Financial Instruments:

A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period

Final Report

March 2013

Assignment 24 – Final Report

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List of Abbreviations

CEB	Council of Europe Development Bank
CF	Cohesion Fund
CIP	The Competitiveness and Innovation Framework Programme
COCOF	Committee for the Coordination of the Funds as established under Article 103 of Regulation (EC) No 1083/2006
CPR	Common Provisions Regulation
CSES	Centre for Strategy & Evaluation Services
CSF	Common Strategic Framework
DG COMP	Directorate General for Competition
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
DG REGIO	Directorate General for Regional and Urban Policy of the EC
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission (Commission)
ECA	European Court of Auditors
EE/RE	Energy Efficiency and Renewable Energy
EIB	European Investment Bank
EIB Group	Refers to both EIB and EIF
EIF	European Investment Fund
ELENA	European Local Energy Assistance
EMFF	European Maritime and Fisheries Fund
EMU	European Monetary Union
EPC	European Parliament Committee
EPEC	European Public Private Partnership Expertise Centre
EPMF	European Progress Microfinance Facility
EPRC	European Policy Research Centre
ERDF	European Regional Development Fund
ERP	European Recovery Programme
ESF	European Social Fund
EU	European Union

EVCA	European Private Equity and Venture Capital Association
FEI	Financial Engineering Instrument
FI	Financial Instruments
FM	Fund Manager
FP7	The 7th Research & Development Framework Programme
GBER	General Block Exemption Regulation
HF	Holding Fund
ICT	Information and Communication Technology
IFI	International Finance Institution
IPA	Instrument for Pre-Accession Assistance
IPSUD	Integrated Plan for Sustainable Urban Development
IQ-Net	Network for Improving the Quality of Structural Funds Programme Management through Exchange of Experience
JASMINE	Joint Action to Support Microfinance Institutions in Europe
JASPERS	Joint Assistance to Support Projects in European Regions
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investment in City Areas
JNP	JESSICA Networking Platform
LGTT	Loan Guarantee Instrument for Trans-European Transport Network Projects
MA	Managing Authority
MCK	Marketing, Communication and Knowledge
MoU	Memorandum of Understanding
MS	Member State of the European Union
NUTS	Nomenclature of Territorial Units for Statistics
OA	Operational Agreement
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
ORI	Other Revolving Instrument
PPP	Public Private Partnership
R&D	Research and Development
ROP	Regional Operational Programme

RSFF	Risk Sharing Finance Facility
SFLG	Small Funds Loan Guarantee Scheme
SG	Steering Group
SME	Small and Medium Sized Enterprise
TA	Technical Assistance
ToR	Terms of Reference
TTP	Technology Transfer Pilot project
UDF	Urban Development Fund
VC	Venture Capital
VfM	Value for Money

List of Abbreviations – Country Specific terminology

ABMP	Apartment Building Modernisation Programme (Lithuania)
ACIS	National Authority for Coordination of Structural Funds (Romania)
ALSF I	Avent Life Science Fund (Luxembourg)
AVCO	Austrian Private Equity and Venture Capital Organisation (Austria)
AWS	Austria Wirtschaftsservice (Austria)
BA	Business Authority (Denmark)
BIF	Baltic Innovation Fund (Baltic States)
BoV	Bank of Valletta (Malta)
BRDA	Brussels Regional Development Agency (Brussels)
CMZRB	Czechomoravian Guarantee Development Bank (Czech Republic)
DPS	Department for Development and Cohesion (Italy)
EDOP	Economic Development Operational Programme (Hungary)
EVCA	European Private Equity and Venture Capital Association (Austria)
FIDAE	JESSICA HF for Investments in Energy Saving and Diversification (Spain)
FLPG	JEREMIE First Loss Portfolio Guarantee (Bulgaria, Cyprus, Malta)
FRSP	Funded Risk Sharing Product (Cyprus)
FSI	Strategic Investment Fund (France)
HAMAG	Croatian Agency for SMEs (Croatia)
HBOR	Croatian Bank for Reconstruction and Development (Croatia)
HRF	Housing Renovation Fund (Bulgaria)
ICO	Official Credit Institute (Spain)
IDAE	Spanish Institute for Energy Saving and Efficiency (Spain)
IFDR	Financial Institute for Regional Development (Portugal)
IPMD	Integrated Plans for Municipality Development (Czech Republic)
KfW	Kreditanstalt Für Wiederaufbau (German Development Bank, Germany)
KPC	Kommunalkredit Public Consulting, an Intermediate Body for Structural Funds implementation (Austria)

