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PART 1/2

COMMISSION STAFF WORKING DOCUMENT

Activities relating to financial instruments

Accompanying the document

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on financial instruments supported by the general budget according to Art. 140.8 of the Financial Regulation as at 31 December 2016

{COM(2017) 535 final}

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I. INTRODUCTION

This Staff Working Document (SWD) accompanies the report of the Commission to the European Parliament and the Council on financial instruments supported by the general budget according to Article 140(8) of the Financial Regulation[1] as at 31 December 2016.

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

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

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

Finally, the SWD contains references and an acronym list.

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

II. OVERVIEW TABLE

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [3]
GIF (CIP)[4]	E[5] Old[6]	Dec N° 1639/2006/EC	GROW ECFIN	EIF	Increase the supply of equity for innovative SMEs	SMEs	SMEs with no specific sector / innovative	580,68	600,16[7]	464,45[8]	3 087 ** 1 430***	516** 484***	53,2	25,9
CEF Equity	E New	Reg N° 1316/2013	CNECT	Direct Manage ment	Enhance the roll-out of broadband networks	Telecom Operators	Broadband Investment	100	100	0	1000-1700*	n/a	n/a	n/a
EFG (COSME)	E New[9]	Reg. N° 1287/2013	GROW	EIF	Increase the supply of equity for SMEs	SMEs	SMEs with no specific sector focus	490,00	172,90	56,1	2 600 to 3 900* 470,6** 64***	360 to 540* 64** 12***	0,01	7,44
InnovFin Equity	E New	Reg. N° 1291/2013; 1290/2013; 1296/2013	RTD	EIF	Improve access to risk finance by early-stage R&I-driven SMEs and small midcaps including social	Innovative SMEs & Small Midcaps	R&I	495,00	256,05	234,05	2 900 * 565** 15***	300** 8***	0,4	9,6

[2] Implementing Body in charge
[3] Note: Including management fees
[4] The executed budget is computed including EFTA contributions and third countries contribution paid by Participating Countries and/or regularised interest, the same applies also to SMEG07 (CIP) and EPMF-G.
[5] Equity
[6] 2007-2013 financial instruments
[7] This amount includes the EUR 19 474 357 re-committed to the same instrument (see Chapter IV of present document for details).
[8] This amount includes the EUR 19 474 357 re-committed to the same instrument (see Chapter IV of present document for details).
[9] 2014-2020 financial instruments

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [3]
					enterprises									
EaSI CBI	E New	Reg. (EU) N° 1296/2013	EMPL	EIF	Build up the institutional capacity of financial intermediaries to expand further their operations in the microfinance and in the social entrepreneurship space	Financial Intermediaries	Micro-finance/Social Entrepreneurship	16,00[10]	12,72	10,78	32* 0***	8-10* 0***	0	0
SMEG07 (CIP)	G[11]Old	Dec N°1639/2006/EC	GROW ECFIN	EIF	Increase the supply of debt financed to SMEs	SMEs	SMEs with no specific sector focus	637,80	649,90	424,70	23 116** 21 101***	385 772 ***	21,8	19,39
EPMF-G	G Old	Dec N° 283/2010/EU	EMPL ECFIN	EIF	Enhances access to microfinance by reducing microfinance providers' risk	Micro-enterprises/ Households	Micro-finance/no specific focus	23,60	23,60	22,55	286,48** 235,63***	25 508 ** 19 713***	1	1,85

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

[11] Guarantee

Organisation					Policy Targets			Implementation			Financials		
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[2]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln) [3]**
EaSI-G	G New	Reg. (EU) N ° 1296/ 2013	EMPL	EIF	Microfinance for vulnerable groups/ Support social enterprises	Micro-enterprises/ Households/ Social Enterprises	Micro-finance/Social Enterprises	96,00[12]	68,79	42,22	528* 753,57 ** 157,96***	1 308** Soc. Entr. and 54 507** Microfin. / 63 Soc. Entr *** and 12 741*** Microfin	0,02	6,28
Loan Guarantee Facility (COSME)	G New	Reg. (EU) N° 1287/ 2013	GROW	EIF	Increase the supply of debt financed to SMEs	SMEs	SMEs with no specific sector focus	970,00	375,52	182,96	14 300* to 21 500* 18 904,7** 5 547,2***	220 000 to 330 000* 291 000** 143 344***	0,29	34,70
RSI (2007-2013)	G Old	Dec. N°1982/2006/ EC	RTD	EIF	Address the financing gap for innovative SMEs and Small Midcaps	Innovative SMEs & Small Midcaps	R&I	270,00	270,00	270,00	3 301** 2 331***	3000** 4 146***	65,9	14,84
InnovFin SME Guarantee (H2020)	G New	Reg. (EU) N° 1291/ 2013; 1290/ 2013	RTD	EIF	Address the financing gap for innovative SMEs and Small Midcaps	Innovative SMEs & Small Midcaps	R&I	1 060	534,47	478,21	9 500* 8648** 1944***	3 000* 24 400** 5682***	2,17	50,34

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

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [3]
The CCS[13] Guarantee Facility	G New	Reg. (EU) N° 1295/ 2013	CNECT	EIF	Strengthen the competitiveness of the cultural and creative sectors	SMEs	Arts & Culture	121,00	14,8	5,98	689*	n/a	0	0.3
Student Loan Guarantee Facility (Erasmus +)	G New	Reg. (EU) N° 1288/ 2013	EAC	EIF	Support mobility, equity and study excellence	Students	Education	517,00	115,67	21,24	2 947* 160** 3***	200 000* 11 500 ** 247***	0,1	6,61
PF4EE	G New	Reg. (EU) N° 1293/ 2013	CLIMA	EIB	Support access to finance and/or better financing conditions to EE investors	Private individuals, associations SMEs	Energy	80,00	70	19,12	540*	n/a	0	0,50
RSFF (2007-2013)	RS[14] Old	Dec. N° 1982/2006/EC	RTD	EIB	Improve access to risk finance for R&I projects	Large firms, large & medium Midcaps, Research Institutes	R&I	960,73	960,73	960,73	11 313** 10 220***	114** 112***	476	81
InnovFin Large Projects InnovFin MidCap Growth Finance InnovFin MidCap Guarantee (H2020) (InnovFin Debt)	RS New	Reg. (EU) N° 1291/ 2013; 1290/ 2013	RTD	EIB	Improve access to risk finance for R&I projects	Large firms, large & medium Midcaps, Research Institutes	R&I	1 060,00[15]	796	786	13 250* 5918,2** 3544,5***	97** 72***	31,5	30,89

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

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)**[3]
Risk Sharing debt instruments (CEF DI)	RS New	Reg. (EU) N° 1316/ 2013	MOVE ENER CONNECT	EIB	Stimulate capital market financing for infrastructure projects in transport, energy, broadband networks	Infrastructure Projects	Transport, Energy, Broadband	2 557[16]	688,7	479,4	14 400* to 36 000* 15 583** 13 865***	11***	13,4	1,98
NCFF	RS New	Reg. (EU) N° 1293/ 2013	ENV CLIMA	EIB	Promote the preservation of natural capital	Infrastructure Projects	Environment	60,00	50	11,75	120-240*	n/a	n/a	0,60
EU SME Initiative	RS New	Reg. (EU) N° 1287/ 2013; 12 91/ 2013; 1303/ 2013	REGIO RTD GROW ECFIN AGRI	EIF EIB	Enhance SMEs financing	SMEs	SMEs with no specific sector focus	1 137 (ERDF)[17]	23,28 (H2020, RTD& COSME LGF, GROW) + *800,04*[18] *(ERDF, REGIO)*	19.28 (H2020, RTD& COSME LGF, GROW) + *800,04*[19] *(ERDF, REGIO)*	Spain: 5 723* 5 763** 2 616***	Spain: 33 285***	n/a	For RTD included in InnovFin SMEG / the financial and operating expenses for the ERDF have not yet been reported to the Commission)
EPMF - FCP-FIS	DIV Old	Dec N° 283/2010/EU	EMPL ECFIN	EIF	Increase access to microfinance	Micro-enterprises/ Households	Micro-finance/no specific focus	80,00	80,00	80,00	402,3 ** 236,06***	60 062** 32,428***	EUR 0[20]	6,75

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

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

[18] Allocation to SMEI OP in Spain.

[19] Allocation to SMEI OP in Spain.

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

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [3]
Marguerite	DIV Old	Reg. (EC) N° 680/2007 Dec. C(2010)941	MOVE	M.A[21]	Support infrastructure investment: transport, energy, renewables sectors	Infrastr. Projects	Transport, Energy, Environment	80,00	80,00	43,7	10 000* 5 400***	12***	n/a	1,35
EEEF	DIV Old	Reg. (EU) N ° 1233/ 2010	ENER	Deu-tsche Bank	Invest in energy efficiency, renewable energy, clean urban transport	Infrastr. Projects	Energy	146,3	146,3	116,2	237** 121***	Not available** 11***	Revenues for 2015: 4,5[22] Repaym: n/a	9,79[23]
Guarantee Facility (EDIF GF 1) under the WBEDIF[24]	EnC[25] Old	Reg. (EC) N°1085/2006	NEAR	EIF	Create the preconditions for the emergence and growth of innovative and high-potential companies	SMEs	SMEs with no specific sector focus	21,90	21,90	21,90	117,9***	1 430***	0,02	0,01
Guarantee Facility 2 (EDIF GF 2) under the WBEDIF[26]	EnC	Reg. (EC) N° 231/2014	NEAR	EIF	Create the preconditions for the emergence and growth of innovative and high-potential companies	SMEs	SMEs with no specific sector focus	17,5	17,5	10	94,5* 107**[27]	n/a	0	0,63

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

Organisation					Policy Targets			Implementation			Financials			
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB[2]**	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln) [3]**
ENEF under EDIF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	11,00	11,00	10,40	48,5[28]** 4,75***	15** 3***	n/a	0,08
ENIF under EDIF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIB, EIF, EBRD KfW	Enhance socio-economic growth of the Western Balkans through equity investments	SMEs	R&I	21,20	21,20	21,20	50** 1,18***	n/a** 5***	n/a	1,41
EFSE	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Extend loans to local comm.banks and micro-finance institutions in the Western Balkans	Micro-enterprises/ Households	Microfinance/ no specific focus	87,68	87,68	87,68	4 300***	702 790***	n/a	0,73
GGF	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIF	Provide dedicated financing for energy efficiency and renewable energy	Micro-enterprises/ Households	Energy	38,60	38,63	38,63	411,7[29]* 489,6** 429,9***	16 701***	n/a	0,49
SME Recovery Support Loan for Turkey	EnC Old	Reg. (EC) N°1085/2006	NEAR	EIB	Mitigate the crisis impact for SMEs and contribute to the development of the Turkish economy and employment	SMEs	SMEs with no specific sector focus	30,00	30,00	30,00	299,64** 299,64***	265** 265***	18,06	0,36

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

Organisation					Policy Targets			Implementation			Financials		
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [3]
NIF	NDC[30] Old	Reg. (EC) N° 1638/ 2006 +232/2014 + 236/2014	NEAR	EFI[31]	Mobilise investments to support prosperity and good neighbour.	Infrastructur e Projects, SMEs	SMEs, Environment., Energy, Water/Sanit., Social Sector, Transport	1 678,64	1 678,64	757,17	16 950***	n/a[32]	0	30,86
IFCA & AIF	NDC Old	Reg. (EC) N° 1905/ 2006 + 233/2014 + 236/2014	DEVCO	EFI	Promote investments and key infrastructure	Infrastructur e Projects	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	348,58	348,58	132,12	970*** IFCA[33] 3 152*** AIF	22*** IFCA[34] 24***AIF	n/a	8,57
LAIF	NDC Old	Reg. (EC) N°1905/2006 + 233/2014 + 236/2014	DEVCO	EFI	Promote investments and infrastructures	Infrastructu-re Projects, SMEs	SMEs, Environment, Energy, Water/Sanit., Social Sector, Transport	322,70	322,70	166,97	7 538***[35]	33***[36]	n/a	6,63
Support to FEMIP	NDC Old	Reg. (EC) N°1638/2006	NEAR	EIB	Provide capital to the private sector of Mediterranean partner countries	SMEs	Private Sector	224,00	224,00	224,00	6 714***	n/a	13,7	7,47

[30] Neighbourhood and other partner countries.
[31] Eligible Finance Institutions.
[32] Nota : 123 projects have been financed so far, see relevant chapter of the report.
[33] IFCA/AIF : Total investment cost of projects having received a positive opinion from the Board and Commission decision.
[34] IFCA/AIF : number of projects having received a positive opinion from the Board and Commission decision.
[35] LAIF: Total investment cost of projects having received a positive opinion from the Board and Commission decision.
[36] LAIF: Number of projects having received a positive opinion from the Board and Commission decision.

