects/SMEs. This will improve the investment conditions for private equity co-investors or senior lenders, thereby making the project/SMEs eligible for funding from these sources. The latter will thus have access to resources previously outside their reach.

(c) The financial institutions involved in implementation;

GEEREF was established via a SICAV registered in Luxembourg, with a life of 15 years from the initial closing date, 6 November 2008.

In addition to the Commission, Norway and Germany have invested approximately EUR 13 and 23 million respectively in GEEREF and were actively involved in its creation. The Commission, Norway and Germany have all subscribed to first loss "junior shares", and are called A-shareholders. These public investors have purchased first-loss shares in the fund.

In addition, 24 private investors (from Europe, North America and Australia) have now committed EUR 110 million to the fund, while the EIB has also invested EUR 10 million. The EIB and the private investors (called “B Shareholders”) have second-loss shares in the fund. The fundraising campaign is in its closing process.

C - Implementation

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

Aggregate Budgetary Commitments as at 31/12/2015:	EUR	81 100 000
Aggregate Budgetary Payments as at 31/12/2015:	EUR	79 500 000

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

Ten investments have been approved by the GEEREF Investment Committee, focussing on projects in Sub-Saharan Africa, Asia, Latin America and the Caribbean. The following have already commenced activities on the ground:

- an investment of EUR 12,5 million in Berkeley Energy’s Renewable Energy Asia Fund (REAF) for India, Philippines, Bangladesh and Nepal.
- An investment of approximately EUR 8 million in the Evolution One Fund, dedicated to clean energy investment in Southern Africa.
- An investment of approximately EUR 13 million in Emerging Energy Latin America Fund II (EELAF II), a private equity fund investing primarily in renewable energy infrastructure and, to a lesser extent, in growth stage clean-tech companies in Latin America and the Caribbean.
- An investment of EUR 10 million in DI Frontier Market Energy & Carbon Fund, which focuses on clean energy investment in Sub Saharan Africa.

- An investment of approximately EUR 9 million in “Armstrong S.E. Asia Clean Energy LP”, a new fund focussing on renewable energy and resource efficiency investments in Southeast Asia.
- An investment of approximately EUR 10 million in the MGM Sustainable Energy Fund - a fund focusing primarily on energy efficiency projects in Central America and the Caribbean.
- Visum Small Hydropower Energy Fund (EUR 9 million), a fund dedicated to small hydropower projects focused on Ukraine.
- New 2014: Solar Arise (EUR 10 million), an India-focused corporate vehicle targeting solar photovoltaic (PV) investments. This is GEEREF's first investment in a corporate vehicle.
- Mid 2015, GEEREF signed a USD 13 million conditional commitment agreement to the Caucasus Clean Energy Fund (CCEF), a specialist fund focused on small and medium sized hydro power plants (HPPs) in the Republic of Georgia. The fund will invest primarily in small and medium scale green-field run-of-river HPPs, with a capacity of approximately 10-20 MW. The fund will seek to make 8-12 investments, with envisaged all-in project costs of USD 15-30 million, for a total portfolio of around 150 MW.
- On September 2015, GEEREF signed a USD 19,6 million commitment into the Africa Renewable Energy Fund (AREF), a fund focusing on renewable energy infrastructure investments across Sub-Saharan Africa. GEEREF's commitment helped the fund reaching a size of USD 200,1million on its final closing date.

In total, GEEREF has committed to investments of EUR 143 million in regional private equity funds.. These funds have subsequently invested in 33 recipient projects including solar, wind, waste/biogas and hydro power generation as well as energy efficiency.

In parallel with GEEREF, a Technical Support Facility (the GEEREF Regional Fund Support Facility - RFSF) has been established to support the creation, the operations and pipeline development of Regional Funds and/or stimulate the renewable energy and energy efficiency market in general. RFSF has supported the development of eight regional private equity funds, three of which have received GEEREF investments already.

Amount of EU Contribution committed to financial intermediaries, and the corresponding number of financial intermediaries;	EUR 74,27 million 1
Amount of financing expected to be provided by financial intermediaries to eligible final recipients , and expected number of eligible final recipients;	EUR 222 million N/A
Total investment expected to be provided	Approx. EUR 8 billion
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	Approx. EUR 143 million invested in 9 regional private equity funds and one corporate vehicle.
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	approximately one billion EUR Invested in 33 recipient projects

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

N/A.