LFF	Luxembourg Future Fund (Luxembourg)
LGA	Latvian Guarantee Agency (Latvia)
LRABP	Loans for Reconstruction for Apartment Building Programme (Estonia)
LSF	Life Science Fund (Luxembourg)
MLFS	Microenterprise Loan Fund Scheme (Ireland)
MoUs	Memorandums of Understanding (Bulgaria)
NCF	National Capital Fund (Poland)
NDA	National Development Agency (Hungary)
NDS	National Development Strategy (Hungary)
NPSP	National Programme for Spatial Planning (Portugal)
NSCMLP	New Szechenyi Combined Micro Loan Programme (Hungary)
NSCPGP	New Szechenyi Combined Portfolio Guarantee Programme (Hungary)
NSDS	National Sustainable Development Strategy (Portugal)
NSRF	National Strategic Reference Framework (Portugal)
OPIE	Operational Programme Innovative Economy (Poland)
PFEI	Programme of Financial Engineering Instruments (Slovenia)
RCF	Risk Capital Fund (Bulgaria)
RDA	Regional Development Agency (United Kingdom)
RIFW	Regeneration Investment Fund for Wales (United Kingdom)
RTDI	Research, Technology Development and Innovation (Slovenia, Cyprus)
SAFPRI	Support System for the Financing and Risk Sharing of Innovation (Portugal)
SCF	Seed Capital Fund (France, Greece)
SEF	Slovene Enterprise Fund (Slovenia, Ireland)
SGDF	Slovak Guarantee and Development Fund (Slovakia)
SID	Slovene Export and Development Bank (Slovenia)
SNCI	National Company for Capital Investment (Luxembourg)
SOP IEC	Sectorial Operational Programme Increase of Economic Competitiveness (Romania)
SOWALFIN	Independent public investment body to provide capital to SMEs (Belgium)

SVn	The Incentive Fund for Housing (The Netherlands)
TPCGS	Temporary Partial Guarantee Scheme (Ireland)
WBIF	Western Balkans Investment Framework

Country Abbreviations

CO	Country
AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FIN	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	The Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SK	Slovakia
SL	Slovenia
UK	United Kingdom

Definitions

Note: Definitions may change in the context of on-going Commission negotiations regarding the Common Provision Regulations.

Specific Terms	Definition / Explanation
Article 44a FEI	Under Article 44a of Council Regulation (EC) No 1083/2006, FEIs can be established to invest in SMEs and Enterprise
Article 44b FEI	Under Article 44b of Council Regulation (EC) No 1083/2006, FEIs can be established to invest in Urban Development
Article 44c FEI	Under Article 44c of Council Regulation (EC) No 1083/2006, FEIs can be established to invest in Energy Efficiency and Renewable Energy in Buildings
Beneficiary	An operator, body or firm, whether public or private, where such operations are organised through a Holding Fund, to the extent that the Holding Fund is responsible for initiating or initiating and implementing the operation, the Holding Fund is the beneficiary.
Co-financing	All Structural Fund resources are required to be co-financed by other public or private resources for Managing Authorities to be able to disburse Structural Funds. The Operational Programme sets out how the Structural Fund and its co-financing should be invested, either as Grant or through Financial Engineering Instruments. Both the Structural Funds and the co-financing must be administered and spent in line with the applicable European Union regulations.
Cohesion Policy	Cohesion Policy provides the framework for promoting economic growth, prosperity, and social integration across all 27 EU Member States. It aims to reduce economic and territorial disparities across the EU through three main objectives for the 2007-2013 programming period: convergence; competitiveness and employment; and territorial cooperation.
Co-investment	Co-investment refers to public or private sector resources additional to Structural Funds contributions, which when added to the Structural Fund creates a Leverage Effect. Part of co-investment which constitutes national co-financing of operational programme is subject to Structural funds regulations. Part of co-investment which is additional to OP contributions is not subject to European Union Structural Fund regulations.
Common Provisions Regulation	Regulation as proposed by the Commission and currently under negotiation for the 2014-2020 programming period.
Common Strategic Framework	The framework which translates the objectives and targets of the EU strategy for smart, sustainable and inclusive growth into key actions.
Common Strategic Framework Funds	For the next programming period Common Strategic Framework funds are European Regional Development Fund, Cohesion Fund, and European Social Fund, European Agricultural Fund for Rural Development, and European Maritime and Fisheries Fund.