	Organisation				Policy Targets			Implementation				Financials		
Financial Instruments	**Type**	**Basic Act**	**DG in charge**	**IB**[2]	**Objective**	**Final Recipients**	**Sector**	**Indicative Aggr. Budget Envelope (EUR mln)**	**Aggr. Commit-ments 2007-2016 (EUR mln)**	**Aggr. Pay-ments 2007-16 (EUR mln)**	**Financing supported (EUR mln)**	**N° of final recipients benefited**	**Revenues and Repaym. (EUR mln)**	**Admin Expenditure (EUR mln)** [3]
GEEREF	NDC Old	Reg.(EC) N°1905/2006 + 233/2014 + 236/2014	DEVCO	EIB,EIF	Promote energy efficiency and renewable energy	SMEs	Energy	81,1	81,1	79,5	148***	n/a	n/a	0,59
Thematic blending (ElectriFI, AgriFI, Climate Change)	NDC New	Reg.(EC) N° 1905/2006 + 233/2014 + 236/2014	DEVCO	EFI	ElectriFI: access to clean, reliable and affordable electricity and energy. AgriFI: inclusive and sustainable agriculture. Climate Change: developing local climate strategies.	SMEs	Energy, Agriculture, SMEs, Environment	270,31	270,31	34,89	1 900* ElectriFI: 0** AgriFI: 0** Climate Change**: n/a 0***	n/a	n/a	1,35

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

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

1. Equity Instruments

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

Policy DG in charge:	DG GROW, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 623* million
Current Overall (2007-2013) Programme Budget:**	EUR 580,7 million
Executed Budget since beginning until 31/12/2016*:**	Commitments: EUR 600,2 million *** Payments: EUR 464,5 million***

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

***Including changes in budget commitments from 2008 to 2013. The initial split of the Competitiveness and Innovation Framework Programme (CIP) budget between the GIF and SMEG instruments was only indicative. During the lifetime of the CIP programme, the share of the SMEG instrument in the total CIP budget was increased in line with market needs, therefore leading to a lower current overall programme budget for GIF, compared to its initial situation. This amount takes also into account the EUR 25 million decommiments done in 2016 (hence the decrease in the figure as compared to 2015).*

****Including EUR 19,5 million EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest, capital repayments and dividends generated on the trust accounts until 31/12/2012. The legal base allowed the possibility of using such additional resources for the purpose of the same instrument only if they were received prior to 31/12/2013. The commitments amount takes also into account the EUR 25 million decommitments done in 2016 (hence the decrease in the figure as compared to 2015).*

A - <u>Summary</u>

The overall objective of GIF is to improve the access to finance for the start-up and growth of small and medium-sized enterprises (SMEs) in order to support their investment in (eco-) innovation activities. GIF used 96,4% of its allocated budget of EUR 600,2 million, with a leverage ratio of 5,7 to 1. It invested in 43 venture capital funds, therefore supporting 570 final recipients[37] and creating more than 3 000 jobs as of December 2016.

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

B - Description

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

Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013).[38]

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

Policy objectives and scope

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

Implementation arrangements

GIF is implemented by the EIF on behalf of the Commission. The Commission empowers and mandates the EIF to provide EU venture capital investments in its own name but on behalf of and at the risk of the Commission, under a Fiduciary and Management Agreement ('FMA', signed 22/11/2007). The EIF is responsible for identifying, evaluating and selecting the Financial Intermediaries ('FI') by applying selection criteria and processes set out in the Investment Policy, which is part of the FMA. Under the FMA, the EIF examined, on a continuous basis, proposals collected based on a published call for expression of interests. Investment proposals by financial intermediaries are selected based on a *notice of implementation* (OJ C 302, 14.12.2007). GIF funds equity or quasi-equity investments in intermediaries[39], which then must provide long term equity or quasi-equity capital (including subordinated or participating loans and convertible bonds) to innovative SMEs.

Moreover:

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

[37] This is the total number of Final Recipients supported through the programme. Out of those, 484 are Eligible Final Recipients.The VC funds supported may address non-eligble FBs as well as eligible, but EU finances only eligible FBs out of those.

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

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

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

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

Added value

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

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

GIF contributed to filling the sizable gap in access to finance for local young SMEs in their development phase, as well as helping companies in their international expansion strategy. It also increased competition in the market, spread best practices around the region, and highlighted to other private equity teams the support the European Union is providing as well as motivated them to raise independent funds of their own.[40]

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

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

(c) The financial institutions involved in implementation;

European Investment fund (EIF).

C - Implementation

(d) The aggregate budgetary commitments and payments from the budget[41];

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

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

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

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

Amount of EU Contribution committed to financial intermediaries and the corresponding number of financial intermediaries;	EUR 544 million[42] 43 FIs
for risk-sharing instruments, total amount of the risk-sharing, including the EU Contribution, committed to financial intermediaries, and the corresponding number of financial intermediaries;	N/A N/A
Amount of financing expected to be provided by financial intermediaries to eligible final recipients And expected number of eligible final recipients;	EUR 3 087 million[43] 516 Eligible FR[44]
Amount of financing already provided by financial intermediaries to eligible final recipients, and the corresponding number of eligible final recipients;	EUR 1 430 million[45] 484 Eligible[46] FR
Amount of investments already made by eligible final recipients due to the received financing, if applicable.	EUR 3 575 million[47]

GIF Impact on employment

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

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

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

- GIF number of employees at the assessment date: 9 908

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

Additional GIF operational information
Given that the EIF is entitled to fees up to 6% of its net commitments to Financial Intermediaries, the maximum amount available for deals under GIF was of EUR 589,8 million over the period 2007-2013. This implies that the GIF budget had an utilisation rate of 92,2% of commitments available for deals.

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

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

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

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 423 174 130

	In EUR
Balance on the fiduciary account (current account)	2 902 261
Term deposits/Bonds (if applicable)	86 814 264
Term deposits < 3 months	*86 814 264*
Term deposits > 3 months < 1 year	*N/A*
Term deposits > 1 year	*N/A*
Bonds current	*N/A*
Bonds non-current	*N/A*
Equity investment (see also point i)[50]	333 457 605
***Other assets* (if applicable)**	*N/A*
= Total assets	423 174 130

Impact of negative interest rates on GIF:

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

[49] Note: Investments in currencies other than EUR are valued at the exchange rate of the reporting date.
[50] Furthermore, non-current assets (such as shares and other variable-income securities) are already reported under point (i) 'the value of equity investments'.

(h) Revenues and repayments;

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

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

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

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

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

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

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

The aggregate budgetary commitments for 2007-2013 amounted to EUR 600,2 million. The expected leverage[55] effect on GIF is around 5 which means that the impact of the aggregate budgetary commitments on the overall economy is expected to reach EUR 3 billion of funding to recipient SMEs.

The achieved leverage effect for CIP GIF is around 5,7.[56]

D -Strategic relevance

(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification[57];

As at 30/09/2016, the GIF already contributed to provide more than 1,4 billion EUR of financing to 484 eligible Final Recipients (SMEs) and had thus an important impact on the real economy of the EU as described below.

The impact of the EU's Financial Instruments for SMEs

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

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

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

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

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

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

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

In 2016 the GIF component (providing venture capital) of the CIP programme again provided an essential contribution to SMEs' support in the eligible participating countries, as outlined above and confirmed by independent final evaluation results[58], summarised hereafter, concerning relevance, effectiveness, efficiency, utility, sustainability and European added value[59].

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

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

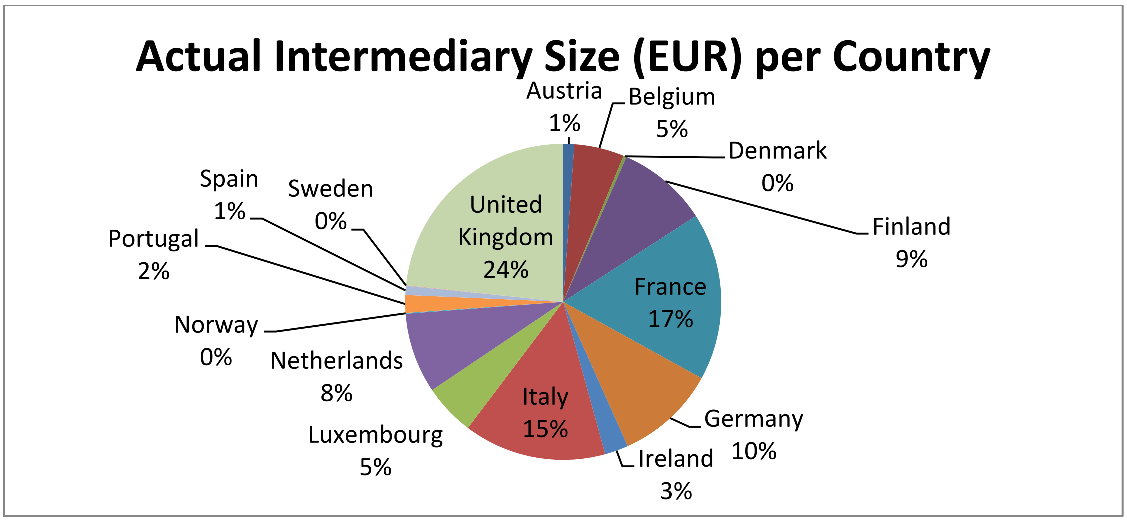
Apart from the financial means, GIF recipients also received other support (appointment of a non-executive director, advice on general business planning, access to a network, financial advice, special business advice or mentoring).

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

As regards *Sustainability*, the evaluators noted that possible improvements raised by EIPC[60] members and representatives of business organisations, related only to more general issues and that no improvements were suggested relating to the details of the instruments.
Finally, as regards *European value-added*, the evaluation report recognised the leverage effect achieved, the fact that 80% of GIF recipients operate on an international market and that venture capital funds i) have a broader geographical focus and ii) operate across boundaries
Although the overall effect of EU programmes on SMEs' financing remains limited (by nature, EU intervention is limited to market gaps or sub-optimal market situations, meaning by far the largest part of financing is provided by banking and finance market players), the GIF components of CIP contributed very positively to the development and sustainability of EU SMEs throughout 2016.

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

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



E -Other key points and issues

- **Main issues for implementation:**
  - European venture capital remains fragmented and dependant on a lifeline from public investors. The support via EU-level financial instruments is key in tackling this fragmentation, as truly multi-country funds often face difficulties in obtaining support from national programmes.
  - The programmes are also essential to maintain venture capital in Europe and support it until it becomes fully sustainable.
- **Main risks**: implementation under control, no specific risks identified.
  - The monitoring visits carried out for GIF during 2016 by the Commission allowed to confirm the eligibility of international financial intermediaries (IFI's) and final recipients, contractual compliance (transposal of the Commission's requirements into the contractual documentation), process compliance (observance of processes prescribed by the Commission) and performance (achievement of predefined targets/objectives). Compliance reporting covering the situation did not indicate major deviations.
  - *Audits and internal controls:*
    - as confirmed in ECFIN's AAR 2016, no issue is pending,
    - In February 2012 IAS and ECFIN IAC finalised their audit on the implementation by the EIF of the High Growth and Innovative SME Facility. The audit resulted in 6 recommendations, which were all implemented during 2013. No additional findings or recommendations were made in 2016.
    - During 2016, the Designated Service continued to follow-up the implementation of OLAF's recommendations in two cases (OF/2011/1176 and OF/2013/0107), where fraud was detected at the level of the fund manager and at the level of a final beneficiary. Corrective actions for both cases were progressing normally during 2016.
    - A positive Statement of Assurance has been received from the EIF as at 19/4/2017.
  - *Efficiency:*
    - number of findings/observations (stemming from ECFIN L2's monitoring activities) for Equity: 0 (out of 0, 100% closed).

- Number of OLAF inquiries: 2 inquiries (implementation of recommendations ongoing).
- Number of IAC inquiries for Equity: NONE.
- Number of open recommendations in action plans established following ECA, IAS, IAC or ex-post control recommendations: NONE.
- Number of operations outside official procedures (2016): NONE.
- Number of erroneous operations (2016): NONE.
- Return to Trust Account (2016) linked to errors: NONE.
- Results on the checks on the balance of the TA (2016): no errors/discrepancies.

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

1.2. The Connecting Europe Facility (CEF) Equity Instrument

Policy DG in charge:	DG CNECT
Implementing DG in charge:	DG CNECT
Operating Body in charge:	Not available yet
Initial Overall Budget Envelope:	EUR 100 million
Current Overall Budget:	EUR 100 million

A - Summary

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

B - <u>Description</u>

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

Regulation (EU) No 1316/2013 of the European Parliament and the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/2010 (OJ L 348, 20.12.2013, p. 129). Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments (OJ L 169, 1.7.2015, p. 1).

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

Policy objectives and scope

Given the current market failures in the financing of infrastructure projects and in view of recent developments, in particular the establishment of the European Fund for Strategic Investments (EFSI), an Equity instrument was established under CEF by way of 2016 CEF Work Programme for a contribution to financial instruments (C(2015) 8847 final). The establishment of EFSI greatly enhanced the available financing opportunities in the form of Debt and made it possible to optimise the use of scarce CEF resources by re-directing a part of the available budget to finance smaller and more risky projects, especially in the area of broadband. The Debt instrument will nonetheless remain the main delivery mechanism for the financial instruments under CEF.

Currently, the contribution to CEF Equity instrument is foreseen for broadband (100 million €) for the establishment of he Connecting Europe Broadband Fund. The Fund will provide equity and quasi-equity to smaller-scale, higher-risk broadband projects, which do not have sufficient access to financing, in (under-served) suburban and rural areas. Five public institutions are expected to invest in it, namely the Commission, the EIB and three National Promotional Banks and Institutions (NPBIs): CDC, CDP and KfW, alongside private investors.

Implementation arrangements

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

Added value

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

(c) The financial institutions involved in implementation;

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

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2016 EUR 100 000 000
Aggregate budgetary payments as at 31/12/2016 EUR 0

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

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

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 100 million n.a.
Amount of investments expected to be provided by financial intermediaries to eligible final recipients Expected number of final recipients	n.a. n.a.
Amount of financing already provided by the financial intermediaries to eligible final recipients, and the corresponding number of recipients;	EUR 0 0
Amount of investments already made by eligible final recipients due to received financing	EUR 0

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

NA

(g) The balance of the fiduciary account;

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

Impact of negative interest on RSI: no impact as at 31/12/2016.[61]

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

(h) Revenues and repayments;

N/A

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

N/A

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

N/A

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

The target leverage effect is 5 to 17, which – given the current budget envelope of 100m – will support a financing amount of 500 million to 1700 million.

D - Strategic importance/relevance

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

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

E - Other key points and issues

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

1.3. Equity Facility for Growth under COSME

Policy DG in charge:	DG GROW
Implementing DG in charge:	DG GROW
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 662 million[62]
Current Overall Budget:	EUR 490 million[63]

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

[63] This amount is composed of the amounts committed towards the EFG for the years 2014-2016, of the amounts allocated towards the EFG in 2017-2018 as currently foreseen in the COSME work programmes and of the indicative amounts allocated to the EFG for 2019-2020. The 2017-2020 amounts are indicative and may be subject to change, in line with Article 17 of the Basic Act which stipulates that the allocation of funds to the loan guarantee and equity facilities shall take into account the demand from financial intermediaries.