(g) The balance of the fiduciary account;

<i>In EUR</i>	
Balance on the fiduciary account (current account)	1 607 629*
Term deposits/Bonds (if applicable)	
Term deposits < 3 months	
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)²⁸⁷	73 893 005*
Other assets (if applicable)	
= Total assets	75 500 634*

**Balance sheet concerning GEEREF, held by DG DEVCO*

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

(h) Revenues and repayments (Art.140.6);

N/A.

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

EUR 73 893 005

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

No impairment for GEEREF

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

The target leverage effect

The target leverage effect of European Union budgetary contribution of EUR 81,1 million at the GEEREF Fund of Funds level is approximately 2,74 for the final GEEREF fund size of around EUR 222 million. Fundraising activities closed on 29 May 2015.

The achieved leverage effect

²⁸⁷ Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.

1. Out of the total budgetary EU contribution of EUR 81,1 million, EUR 74,27 million are used by the GEEREF Fund of Funds for further investments. As of end 2015, the 'A-Shareholders' contributions (EU contribution together with contributions from Norway and Germany of about EUR 36 million) have mobilised approximately EUR 110,4 million from other investors (so-called GEEREF B-Shareholders) leading to a total GEEREF fund size of EUR 222 million, reaching a leverage of 2,74.

2. Out of the current total GEEREF fund size of EUR 222 million, EUR 66 million have been invested in nine equity fund investments and one corporate vehicle investment. This amount invested is mobilising additional equity capital for renewable energy and energy efficiency projects in Africa, Asia, the Neighbourhood and Latin America in line with the targeted leverage of 6. Most of the GEEREF-funded regional equity fund investments are still at the beginning of their investment period, but have already attracted additional equity and debt from other investors to the 33 renewable energy and energy efficiency projects. Regarding these 33 projects the invested equity contributions achieved a leverage of approximately 7 at investee/project level. Hence, the achieved leverage based on the partially invested GEEREF funds reach the targeted leverage of 42 (6x7).

D - Strategic importance/relevance

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

As of end 2015, the total investment supported with Union contribution in GEEREF was EUR 892 million. At the Fund of Funds level, GEEREF targets a leverage rate is 2,74 as it reached EUR 222 million based on an original European Union budgetary contribution of EUR 81,1 million.

The pie chart with geographic breakdown based on amount provided by the fund is not applicable since GEEREF is not a geographical facility such as AIF/IFCA and LAIF.

By 2015, GEEREF's impact was the following :

- Financial
 - EUR 222 Million commitment from private investors, EC, Germany and Norway
 - EUR 892 Million invested in projects
 - Leverage >50x on public capital
- Energy
 - By end of 2014 projects with capacity of 472MW installed
 - Over lifetime of existing funds 1.5 GW installed
 - By 2014 1,0 MWh generated
 - Over lifetime generation of 137m MWh generation
- Environmental
 - Saving million of tons of CO² for GEEREF over lifetime of projects ~95mt CO²eq for existing portfolio over lifetime
 - As of end 2014: 1,1m tCO₂eq saved
- Social
 - Improving access for people: 510 000 households by end of 2014

E - Other key points and issues

• *Main issues for the implementation:*

- At its closing on 29 May 2015, GEEREF has successfully attracted private investors for EUR 110 million.
- GEEREF's current portfolio contains 9 fund investments *and one corporate vehicle investment*. It will be essential to find further feasible and attractive private equity investments to commit the rest of its capital within its designated investment period, which is due to end in May 2019 (the investment period may terminate earlier if 85% of GEEREF total commitments have been committed to investments).

• *Main risks:*

- no specific risk identified.

• *General outlook:*

- the need for investment to catalyse renewable energy and energy efficiency projects in developing countries remains large and well documented.
- However, the ability to attract private investment into these sectors is entirely dependent on the investment climate and its stability in each developing country.
- It remains challenging to find suitable commercial opportunities in these sectors with risk/return profiles appropriate, attractive to the private sector and in line with EU Tax Policy.