A - Summary

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

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

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

B - Description

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

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

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

Policy objectives and scope

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

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

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

Implementation arrangements

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

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

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

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2016	EUR 172 901 364
Aggregate budgetary payments as at 31/12/2016	EUR 56 102 505

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

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

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

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

Additional EFG operational information
Out of the nine operations signed at the end of 2016, six relate to Growth and Expansion Stage funds and three to Multi-Stage funds, in combination with the InnovFin Equity Facility for Early Stage set up under Horizon 2020.
Eight of these operations have been unconditionally closed and the respective fund agreement with all investors have been signed. One signature has occurred on a conditional basis, meaning that the EIF committed to invest in these funds provided that the fund managers are able to attract sufficient additional funding commitments from other private and public investors to reach a minimum fund size.

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

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

(g) The balance of the fiduciary account;

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

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

Impact of negative interest rates on COSME-Equity:

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

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

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

(h) Revenues and repayments;

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

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

EUR 12 162 196

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

EUR 0

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

The target leverage effect indicated in the COSME legal base is in the 1 to 4 – 1 to 6 range for the equity instrument over the lifetime of the programme, with an overall value of risk capital investments expected to be mobilised by the EU contribution ranging from EUR 2,6 billion to EUR 3,9 billion and the number of firms ranging from 360 to 540.[67]

The achieved leverage effect

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

The "Expected Leverage for Signed Operations"

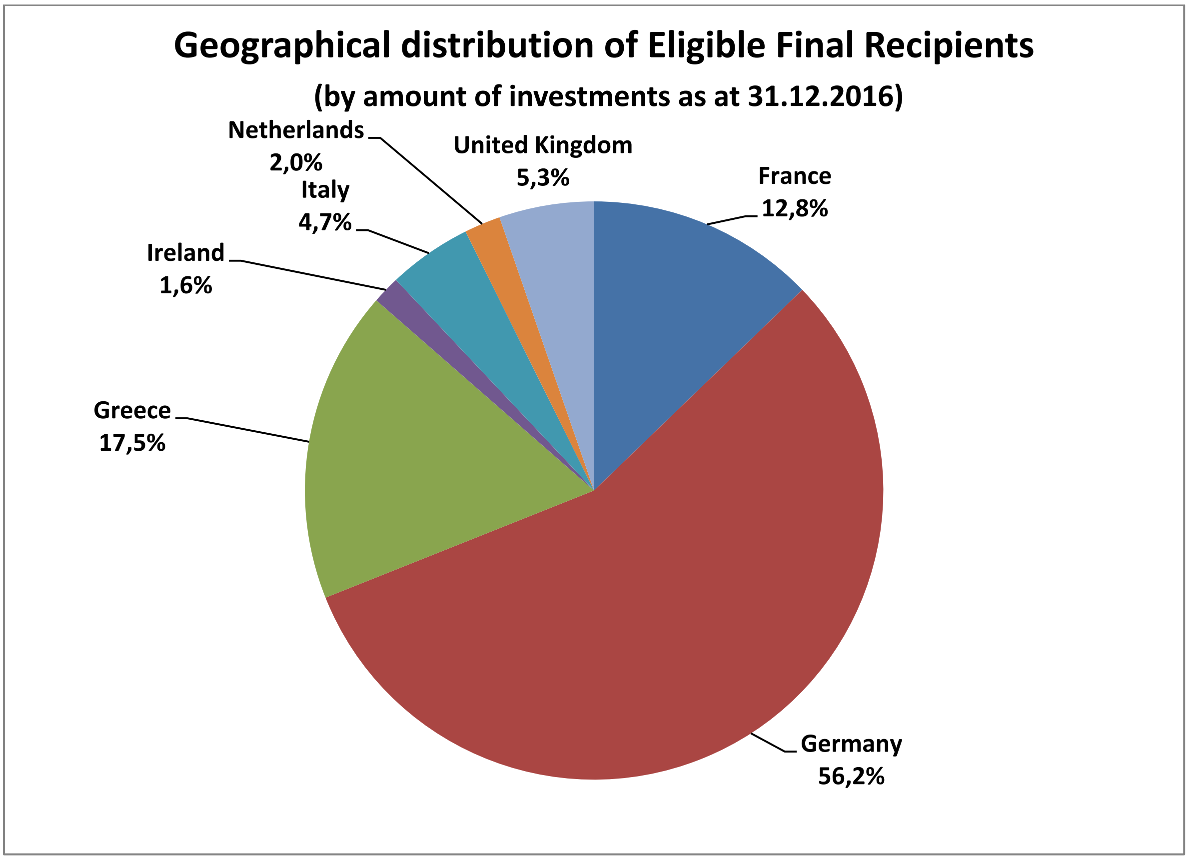
Based on the cumulative budgetary commitments for the EFG (i.e. EUR 172,9 million) and taking into account the total amount expected to be invested into eligible final recipients under the fund agreements already signed, the expected leverage at the end of 2016 is 2,7.

D - Strategic importance/relevance

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

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

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



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

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

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

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

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

A - Summary

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

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

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

Current Overall (2014-2020) Programme Budget amounts to EUR 495 million.

B - Description[68]

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

Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC.[69]

Regulation (EU) No 1290/2013 of the European Parliament and of the Council of 11 December 2013 laying down the rules for participation and dissemination in "Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)" and repealing Regulation (EC) No 1906/2006.[70]

[68] Note: All figures concerning the implementation of GIF-1 for the period 2007-2013 should be made available by the DGs responsible for the implementation at that time, DG ENTR and DG ECFIN. All following information given refers to the implementation of the successor scheme of GIF-1, the Horizon 2020 Equity Facility for R&I.

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

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

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

Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on a European Union Programme for Employment and Social Innovation ("EaSI") and amending Decision No 283/2010/EU establishing a European Progress Microfinance Facility for employment and social inclusion [72]

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

Policy objectives and scope

This facility succeeds and refines the GIF-1 scheme under CIP,[73] and is part of a single equity financial instrument supporting the growth of enterprises and their R&I activities. It is designed to improve access to risk finance by early-stage R&I-driven SMEs and small midcaps through supporting early-stage risk capital funds that invest, on a predominantly cross-border basis, in individual enterprises. SMEs and small midcaps located in Member States or in Associated Countries are eligible as final recipients. The COSME programme's Equity Facility for Growth (EFG) complements this facility.

Implementation arrangements

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

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

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

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

Added value

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

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

the strong participation of private investors essential to the functioning of a self-sustaining venture capital market.

(c) The financial institutions involved in implementation;

European Investment fund (EIF)

C - <u>Implementation</u>

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

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

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

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

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

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

EUR 0,4 million

(g) The balance of the fiduciary account;

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

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

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

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

(h) Revenues and repayments;

EUR 406 355

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

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

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

nihil

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

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

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

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

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

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

D - Strategic importance/relevance

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

The InnovFin Equity facility , supported by a set of accompanying measures, supports the achievement of Horizon 2020 policy objectives. To this end, they are dedicated to consolidating and raising the quality of Europe's science base; promoting research and innovation with a business-driven agenda; and addressing societal challenges, with a focus on activities such as piloting, demonstration, test-beds and market uptake. The budget envelope of EUR 495 million is targeted to mobilize EUR 2,9 billion of new equity investments.

Generally speaking, the following generic comments can be outlined, based on the Innovation Union Europe 2020 Flagship Initiative of 2010, which contains the following commitment:[76]

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

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

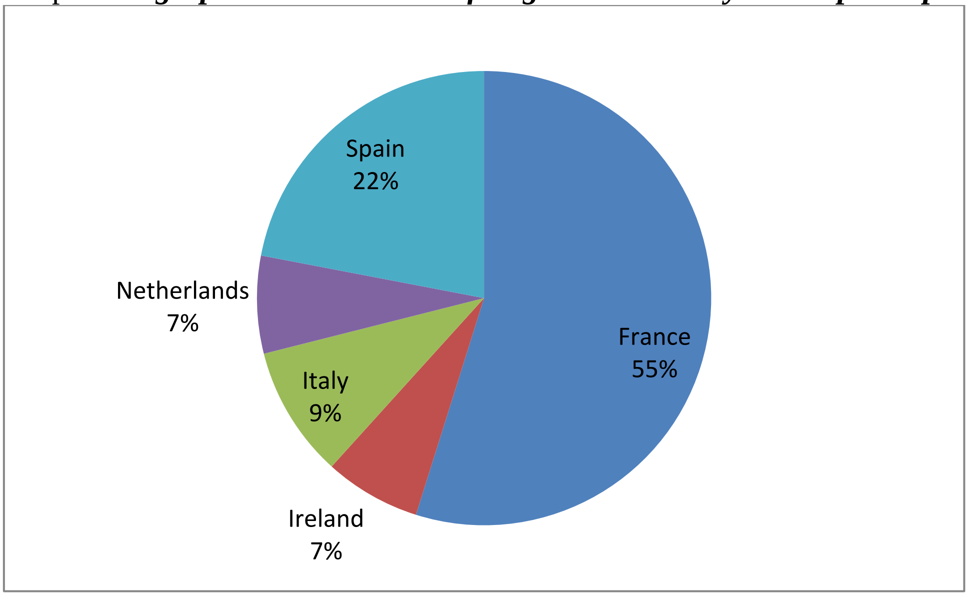
On the basis of Commission proposals, the EU should put in place financial instruments to attract a major increase in private finance and close the market gaps in investing in research and innovation. Union contribution should create a major leverage effect and expand on the success of FP7 and CIP.

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

In 2011, the Commission proposed[77] *that Horizon 2020 and COSME, the programmes succeeding FP7 and CIP, should jointly support an equity and a debt financial instrument designed to foster the growth of SMEs and small midcaps and their ability to undertake R&I, with Horizon 2020 also providing debt finance for larger entities.*

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

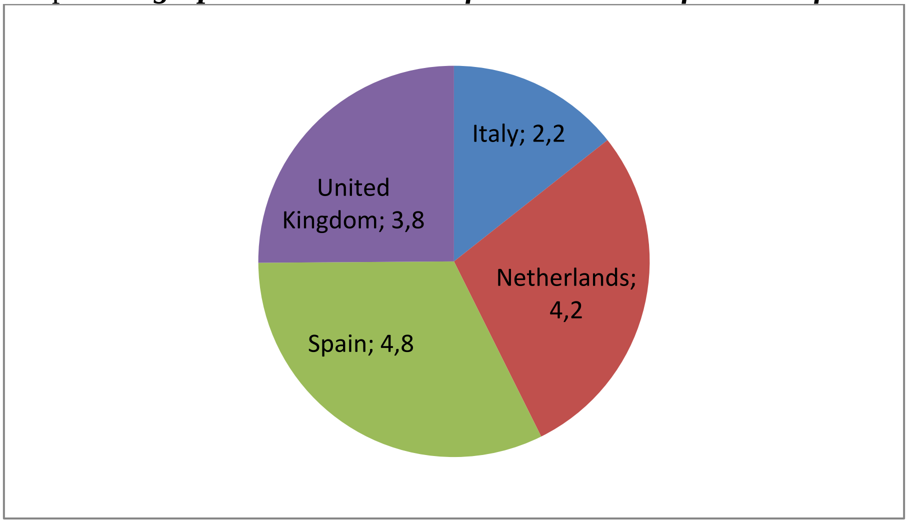
Graph**: *Geographical distribution of target intermediary size in participating countries***



[76] European Commission (2010b).

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

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



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

- **Main issues:**
  - The Union-level InnovFin Equity facility is needed to help improve the availability of equity finance for early and growth-stage investments and to boost the development of the Union venture capital market. During the technology transfer and start-up phase, new companies face a 'valley of death' where public research grants stop and it is not possible to attract private finance. Public support aiming to leverage private seed and start-up funds to fill this gap is currently too fragmented and intermittent, or its management lacks the necessary expertise. Furthermore, most venture capital funds in Europe are too small to support the continued growth of innovative companies and do not have the critical mass to specialize and operate transnationally.
  - Specific support actions such as information and coaching activities for SMEs should be provided. Regional authorities, SMEs associations, chambers of commerce and relevant financial intermediaries may be consulted, where appropriate, in relation to the programming and implementation of these activities.
  - In the case of conditional closings, despite the EIF making a firm commitment of investing into a fund it may be that fund managers fail to raise the required additional private and public funding to reach the first closing of a fund.
- **Main risks:**
  - No specific risks identified at this stage of implementation.
- **General outlook:**
  - Given the generally pro-cyclical nature of the activities of equity investors, the health of the economy overall is very likely to dominate the evolution of both Europe's VC and BA industries, though some analysts advocate and predict a considerable downsizing of the VC sector in both Europe and the USA in order for a smaller number of funds to enjoy a reasonable level of return and profitability.[78]
  - The implementation of the Horizon 2020 InnovFin Equity facility has started end of 2015, after the EIF FAFA and the Delegation Agreement for the Horizon 2020 Financial Instruments between the EU (represented by the Commissioner for Research and Innovation), EIB and EIF were signed.

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

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

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

A - Summary

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

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

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

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

B - Description

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

Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on a European Union Programme for Employment and Social Innovation ('EaSI').

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

Policy objectives and scope

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

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

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

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

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

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

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

C - <u>Implementation</u>

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

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

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

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

Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 0 million 0
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 0 million

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

Not yet applicable

(g) The balance of the fiduciary account;

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

	In EUR
Balance on the fiduciary account (current account)	10 780 407
Term deposits/Bonds (if applicable)	
Term deposits < 3 months	
Term deposits > 3 months < 1 year	
Term deposits > 1 year	
Bonds current	
Bonds non-current	
Equity investment (see also point i)	
Other assets **(if applicable)**	
= Total assets	**10 780 407**

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

(h) Revenues and repayments;

Not yet applicable

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

Not yet applicable

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

Not yet applicable

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

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

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

D - Strategic importance/relevance

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

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

E - Other key points and issues

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

2. Guarantee Instruments

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

Policy DG in charge:	DG GROW, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG ECFIN
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 506* million
Current Overall (2007-2013) Programme Budget:**	EUR 637,8 million
Executed Budget since beginning until 31/12/2016*:**	Commitments: EUR 649,9 million**** Payments: EUR 424,7 million****

**Initial voted commitments (SMEG07 506 million EUR).*
***Including increase in budget commitments from 2008 to 2013.*
****Including EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest.*
*****Including EFTA contributions and third countries contribution paid by Participating Countries as well as regularised interest generated on the trust accounts until 31/12/2012. The legal base allowed the possibility of using such additional resources for the purpose of the same instrument only if they were received prior to 31/12/2013.*

A -Summary

SMEG 07 is part of the **CIP** market-oriented instruments and has shown high efficiency and relevance to the current market conditions. Indeed, SMEG07 acts as counter-cyclical measure, ensuring provision of finance to a vulnerable SME segment, which was one of the most hard hit market segments in the wake of the financial crisis. It is a cost-effective financial instrument which is demonstrated by the high leverage ratio: compared to grants, where 1 EUR of budgetary resources provide 1 EUR of financing, the SMEG is expected to support 40 EUR of finance to SMEs for 1 EUR of the Union contribution.

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

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

B - Description

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

Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013).[80]

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

Policy objectives and scope

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

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

Implementation arrangements

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

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

Until the end of budgetary commitment period in 2013,

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

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

Value added

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

Regarding the sustainability and European value-added,[81] the effectiveness of the instruments used has increased over time; notwithstanding the scope for further improvements, European value-added is evident in the development of facilities that are at the cutting-edge of provision for SMEs.

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

[81] CSES, EIP Final Evaluation, 2011.

(c) The financial institutions involved in implementation;

European Investment Fund.

C - Implementation

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

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

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

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

Additional operational information

For the period 2007-2013, EUR 1 275,1[89] million of commitment appropriations were made available for the CIP financial instruments, of which EUR 649,9 million for SMEG. The appropriations were fully committed.

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

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

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

[85] According to CIP performance indicators (Annex to the Proposal for a Decision of the European Parliament and of the Council establishing a Competitiveness and Innovation Framework Programme (2007–2013), SEC(2005) 433) and as confirmed by the 2011 ECA's Performance Audit, the SMEG07 facility should reach the number of 315 000 supported final recipients. Please note that as at 31/12/2016 (see below) the number of benefitting final recipients already trespassed this target/expected number.

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

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

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

Regarding the payments appropriations for the period 2007-2016, out of the EUR 889,2 million made available for the CIP financial instruments, EUR 424,7 million were paid to the SMEG fiduciary account, managed by the EIF on behalf of the Commission. Funds are drawn down from the fiduciary account as and when defaults occur under SMEG.

By the end of December 2016 (latest available figures as at writing date),

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

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

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

SMEG impact on employment

For the entire period as of 31 December 2016 (latest available figures as at writing date), SMEG achievements under CIP were as follows:

- number of employees at final recipients (supported SMEs) at inclusion date: 1 337 555;
- number of jobs created or maintained: 385 772.[92]

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

For the period 2007-2016, the amount of EUR 12,1 million returned to the instrument (point (h)) has been more than 60% used for further transactions in line with the policy objectives of the Programme.

(g) The balance of the fiduciary account;

Aggregate balance of the fiduciary account as at 31/12/2016 EUR 99 616 452

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

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

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

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

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

Impact of negative interest rates on SMEG 07: no impact as at 31/12/2016[93]

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

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

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

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

NA

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

Called guarantees as at 31/12/2016	EUR 292 633 832

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

The achieved leverage effect for CIP SMEG 07 at the level of entrusted entity (total loan volume received by the recipient SMEs / EU guarantee cap amount) is approx. 40.[95]

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

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

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

As at 31/12/2016, the SMEG07 already contributed to provide more than 21,1 billion EUR of financing to nearly 386 000 Final Recipients (SMEs) through more than 469 000 underlying loans, accounting for an estimated 30,86 billion EUR investment amount, and had thus an important impact on the real economy of the EU as described below.

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

a) Effectiveness and efficiency

The financial instruments appear to be on track to achieve the targets set and seem to be acquiring a certain momentum that may lead them to exceed expectations. [97]

In addition, there have been improvements in monitoring systems at the level of both EIF (entrusted entity) and financial intermediaries involved in implementation which contributed

[93] Negative interest on some sub-accounts of the Trust Account were more than offset by positive interests on other sub-accounts , so, all in all, the Facility was not hampered by negative interests.
[94] Of which EUR 12 089 884 re-committed to the same instrument.
[95] Source: EIF's Q4 Quarterly report dated 31/12/2016 with data as at 31/12/2016; total loan volume received by the recipient SMEs = 21 101,8 million EUR / EU guarantee cap amount = 523,4 million EUR.
[96] Source: EIF's Q4 Quarterly report dated 31/12/2016 with data as at 31/12/2016; "Estimated SME financing" = 23 116,1 million EUR / EU guarantee cap amount = 523,4 million EUR.
[97] CSES (2012).

to tracking comprehensively performance of the instrument and thus more effectively pursuing the policy objectives of the instrument.

b) Relevance

The relevance of the instrument as assessed by the recipient SMEs is significant[98]:

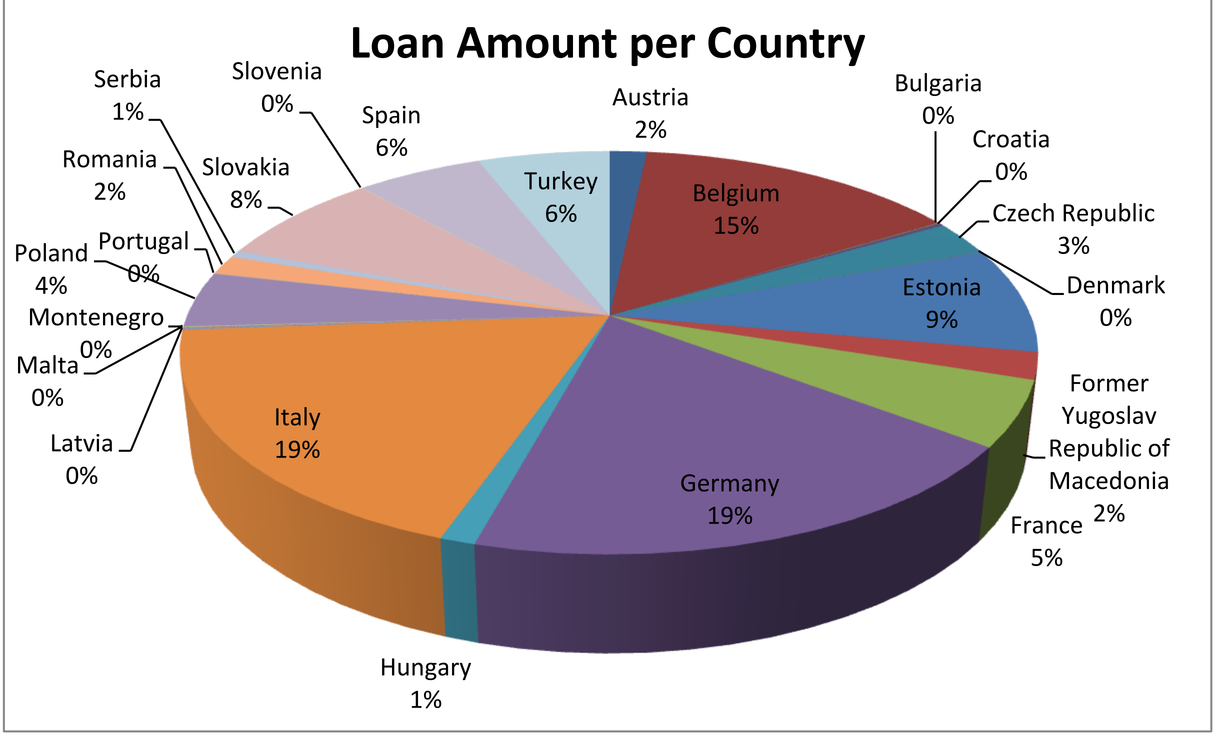
- 46% stated that the EU financing scheme was the only option available for them to get financing,
- 18% stated that without the EU support they would have received only part of the funding needed, 42% stated that the EU support helped them to get additional finance and
- 64% stated that EU support was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

In this regard, the SMEG Facility has a wide geographical coverage. The instrument involves 52 financial intermediaries, which have been providing finance to SMEs in 23 participating countries.

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

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

Graph: ***Geographical distribution of SMEG Loan amounts, million EUR***[99]



[98] CSES (2012).

[99] Source: ECFIN.

E - Other key points and issues

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

- The monitoring visits carried out by both the EIF and the Commission for SMEG07 during 2016 allowed to confirm the eligibility of financial intermediaries (FI's) and final recipients, contractual compliance (transposal of the Commission's requirements into the contractual documentation), process compliance (observance of processes prescribed by the Commission) and performance (achievement of predefined targets/objectives). The EIF monitoring report 2016 did not indicate major deviations.

- Audits and internal controls:
  - As stated in ECFIN L2's 2016 Annual Activity Report, no issue is pending.
  - A positive Statement of Assurance was received from the EIF as at 19/4/2017.
  - In August 2012 the ECFIN Unit R4 has launched an ex-post control of the EIF guarantee calls paid under CIP-SMEG 07 Facility. The provisional scope and objective of this ex-post control includes reviewing of the sample of guarantee calls initiated since 2007 to-date with the objective to examine their legality and regularity and to review related sound financial management aspects. L2 Financial Intermediaries (FI) have been sampled. ECFIN L2 received R4's related report on the 31st of August 2015. After thorough investigations and detailed review of R4's observations in coordination with the EIF, ECFIN L2 replied to R4 as at 9/11/2015 (ref. ARES(2015)5484815), rejecting most of the observations. R4 accepted those extensive explanations in its final report (officially finalized on 23/12/2015 and sent to ECFIN L Director on 4/1/2016 – ref. ARES(2015)6031782), which confirms a Most Likely Error Rate (MLER) nearing 0% (0,002%), hugely below the materiality threshold and acceptable error rate of 2%. Thus, R4 concludes that "there is reasonable assurance that SMEG07 guarantee calls and related payments and recoveries were implemented in compliance with the legal, regulatory and contractual provisions".
  - The ECA carried out a performance audit on the guarantees supported by the EU budget , for which ECFIN L2 accompanied the ECA on a visit to a FI on 14/7/2016: the final report on the overall audit has not been communicated to ECFIN as at writing date.

- The second part of the monitoring of the EIF on 'return and de-commitments of funds' was successfully carried out as of 11/11/2016, with a view to assessing the compliance of the effective operations under the procedure on the “Transfer of revenues and repayments to Horizon 2020 and COSME (Ares(2015)4949413)", based on the relevant Recovery Orders issued in 2016.
- As regards the 2016 monitoring visit to the EIF, having as scope the review of the performance and findings of the EIF in a desk-review of a FI carried out by the EIF, no finding was identified.
- Efficiency indicators regarding SMEG:
  - number of findings/minor observations (stemming from ECFIN's monitoring activities): no findings, 3 minor observations (of which, 100% closed as at writing date);
  - number of OLAF inquiries: none;
  - number of IAS inquiries: none;
  - number of open recommendations in action plans established following ECA, IAS, IAC or ex-post control recommendations: none;
  - number of operations outside official 2016 procedures: none;
  - number of erroneous operations in 2016: none;
  - return to fiduciary account in 2016 linked to errors: none;
  - results on the checks on the balance of the TA in 2016: no errors/discrepancies.

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

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

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

2.2. European Progress Microfinance Guarantee Facility (EPMF – G)	
Policy DG in charge:	DG EMPL, with participation of DG ECFIN for the design of the instruments
Implementing DG in charge:	DG EMPL
Implementing Body in charge:	EIF
Initial Overall (2007-2013) Programme Budget:	EUR 25 million (appropriations as approved by the Budgetary Authority)
Current Overall (2007-2013) Programme Budget:	EUR 23,6 million (including any changes in the course of the programme)
Executed Budget since beginning until 31/12/2016:	Commitments: EUR 23,6 million Payments: EUR 22,55 million*

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

A - Summary

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

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

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

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

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

B - Description

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

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

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

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

Policy objectives and scope

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

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

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

Implementation arrangements

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

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

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

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

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

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

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

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

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

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

C - Implementation

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

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

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

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

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

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

[102] EPMF FMA - 2016 Annual Implementation Report
[103] estimate based on an average loan amount per FB as at 30/9/2016 = 11 231 EUR
[104] Total guarantee cap amount.
[105] The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.
[106] The respective figure was calculated by applying a proxy index 7:10 (7 for loan volumes and 10 for investment volumes) which reflects the ratio used under EFSI.

Additional operational information

- As of 30/09/2016, 36 Guarantee Agreements have been signed in 18 Member States for a total guarantee cap amount of EUR 20,96 million.
- In 2017, the demand from microfinance providers will remain significant and the new EaSI Microfinance Guarantee (EPMF-G successor programme) is already covering fast and effectively the needs of the microfinance market.

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

- As of 30/09/2016 the European Progress Microfinance Facility including both Guarantees (EPMF- G) and Funded instruments (EPMF – FCP FIS) already provided 56 221 micro-loans to final recipients reaching the volume of EUR 471,7 million, compared to the initial programme target of 46,000 micro-loans with the volume of EUR 500 million. The Facility has already surpassed the micro-loans initial target by 22%.