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VI. LIST OF ACRONYMS

■ AAPs	Annual Action Plans
■ ACP	African Caribbean and Pacific Countries
■ AECID	Agencia Española de Cooperación Internacional para el Desarrollo
■ AFD	Agence Française de Développement
■ AIF	Asian Investment Facility
■ AIFMD	Alternative Investment Fund Managers Directive
■ ALM	Anti Money Laundering
■ AML/KYC	Anti Money Laundering/ Know Your Customer
■ AQR	Asset Quality Review
■ ASEAN	Association of South-East Asian Nations
■ BA	Business Angels
■ BMZ	German Federal Ministry for Economic Cooperation and Development
■ CABEI	Central American Bank for Economic Integration
■ CARDS	Community Assistance for Reconstruction, Development and Stabilisation
■ CBS	Capacity Building Scheme under CIP
■ CCS	Cultural and Creative Sectors
■ CCW	Climate Change Window
■ CDC	Caisse des Dépôts et Consignations
■ CDP	Cassa Depositi e Prestiti
■ CEF	Connecting Europe Facility
■ CIP	Competitiveness and Innovation Programme (2007-2013)
■ COESIF	Coordination Committee for European Structural and Investments Funds
■ COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises (2014-2020)
■ CPR	Common Provision Regulation
■ CRIS	Common Relex Information System
■ DACH	German speaking countries (Germany, Austria, Switzerland)
■ DCI	Development Cooperation Instrument
■ DG CLIMA	Directorate General for Climate Action
■ DG DEVCO	Directorate General for Development and Cooperation
■ DG EAC	Directorate General for Education and Culture

■ DG ECFIN	Directorate General for Economics and Financial Affairs
■ DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
■ DG ENER	Directorate General for Energy
■ DG ENTR	Directorate General for Enterprise and Industry
■ DG ENV	Directorate General for the Environment
■ DG MOVE	Directorate General for Mobility and Transport
■ DG NEAR	Directorate General for Neighbourhood and Enlargement Negotiations
■ DG REGIO	Directorate General for Regional Policy
■ DG RTD	Directorate General for Research and Innovation
■ DIV	Dedicated Investment Vehicle
■ EA	Euro Area
■ EAFRD	European Agricultural Fund for Rural Development
■ EaSI	Employment and Social Innovation Programme
■ EBRD	European Bank for Reconstruction and Development
■ ECA	European Court of Auditors
■ ECB	European Central Bank
■ EDF	European Development Fund
■ EE	Energy Efficiency
■ EEE F	European Energy Efficiency Fund
■ EELAF II	Emerging Energy Latin America Fund II
■ EEPR	European Energy Programme for Recovery
■ EFC	Economic Financial Committee
■ EFG	Equity Facility for Growth
■ EFIs	European Financial Institutions
■ EFSE	European Fund for Southeast Europe
■ EFSI	European Fund for Strategic Investments
■ EFTA	European Free Trade Association
■ EIB/BEI	European Investment Bank
■ EIF	European Investment Fund
■ EIP	Entrepreneurship and Innovation Programme
■ EIPC	European Independent Purchasing Companies
■ EMN	European Microfinance Network
■ EMN	European Microfinance Network
■ ENEF	Enterprise Expansion Fund
■ ENIF	Enterprise Innovation Fund

■ ENP	European Neighbourhood Policy
■ ENPI	European Neighbourhood and Partnership Instrument
■ ENRTP	Environment and the Sustainable Management of Natural Resources
■ EP	European Parliament
■ EPEC	European PPP Expertise Centre
■ EPMF-G	European Microfinance Guarantee Facility
■ EPPA	European Promotional Product Association
■ ERDF	European Regional Development Fund
■ ERP-EIF	European Recovery Programme-European Investment Fund
■ ESCOs	Energy Service Companies
■ ESF	European Social Fund
■ ESI	Economic Sentiment indicator
■ ESIF	EU Structural and Investment Funds
■ EUBEC	European Platform for Blending in External Cooperation
■ EURATOM	European Atomic Energy Community
■ EVCA	European Private Equity and Venture Capital Association
■ EVCF	European Venture Capital Fund
■ EVCFR	European Venture Capital Funds Regulation
■ FAFA	Financial and Administrative Framework Agreement
■ FCP-FIS	Fonds Commun de Placement-Fonds d'Investissement Spécialisé
■ FEMIP	Facility for Euro-Mediterranean Investment and Partnership
■ FIs	Financial Intermediaries
■ FMA	Fiduciary Management Agreement
■ FMO	Netherlands Development Finance Company
■ FP7	Framework Programme for Research and Technological Development
■ G-20	The Group of Twenty Finance Ministers and Central Bank Governors from 20 major economies
■ GDP	Gross Domestic Product
■ GEEREF	Global Energy Efficiency and Renewable Energy Fund
■ GF	Guarantee Facility
■ GGF	Green for Growth Fund
■ GHG	Green House gasses
■ GIF	Growth and Innovative Facility
■ GP	General Partners
■ HLG	High Level Expert group