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

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

(g) The balance of the fiduciary account;

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

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

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

(h) Revenues and repayments;

Revenues of the year 2016 EUR 47 228

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

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

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

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

NA

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

Called guarantees as at 31/12/2016	EUR 12 124 582

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

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

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

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

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

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

See below some information on the impact of EU Financial Instruments for micro-entrepreneurs SMEs (The economic environment for micro-finance).[108]

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

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

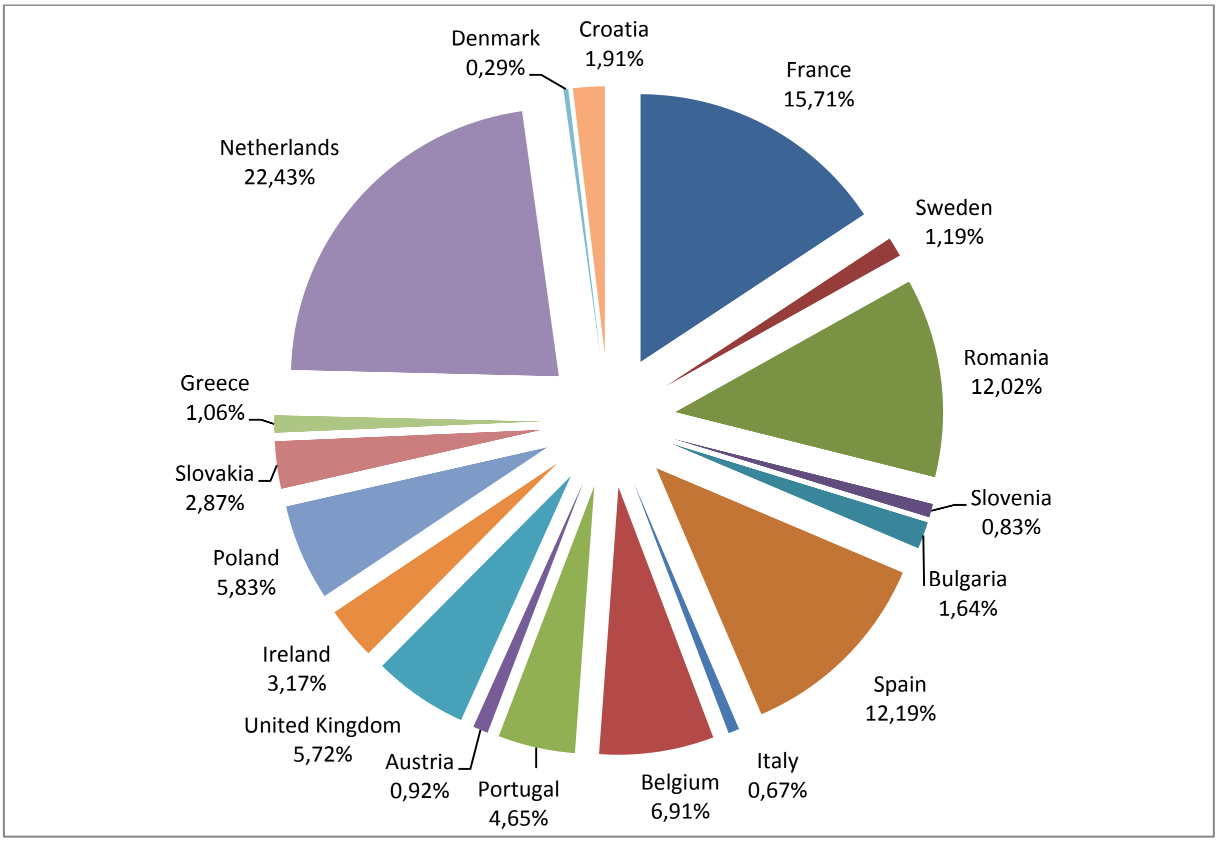
At Facility level, individuals which were final recipients of micro-loans were, by and large, educated at the secondary level (40,9%). Nevertheless, EPMF continues to be of importance in serving the financing needs of individuals with more substantial education beyond the secondary level (40,8%).

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

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

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

The share of each participating country in the total amount of financing already provided (EUR 235,6 million as of 30/09/2016) by the EPMF – G instrument to eligible final recipients is presented in the following graph.



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

- ***Main issues for the implementation & general outlook:***
  - In terms of the number of micro-loans disbursed, the European microfinance sector as a whole continued to grow in 2016, which is also reflected by the guarantee activity under EPMF. The continuously decreasing bank lending, the limited capacity of national governments to support microfinance and the strong market demand for microfinance still suggest that there is a clear rationale for intervention at EU-level by providing risk-sharing solutions to Microfinance providers.
  - Room for improvement has been identified for accompanying mentoring and training for micro-entrepreneurs since it is considered as important factor for the sustainability of the micro-enterprises. The issue of Microfinance providers' institutional capacity concerning mainly small non-bank microfinance institutions is a bottleneck which hurdles the disbursement of the agreed micro-loans and affects negatively their prospects in the microfinance market.
  - The provision of regulatory capital relief under the Guarantee Agreements has been identified as important issue in attracting qualified microfinance providers. During the negotiations with EIF many Intermediaries, mainly banks, raised this issue

especially when EIF asked Intermediaries to pass the EPMF benefit to the final recipients through price reduction.

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

2.3. EaSI Microfinance and Social Entrepreneurship

Policy DG in charge:	DG EMPL
Implementing DG in charge:	DG EMPL
Implementing Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 96 million [110]
Expected Overall Budget as at 31/12/2016:	EUR 96 million[111]

A - <u>Summary</u>

As has been shown by ex-ante evaluations,[112] it is essential to provide financial instruments for microfinance and social enterprises in order to successfully achieve the objectives of the EaSI programme. In line with the outcome of ex ante evaluations, debt finance, risk-sharing instruments, and equity investments are likely to be used.

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

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

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

B - Description

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

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

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

Policy objectives and scope

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

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

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

"Microfinance Instrument" targets:

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

"Social Entrepreneurship financial Instrument" will target

- social enterprises, regardless of their legal form.[114]

Implementation arrangements

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

Added value

The Delegation Agreement signed with the EIF ensures that EaSI Microfinance and Social Entrepreneurship is accessible for a broad range of financial intermediaries (microcredit

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

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

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

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

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

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

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

providers, both banks and non-banks, and social enterprise investors) which are experienced in financial transactions with self-employed and micro-entreprises.
From a technical point of view, the EIF is instructed to provide guarantees to the financial intermediaries to cover a portion of expected losses of a portfolio of newly generated self-employed and micro-entreprises transactions with a higher risk profile.

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

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

C - <u>Implementation</u>

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

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

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

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

[115] EaSI - 2016 Annual Operational Report.

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

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

Impact on employment
For the entire period as of 31 December 2016 (latest available operational data as at 30/09/2016), EaSI achievements for the Microfinance Guarantee Instrument were as follows:

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

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

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

Additional operational information

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

EaSI Microfinance Guarantee Instrument

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

EaSI Social Entrepreneurship Guarantee Instrument

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

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

Not applicable for 2016.

(g) The balance of the fiduciary account;

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

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

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

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

(h) Revenues and repayments;

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

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

Not yet applicable.

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

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

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

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

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

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

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

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

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

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

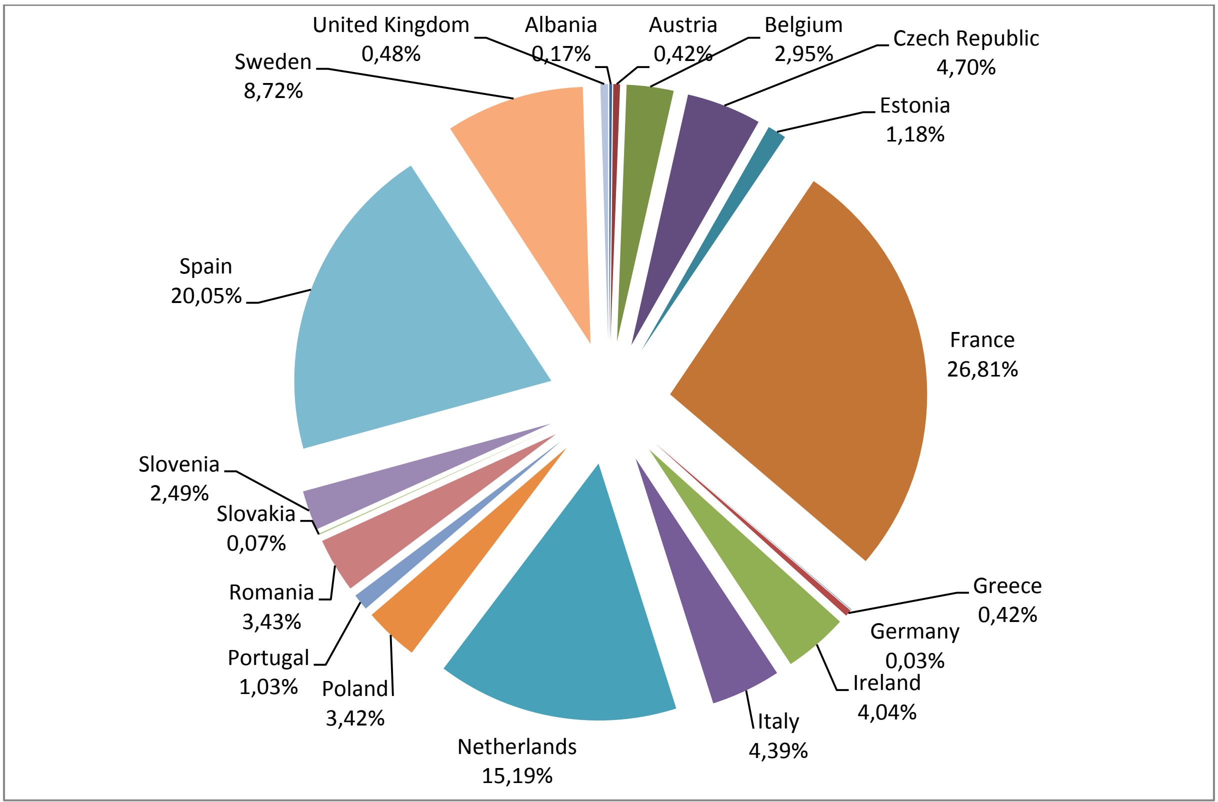
[117] There was no impact of negative interest either in the Trust Account or in the sub accounts.

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

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

Regarding the age group, with respect to final recipients who are natural persons the outreach to individuals in disadvantaged age groups (younger and older people combined) is 10,6%.

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



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

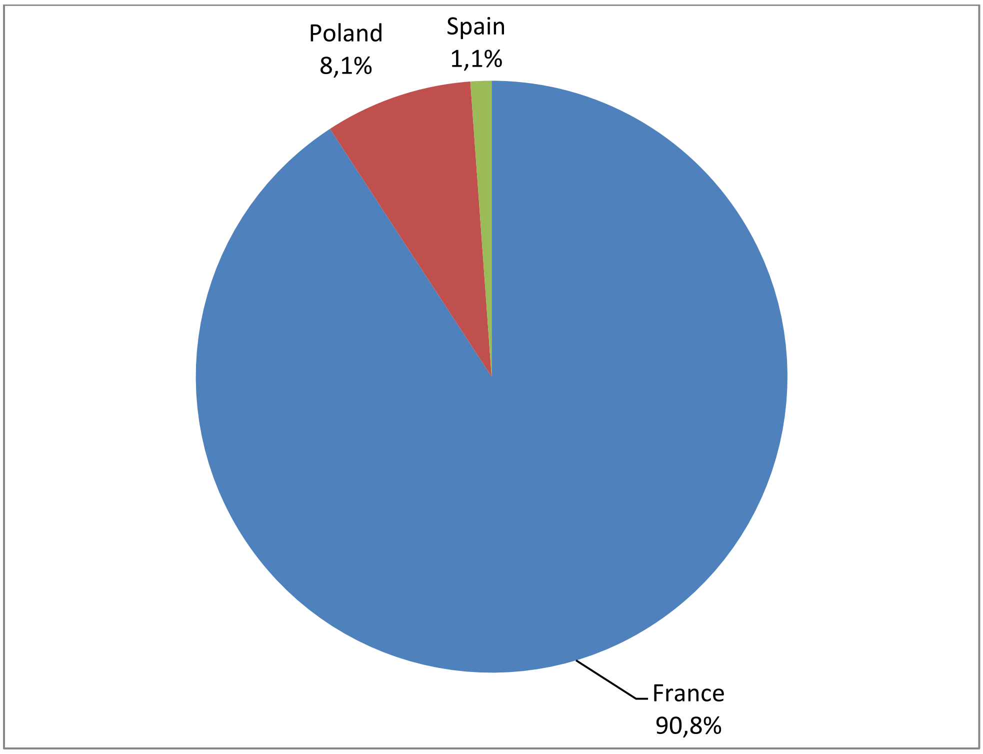
The vast majority of social enterprises supported (98,3%) have an annual turnover of less than 2 million EUR.

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

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

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

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



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

- ***Main issues for the implementation:***
    - At the current stage, EaSI Guarantee financial instrument is fully deployed covering the already anticipated increased market demand. The Union budgetary commitments for the years 2017-2020 have been frontloaded in order to make them available as of December 2016, enabling the EIF to sign operations more quickly to keep pace with the market demand. In general, in the area of microfinance, the available funding has reached the available commitments so the main issues arising for the implementation of the instrument are the necessity to ensure additional and on time available funding in order to facilitate the ongoing implementation and increased demand of the Programme.
- ***Main risks:***
    - The risks related to social enterprises are linked to the fact that that market has not yet developed and the EU financial instrument has to help building it. Given the level of its development and the changes in the socio-economic environment, the market also tends to change very rapidly. This might cause a situation where the instrument in question may not be fit anymore for future situations.
- ***General outlook:***
    - In the area of social entrepreneurship there was an initially slower take up but taking into account the novelty of the offer, this is not unusual. Based on the pipeline, we expect significantly higher levels of implementation in the next years. In the area of Microfinance, EaSI has already committed to financial intermediaries the amount of EUR 50,35 million (90% of the total amount of EUR 56 million foreseen for Microfinance) within a period of only 15 months of initial implementation (30/9/2015-31/12/2016).

2.4. Loan Guarantee Facility under COSME

Policy DG in charge:	DG GROW
Implementing DG in charge:	DG GROW
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 717 million[120]
Current Overall Budget:	EUR 970 million[121]

A - Summary

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

B - Description

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

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

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

Policy objectives and scope

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

The Loan Guarantee Facility (LGF) provides:

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

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

[121] This amount is composed of the amounts committed towards the LGF for the year 2014-2016, of the amounts allocated towards the LGF in 2017-2018 as currently foreseen in the COSME work programmes and of the indicative amounts allocated to the LGF for 2019-2020. The 2017-2020 amounts are indicative and may be subject to change, in line with Article 17 of the Basic Act which stipulates that the allocation of funds to the loan guarantee and equity facilities shall take into account the demand from financial intermediaries. It includes the contribution to the SME Initiative where applicable.

The LGF consists of:

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

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

Implementation arrangements

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

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

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

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

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF)

C - **Implementation**

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

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

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

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

Additional LGF operational information

As the resources available under the LGF were not sufficient to satisfy market demand (i.e. total of applications received from Financial Intermediaries by the EIF) for the financing of SMEs, a second amendment of the COSME Delegation Agreement was signed in July 2015, allowing for the combination of LGF resources with additional risk-bearing capacity under the SME Window of the European Fund for Strategic Investment (EFSI) so as to avoid disruption of the succesful rollout of the LGF. Thanks to EFSI, the COSME LGF Enhancement continued its accelerated roll-out in 2016.

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

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

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

NA.

(g) The balance of the fiduciary account;

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

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

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

(h) Revenues and repayments;

Cumulative Revenues as at 31/12/2016: EUR 292 263[125]

Cumulative Repayments as at 31/12/2016: EUR 0

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

NA.

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

EUR 4 790 471

[123] Including EUR account and sub-accounts in tradable currencies (BGN, CZK, DKK, GBP, HUF, PLN, RON, TRY, HRK).

[124] Even with market conditions deteriorating over time, the net interest income generated on short term deposits remained positive in 2016, mainly due to positive interest rates for GBP, HRK, HUF, PLN, RON and TRY, compensating the negative interest rates for EUR and DKK.

[125] Revenues as set out in the Economic Outturn Account of the 2016 LGF Audited Financial Statements.

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

The target leverage effect indicated in the COSME legal base is in the 1 to 20 – 1 to 30 range for the debt instrument over the lifetime of the programme, with an overall value of financing expected to be mobilised by the EU contribution ranging from EUR 14,3 billion to EUR 21,5 billion and the number of firms ranging from 220 000 to 330 000.[127]

The achieved leverage effect

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

The "Expected Leverage for Signed Operations"

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

D - Strategic importance/relevance

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

As at 31 December 2016, the LGF already contributed to provide around EUR 5 547 million of financing to more than 143 000 SMEs, also thanks to the support from the EFSI guarantee.

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

At the end of 2016, 67 guarantee agreements have been signed with 61 financial intermediaries located in 25 participating countries, with actual financing already provided to SMEs in 21 countries, as set out in the graphs below.

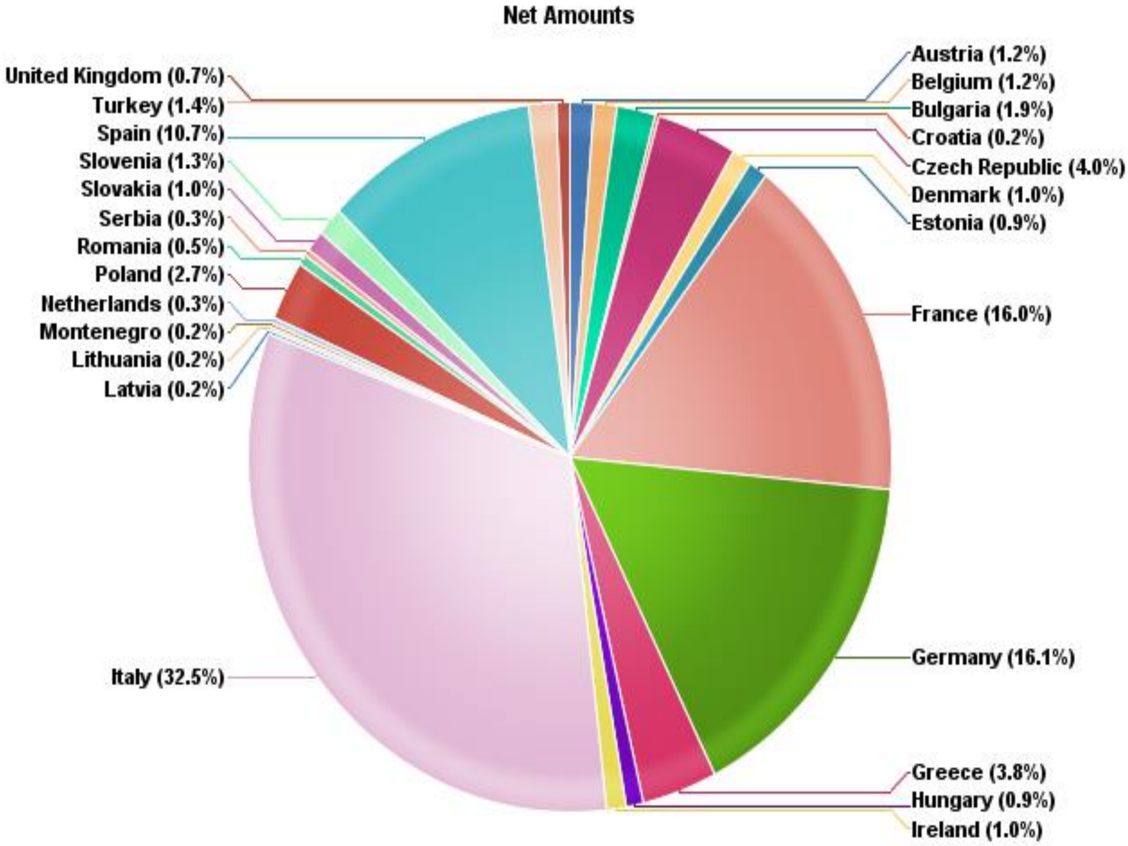
Available implementation data shows that the LGF more specifically supports the smaller and younger SMEs where it is recognized that they encounter more difficulties to get the financing they need. Under the LGF, more than 91% of the SMEs having got financing have below 10 employees and 45% are start-ups.

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

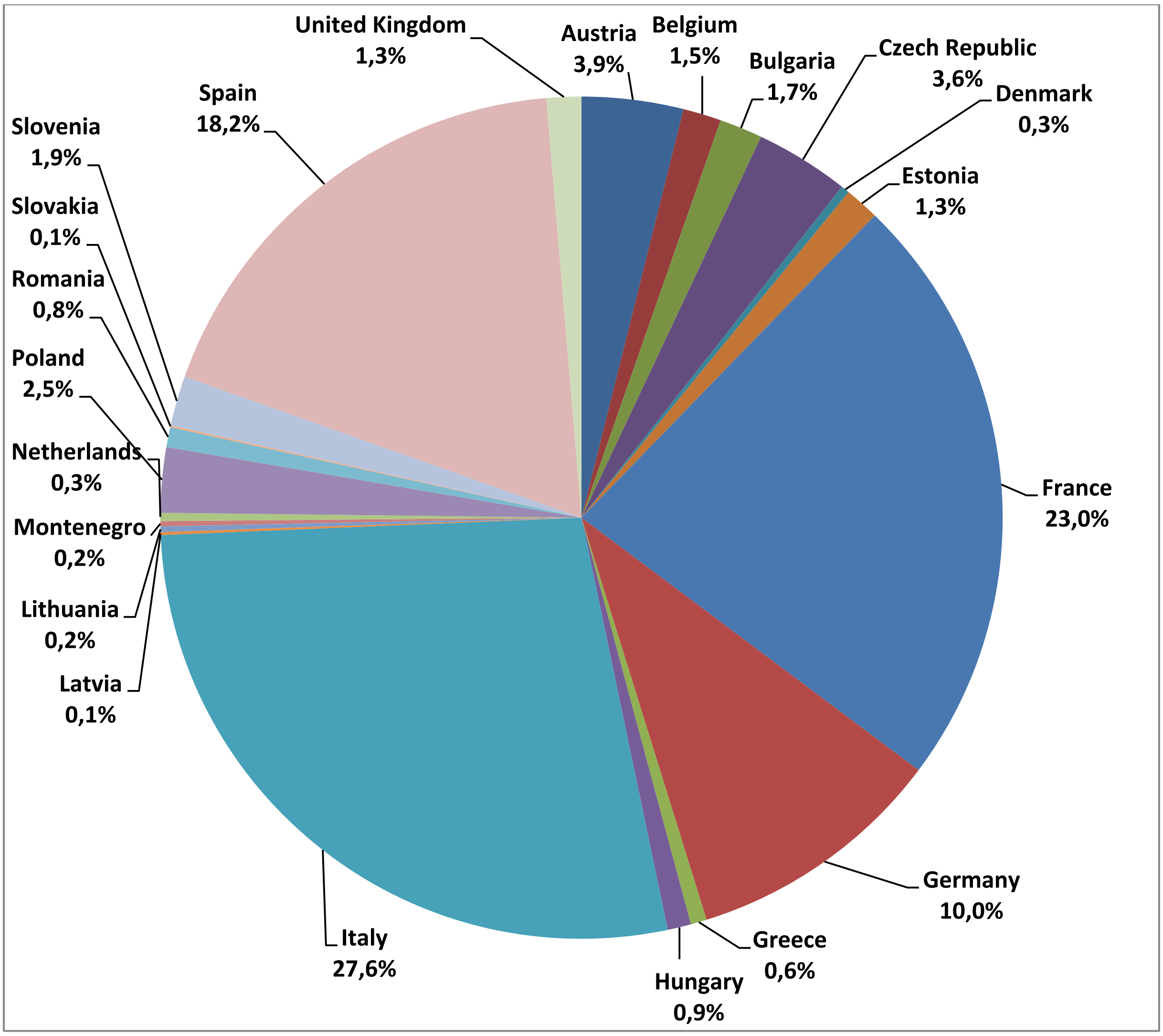
[126] Taking into account the combined COSME/EFSI resources, the aggregate amount of budgetary commitments (EUR 375,5 million) has been increased by the actual EFSI exposure as at 31 December 2016 as reported in the LGF Audited Financial Statements (EUR 198,8 million) for the purpose of calculating both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

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

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



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



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

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

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

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

A - Summary

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

The Risk-Sharing Instrument has so far provided over EUR 2,33 billion in guarantees and counter-guarantees to 35 banks and guarantee societies: this has enabled them to support up to an estimated 4 146 innovative SMEs and small midcaps (estimated corresponding investment amount: EUR 4 660 million). In only two years' time, these financial intermediaries now cover 17 countries in the European Union and Associated Countries.

B - Description

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

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

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

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

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

Policy objectives and scope

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

Implementation arrangements

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

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

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

C - <u>Implementation</u>

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

Aggregate budgetary commitments as at 31/12/2016	EUR 270 000 000
Aggregate budgetary payments as at 31/12/2016	EUR 270 000 000

(e) The performance of the financial instrument, including investments realised;
The aggregate number of applications from financial intermediaries is 47, including four guarantee increases.

The instrument has so far provided over EUR 2,33 billion in guarantees and counter-guarantees to 35 banks and guarantee societies: this will enable them to support up to an estimated 4 146 innovative SMEs and small midcaps via loans, financial leases, and loan guarantees.

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	EUR 3 301 million 3 000 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable	EUR 6 000 million
Amount of financing already provided by the instrument to eligible final recipients, and the corresponding number of recipients;	EUR 2 331 million 4 146 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 4 660 million

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

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

(g) The balance of the fiduciary account;

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

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

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

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

(h) Revenues and repayments;

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

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

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

NA.

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

Called guarantees as at 31/12/2016 EUR 14 698 037

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

The expected leverage effect is above 12 with an amount of financing expected to be provided by financial intermediaries of EUR 3 301 million and an EU contribution of EUR 270 million.

The achieved leverage effect is above 8,5 with an amount of financing expected to be provided by financial intermediaries of EUR 2 331 million and an EU contribution of EUR 270 million

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

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

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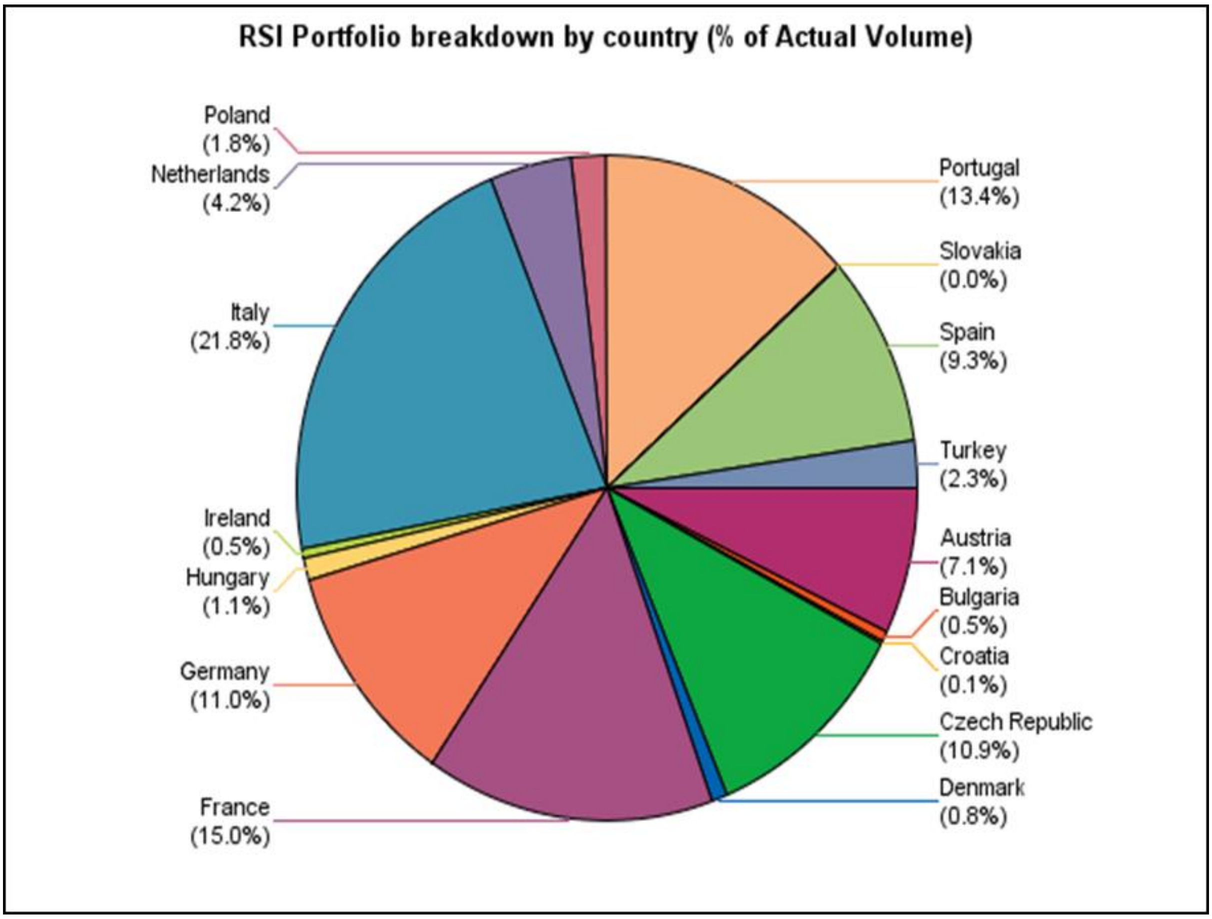
D - Strategic importance/relevance

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

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

As at the end of 2016, the instrument has so far provided over EUR 2,33 billion in guarantees and counter-guarantees to 35 banks and guarantee societies: this will enable them to support up to an estimated 4 146 innovative SMEs and small midcaps via loans, financial leases, and loan guarantees and had thus an important impact on the real economy of the EU as described below. In only two years' time, these financial intermediaries now cover 17 countries in the European Union and Associated Countries.