■ IC	Investment Committee
■ ICT	Internet and Communication Technology
■ IDB	Inter-American Development Bank
■ IFC	International Finance Corporation
■ IFCA	Investment Facility for Central Asia
■ IFI	International Financial Intermediaries
■ IPA	Instrument for Pre-Accession Assistance
■ ITRE	EP Committee on Industry, Research and Energy
■ KfW	Kreditanstalt für Wiederaufbau Banking Group
■ KYC	Know Your Customer
■ LAIF	Latin America Investment Facility
■ LEF	Local Enterprise Facility
■ LGF	Loan Guarantee Facility
■ LGTT	Loan Guarantee Instrument for Trans-European Transport Network

Projects

■ LIFE	Programme for the Environment and the Climate Action
■ LNG	Liquefied Natural Gas
■ LP	Limited Partners
■ MAWP	Multiannual Work-Programme
■ MB	Management Board
■ MBO	Management Buy Out
■ MEDA	Euro - Mediterranean Partnership
■ MFF	Multiannual Financial Framework
■ MFI s	Micro Finance Institutions
■ MIFA	Microfinance Initiative for Asia
■ MIPD	Multi-annual Indicative Planning Document
■ MPC	Mediterranean Partner Countries
■ MPGF	MEDIA Production Guarantee Fund
■ MS	Member State
■ MSME	Micro Small and Medium Enterprises
■ MTE	Mid-Term Evaluation
■ NCFF	Natural Capital Financing Facility
■ NEEAP	National Energy Efficiency Action Plans
■ NGO	Non-Governmental Organization
■ NIB	Nordic Investment Bank

■ NIF	Neighbourhood Investment Facility
■ NPL	Non-Performing Loans
■ ODA	Official Development Aid
■ OECD	Organization for Economic Cooperation and Development
■ OECD/DAC	OECD's Development Assistance Committee
■ OFTO	Offshore Transmission Owners
■ PBCE	Project Bond Credit Enhancement
■ PBI	Project Bond Initiative
■ PCT	Patent Cooperation Treaty
■ PF4EE	Private Finance for Energy Efficiency Instruments
■ PFLP	Portfolio First Loss Piece
■ PIs	Partner Institutions
■ PISA	Programme for International Student Assessment
■ PMF	Programme Microfinance Mandate
■ PPP	Public Private Partnership
■ R&I	Research and Innovation
■ RAB	Regulatory Asset Base
■ RCO	Risk Capital Operations
■ RDI	Research Development and Innovation
■ RE	Renewable Energies
■ RFSF	Regional Fund Support Facility
■ ROM	Result Oriented Monitoring
■ RRT	Residual Risk Tranche
■ RSFF	Risk Sharing and Finance Facility
■ RSI	Risk Sharing Instrument
■ RSL	Recovery Support Loan Facility for Turkey
■ SAFE	Survey on Access to Finance of Small and Medium Enterprises in Europe
■ SB	Supervisory Board
■ Se4all	Sustainable Energy for All
■ SICAV-FIS	Société d'Investissement à Capital Variable- Fonds d'Investissement Spécialisé
■ SIMEST	Società Italiana per le Imprese all'Estero
■ SME	Small and Medium Enterprise
■ SMEG	Small and Medium Enterprises Guarantee Facility

■ SPV	Special Purpose Vehicle
■ SUDeP	Sustainable Urban Demonstration Projects
■ TA	Technical Assistance
■ TEN-E	Trans- European Network for Energy
■ TEN-T	Trans-European Network for Transport
■ TMT	Technology, Media and Telecommunications
■ TSOs	Transmission System Operators
■ TT	Technology Transfer
■ UEAPME	European Association of Craft, Small and Medium-Sized Enterprises
■ VC	Venture Capital
■ WB EDIF	Western Balkans Enterprise Development & Innovation Facility
■ WB	Western Balkans