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



E - Other key points and issues

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

2.6. SMEs & Small Midcaps R&I Loans Service under Horizon 2020 (Innovfin SME Guarantee)

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

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

A - Summary

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

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

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

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

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

B - Description

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

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

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

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

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

Policy objectives and scope

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

Implementation arrangements

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

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

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

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

a) For financial intermediaries: EIF issues calls for expression of interest, with eligibility and selection criteria defined as part of each call after consultation with DG Research & Innovation.

b) For loans: according to the internal processes of the intermediary bank or other financial institution that the SME or small midcap applies to, using normal commercial criteria.

Added value

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

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

(c) The financial institutions involved in implementation;

European Investment Fund (EIF).

C - Implementation

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

Aggregate budgetary commitments as at 31/12/2016 EUR 534,47 million

Aggregate budgetary payments as at 31/12/2016 EUR 478,21 million

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

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, - out of which thanks to combined H2020/EFSI resources and corresponding number of eligible final recipients;	EUR 8 648 million EUR 6 939 million 24 400 eligible FRs
Amount of investments expected to be made by eligible final recipients due to the financing, if applicable - out of which thanks to combined H2020/EFSI resources	EUR 12 550 million EUR 10 070 million
Amount of financing already provided by the instrument to eligible final recipients, - out of which thanks to combined H2020/EFSI resources and the corresponding number of recipients;	EUR 1 944 million EUR 1 560 million 5 682 eligible FRs
Amount of investments already made by eligible final recipients due to the financing provided through the instrument, if applicable.	EUR 2 820 million

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

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

(g) The balance of the fiduciary account;

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

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

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

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

(h) Revenues and repayments;

Revenues[131]: EUR 2 168 480

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

NA

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

Impairments : EUR 2 279 056

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

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

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

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

D - Strategic importance/relevance

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

As at 31/12/2016, the Innovfin SME Guarantee already contributed to provide 1 944 million EUR of financing to 5 682 Final Recipients, accounting for an estimated 2 820 million EUR investment amount, and had thus an important impact on the real economy of the EU as described below

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

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

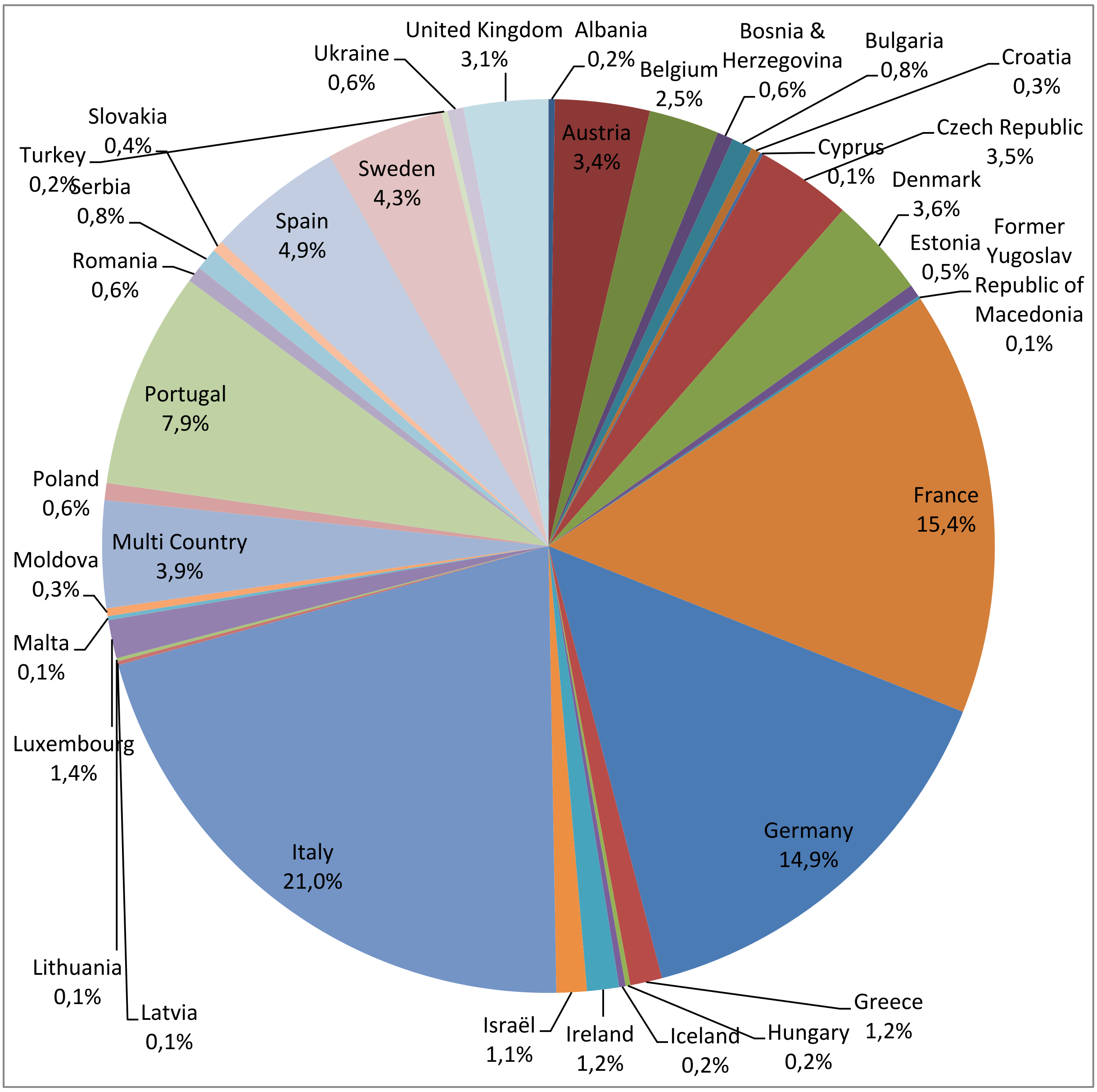
[131] Revenues and repayments reported include those notified by the entrusted entities as well as those stemming from the economic outturn account.

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

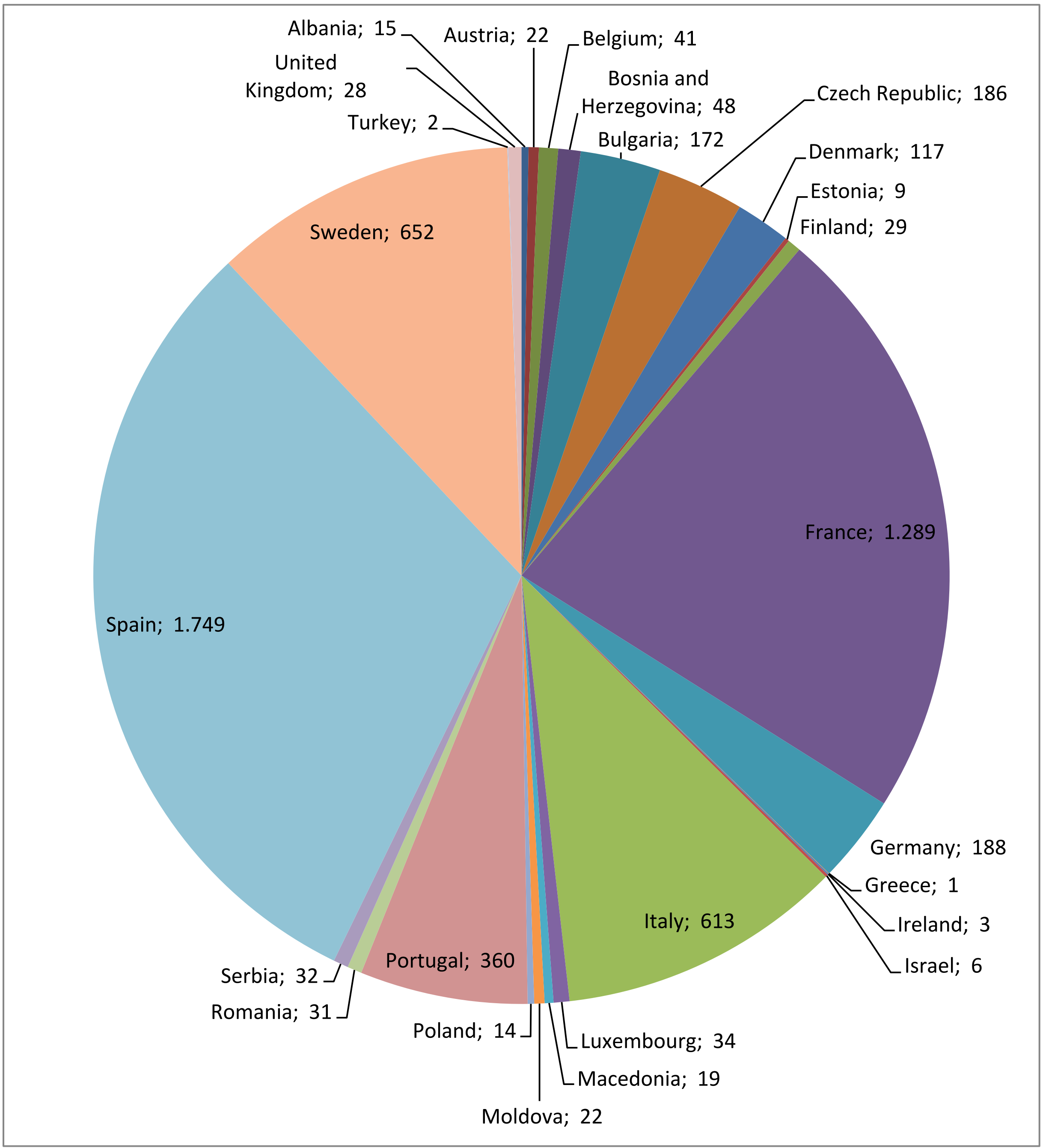
- increase in private finance and address the financing gap for innovative SMEs and Small Midcaps seeking loan finance for their riskier investments in RDI**;**
- support, via risk-sharing (guarantees and counter-guarantees), for innovative SMEs and Small Midcaps investing across Horizon 2020 Societal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

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

Graph: ***Geographical distribution of InnovFin SMEG Maximum portfolio volume in participating countries***



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



E - Other key points and issues

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

2.7. The Cultural and Creative Sectors Guarantee Facility

Policy DG in charge:	DG CNECT and DG EAC
Implementing DG in charge:	DG CNECT
Operating Body in charge:	EIF
Initial Overall Budget Envelope:	EUR 121 million[133]
Current Overall Budget:	EUR 121 million [134]

A - Summary

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

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

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

counter-guarantees on debt financing to Financial Intermediaries in order to improve access to finance to SMEs from cultural and creative sectors. Thanks to the CCS GF, Financial intermediaries selected by the EIF will be able to provide additional debt financing to SMEs in Participating Countries. In addition, the action will provide expertise/capacity building to the financial institutions wishing to build dedicated portfolios of loans targeting cultural and creative SMEs. This may result in an increase in the number of financial institutions which are willing to work with cultural and creative SMEs as well as maximising the European geographical diversification of targeted financial products for the sector.With a total budgetary appropriation for CCS GF of EUR 121 millions in the 2016-2020 period and a targeted leverage effect of 5,7 the financial instrument may leverage around EUR 689 million of additional funding or the cultural and creative industries.

B - <u>Description</u>

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

Regulation (Eu) No 1295/2013 of the European Parliament and of the Council of 11 December 2013 establishing the Creative Europe Programme (2014 to 2020) and repealing Decisions No 1718/2006/EC, No 1855/2006/EC and No 1041/2009/EC.[135]

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

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

Policy objectives and scope

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

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

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

Implementation arrangements

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

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

Added value

The Guarantee Facility has been the subject of an impact assessment, in-depth analysis of the pre-existing market gap, market testing with a sample of financial institutions and a dedicated study on 'Access to finance for cultural and creative sectors'.[136]

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

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

(c) The financial institutions involved in implementation;

European Investment Fund.

C - Implementation[137]

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

Commitments:

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

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

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

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

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

NA.

(g) The balance of the fiduciary account;

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

(h) Revenues and repayments

EUR 0

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

NA (guarantee fund).

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

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

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

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

0

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

The targeted leverage is 5,7. With a total budgetary appropriation of EUR 121 million in the 2016-2020 period the financial instrument may leverage around EUR 689 million of additional funding for SMEs and organisations from cultural and creative sectors.

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

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

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

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

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

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

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

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

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

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

A - Summary

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

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

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

B - Description

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

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

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

Policy objectives and scope

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

Implementation arrangements

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

Added value

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

(c) The financial institutions involved in implementation;

European Investment Fund.

C - Implementation

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

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

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

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

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

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

Amount of financing expected to be provided by the instrument (including EU contribution committed) to eligible final recipients, and corresponding number of eligible final recipients;	159 967 994 11 500

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

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

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

	In EUR
Balance on the fiduciary account (current account)	2 964 028
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	*12 974 962*
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
Other assets **(if applicable)**	NA
= Total assets	15 938 990

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

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

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

(h) Revenues and repayments;

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

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

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

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

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

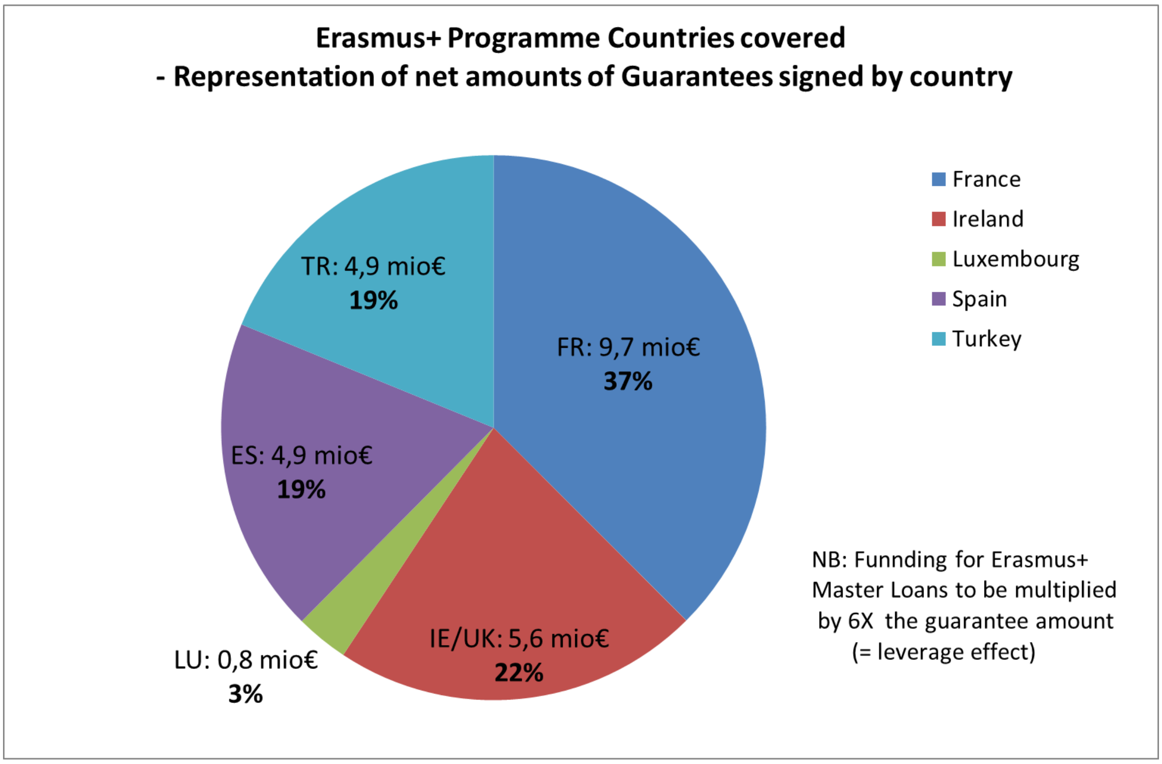
D - <u>Strategic importance/relevance</u>

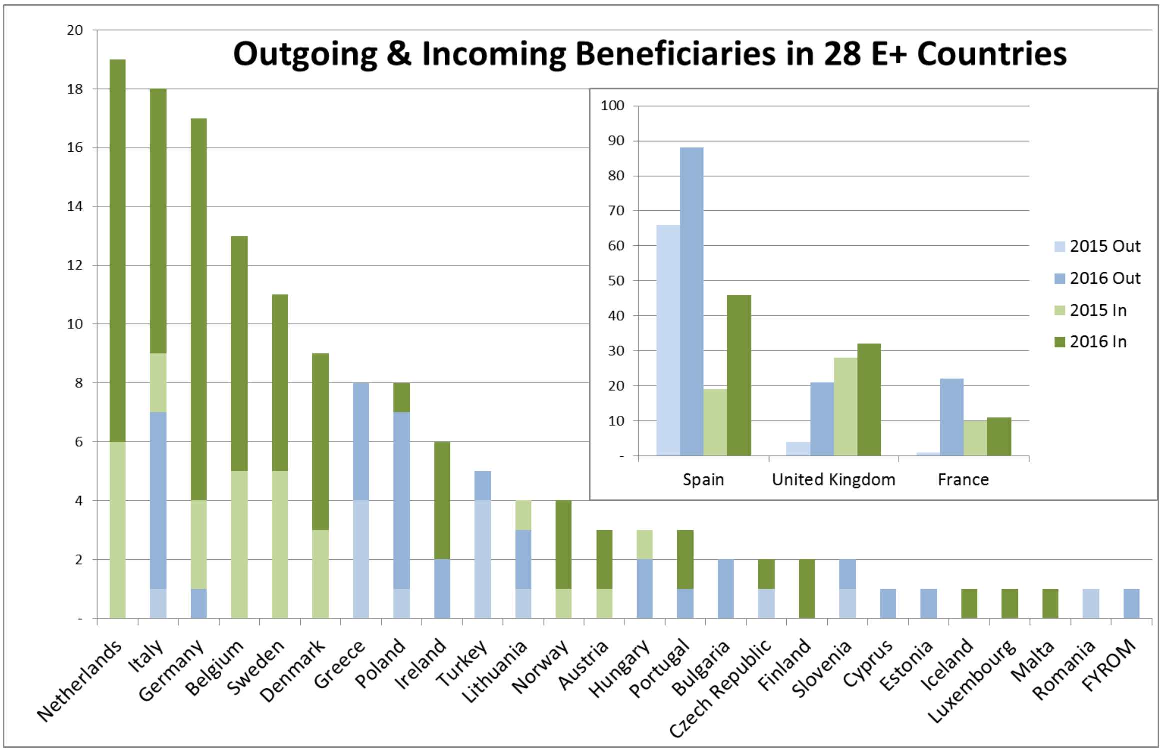
(l) The contribution of the financial instrument to the achievement of the objectives of the programme concerned as measured by the established indicators, including, where applicable, the geographical diversification;

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

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

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





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

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

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

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

- ***Main issues for the implementation:***
  - a sufficient critical mass of Financial Intermediaries to ensure a successful implemenation of the programme.
  - adequate geographical spread of Financial Intermediaries, so as to ensure wide availability of the student loans across the 33 Erasmus+ Programme Countries.
- ***Main risks:***
  - Negative interest: loss of capital.
  - As HEIs are organised in academic years, demand tends to be limited to specific periods: June to October.
  - Sufficient information to students (by universities and national agencies) on the opportunities offered to study abroad.
- ***General outlook:***
  - The fact that universities are now participating opens up a highly interesting new deployment opportunity for the Facility, since universities are key stakeholders in the development of the Erasmus+ programme.
  - EIF is promoting this new opportunity with universities that could sign up individually, as well as in a national, thematic or European network;
  - In the light of the current take-up, the EIF and the European Commission will maintain their commitment to the scheme's objectives but review the necessary budgetary allocations.

2.9. Private Finance for Energy Efficiency Instruments (PF4EE)	
Policy DG in charge:	DG CLIMA
Implementing DG in charge:	DG CLIMA
Operating Body in charge:	EIB
Initial Overall Budget Envelope:	EUR 80 million[142]
Current Overall Budget:	EUR 80 million *(2014-2017)*[143]

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

[142] The overall budget envelope of the PF4EE is defined in the Commission Implementing Decision C(2014)1709 of 19 March 2014 on the adoption of the LIFE multiannual work programme for 2014-2017 and it is referred to the period 2014-2017.

A - Summary

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

It is implemented under indirect management by the European Investment Bank. The delegation agreement (DA) was signed on 8 December 2014.

The instrument aims to increase lending activity and to improve financing conditions for final recipients through, among others, lower pricing, longer maturities and lighter securities requirements.

B - Description

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

Regulation (EU) N° 1293/2013 of the European Parliament and of the Council of 11 December 2013 on the establishment of a Programme for the Environment and Climate Action (LIFE) Article 17.[144]

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

Policy objectives and scope

The PF4EE is a guarantee instrument which is implemented under indirect management by the European Investment Bank. The delegation agreement (DA) was signed on 8 December 2014.

The PF4EE is conceived as a pilot initiative in the years 2014-2017 but designed to be extended and scaled up. PF4EE aims to provide access to adequate and affordable commercial financing for eligible energy efficiency (EE) investments targeted by schemes developed by Participating Countries to implement their National Energy Efficiency Action Plans (NEEAP) or other programmes in line with EU Directives relating to Energy Efficiency.

Implementation arrangements

The PF4EE instrument provides to financial intermediaries (FIs):

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

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

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

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

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

EU added value

The RSF aims to increase lending activity and to improve financing conditions for final recipients through, among others, lower pricing, longer maturities and lighter securities requirements. The EIB loan for EE to the FIs may complement the RSF. Such EIB loans for EE will be provided by the EIB at competitive rates and with long-maturities.

The final recipients include private individuals, home-owner associations, SMEs, corporates and/or public institutions/bodies, undertaking EE investments in line with the NEEAP of each Member States.

(c) The financial institutions involved in implementation;

European Investment Bank (EIB).

C - <u>Implementation</u>

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

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

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

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

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

NA

(g) The balance of the fiduciary account;

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

	In EUR
Balance on the fiduciary account (current account)	17 230 928
Term deposits/Bonds (if applicable)	
Term deposits < 3 months (cash equivalent)	
Term deposits > 3 months < 1 year (current assets)	
Term deposits > 1 year (non-current assets)	
Bonds current	
Bonds non-current	
***Other assets* (if applicable)**	756 829
= Total assets	17 987 757

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

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

(h) Revenues and repayments;

Revenues of the year 2016	EUR 629
Repayments of the year 2016	EUR 0
Asdditional resources regularized in 2016	EUR 0

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

NA

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

EUR 0

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

- *The target leverage effect*

The EU budget allocation foreseen in the LIFE regulation for the programming period 2014-2017 amounts to EUR 80 million (4% of which will finance the Expert Support Facility and are not considered in the calculation of the leverage).

The total amount of loan financing by the EIB is envisaged to reach up to approximately EUR 430 million. Additional debt financing is envisaged from other financial intermediaries. The total investment in EE over this period could be at around EUR 540 million. However, on the basis of the first six operations signed by the end of 2016 and the pipeline, the EIB now targets to achieve EUR 1 billion of new investments in energy efficiency.

The target leverage effect (defined also as Target Investment Leverage) as indicated in the Delegation Agreement is 8.

- *The achieved leverage effect*

The Delegation Agreement (DA) was signed in December 2014. Agreements with a total of six financial intermediaries were signed by end of 2016 and a total of 6 final recipients in the Czech Republic. The new operations brought the total amount committed by PF4EE to Risk Sharing Facility operations to EUR 28.9 million. By December 2016 the EIB had signed loans to support PF4EE operations for a total amount of EUR 375 million. The achieved 13x EIB loan-to-committed collateral ratio is higher than the originally expected 6x. This leverage ratio is expected to be maintained throughout the pilot phase of PF4EE indicating an efficient use of EU Contribution.

- *The "Expected Leverage for Signed Operations"*

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

D - Strategic importance/relevance

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

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

E - Other key points and issues

- **Three main issues for the implementation**:
  - the PF4EE instrument will provide valuable piloting experience for possible up scaling. This piloting phase will allow in particular to test the most appropriate level of protection (i.e. minimise) to be provided to financial intermediaries in about 10 banks in different Member States for different categories of beneficiaries.
  - Since its structure is fully decentralized (i.e. the risk protection is provided by the Commission by means of collateral deposited on collateral accounts, set for each financial intermediaries and managed by the EIB) the PF4EE is designed to allow for scalable levels of finance using structural funds. In this respect Managing Authorities of Member States can replicate (or provide financial contributions to) this instrument which ensures that the impact of the contribution provided remain within the relevant geographical area, building on the existing ex-ante assessment[146] and benefiting from the basic legal structure of the PF4EE instrument as described in the Delegation Agreement.
  - The EIB is committed under the Delegation Agreement art. 17 to carry out by 2017 a specific evaluation of the cash collateral approach to assess the effectiveness of the cash collateral approach, including through a comparison with alternative unfunded approaches, such as financial guarantees provided by the Union through entrusted entities or directly to Financial Intermediaries.
- **Main risks identified:**
  - considering that lending is implemented through financial intermediaries, the assessment of compliance of final recipient and eligible investments and impact indicators with the provisions set in the Delegation Agreement is challenging. EIB's monitoring and reporting on these critical aspects will need to be scrutinized by the PF4EE Board.
  - Accordingly with the provision of the Delegation Agreement Annex 1, section 7.2 the assessment of eligibility of Final Recipient will need to be performed against specific requirements and financing should only support Eligible Energy Efficiency Investment.
  - As mentioned in the Delegation Agreement Annex 5a, Section III, operations will be chosen having regard to the fields of intervention of the PF4EE and carefully monitored and evaluated to assess the impact on energy efficiency and GHG saving and other impact indicators.
- **General outlook:**
  - In 2014 it was expected that the instrument would support investment of up to EUR 540 million. However, following the operations signed in 2015 and 2016 and in view of the current pipeline, the EIB now targets to achieve EUR 1 billion of new investments by the end of pilot phase in 2017 (EUR 430 million from EIB and EUR 570 million from financial intermediaries), covering 10 Member States.
  - The 6 deals signed by the end of 2016 are the following:
    - Komercni Banka, Czech Republic: EUR 75 million worth of energy efficiency loans for corporates and lighting systems for buildings and industrial sites
    - Banco Santander, Spain: EUR 50 million worth of energy efficiency loans for hotels and other touristic buildings

[146] "Ex-ante evaluation of a new Financial Instrument to foster investment in EE by private financial institutions (PF4EE)", Annex 2 to the LIFE multiannual work programme 2014-2020 - Commission Implementing Decision C(2014)1709.

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

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

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