Evaluation Study	A market assessment undertaken as part of the JESSICA initiative to identify the potential for FEIs to address market failure in the area of sustainable urban development project financing.
Equity	Equity investment means the provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the Equity investor may assume some management control of the firm and may share the firm's profits.
Ex-Ante Evaluation	Prior to approval of OPs within the 2014-2020 programming period, the draft CPR proposes that an Ex-Ante Evaluation be carried out in the course of preparing the OP which will evaluate whether the proposed OP will address the identified needs in the appropriate manner.
Ex-Ante Assessment	In line with the draft CPR, CSF Funds may be used to support Financial Instruments on the basis of an Ex-Ante Assessment which has established evidence of market failures or sub-optimal investment situations and investment needs before the deployment of Financial Instruments.
Exit policy/strategy	A policy/strategy for the liquidation of holdings by a Venture Capital or private Equity fund according to a plan to achieve maximum return, including trade sale, write-offs, repayment of preference shares/Loans, sale to another Venture Capitalist, sale to a financial institution and sale by public offering (including initial public offerings).
Expiry date of repayment term	A Loan of a specific amount has a specified repayment schedule and specified maximum term (maturity). The expiry date refers to a date in the future upon which the borrower has to fulfil its last and final repayment obligation.
FEI Manager	The individual(s) or entity(ies) responsible for implementing the investment strategy and managing the portfolio of investments related to the Holding Fund or to the Financial Engineering Instruments (being Equity funds, Loan funds, Guarantee funds), in accordance with the stated goals and provisions as set out in the Funding Agreement.
Final Recipient	The term Final Recipient refers to enterprises, Public Private Partnerships, projects and any legal or natural person receiving Repayable Investments (namely through Equity participations, Loans, Guarantees and other forms of Repayable Investments implemented through similar transactions, with the exception of Grants) from an Financial Engineering Instrument.
Financial Engineering Instrument	Financial Engineering Instruments are those set up under Article 44 of Council Regulation (EC) No 1083/2006. As part of an Operational Programme, the Structural Funds may finance of the following: (a) Financial Engineering Instruments for enterprises, primarily small and medium-sized ones, such as Venture Capital funds, Guarantee funds and Loan funds

	(b) Urban Development Funds, that is, funds investing in Public-Private Partnerships and other projects included in an Integrated Plan for Sustainable Urban Development (c) Funds or other incentive schemes providing Loans, Guarantees for Repayable Investments, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing.
Financial Instruments	Financial Instruments is the term used in preference to Financial Engineering Instrument for the next programming period. Financial Instruments eligibility covers the 11 Thematic Objectives as well as the Common Strategic Framework Funds.
Financial Intermediary	Financial Intermediary refers to the body acting as an intermediary between the supply and demand of financial products.
Fund Manager	The individual(s) or entity(ies) responsible for implementing the investment strategy and managing the portfolio of investments related to the Financial Engineering Instruments (being Equity funds, Loan funds, Guarantee funds), in accordance with the stated goals and provisions as set out in the Funding Agreement.
Financial Regulation	Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 , on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002
Funding Agreement	Level I - between the Member State or the Managing Authority and the Holding Fund, where Financial Engineering Instruments are organised through Holding Funds. Level II - between the Member State or the Managing Authority (or the Holding Fund where applicable) and the individual Financial Engineering Instruments. Level II Funding Agreements are also referred to as an Operational Agreements. Funding Agreements must ensure the correct implementation of the strategy, including goals to be achieved, target sectors and Final Recipients to be supported, as set out in the Operational Programme, through a coherent investment strategy, range of products, likely project types and targets to be achieved through the Financial Engineering Instruments. Moreover the Funding Agreements must also contain a corpus of rules, obligations and procedures, to be observed by the parties concerned, regarding the financial contributions made by the Operational Programme.
Gap Analysis	A market assessment undertaken as part of the JEREMIE initiative to identify the potential for FEIs to address market failure in the area of SME and Enterprise financing.
GBER	As part of the rationalisation and simplification of State Aid rules, the Commission adopted a General Block Exemption Regulation (GBER). The main purpose of the block exemption approach is to obviate the need for prior notification and approval of aid schemes in areas where

	the Commission has defined the circumstances in which it will find aid to be compatible with the common market.
General Regulation	Council Regulation (EC) No 1083/2006 "laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999" and successive amendments.
Grant	A Grant is a non Repayable Investment.
Guarantee	A Guarantee is a commitment by a third party, called the guarantor, to pay the debt of a borrower when the latter cannot pay it themselves. The guarantor is liable to cover any shortfall or default on the borrower's debt under the terms and conditions as stipulated in the agreement between the guarantor, the lender and/or the borrower.
Holding Fund	Holding Fund is as described in the EU Regulations and are funds set up to invest in Venture Capital funds, Guarantee funds, Loan funds, Urban Development Funds, funds or other incentive schemes providing Loans, Guarantees for Repayable Investments, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing.
HF Manager	The individual(s) or entity(ies) responsible for implementing the investment strategy and managing the portfolio of investments related to the Holding Fund in accordance with the stated goals and provisions as set out in the Funding Agreement.
Implementing Regulation	Regulation No 1828/2006 of December 2006, which sets out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development, the European Social Fund and the Cohesion Fund and of Regulation (EC) 1080/2006 of the European Parliament and the Council on the European Regional Development Fund (as amended).
Integrated Plan for Sustainable Urban Development	A plan prepared, authorised or supported by public authorities and aimed at sustainable urban development, as referred to in the Commission regulations regarding Structural Funds.
Instrument for Pre-Accession Assistance	The Instrument for Pre-Accession Assistance offers assistance to countries engaged in the accession process to the European Union for the period 2007-2013.
Intermediate Body	See 'Managing Authority'
JEREMIE Networking Platform	Networking and knowledge-sharing initiative focused on activities and progress made by Article 44a FEIs, involving regular meetings between those involved in Article 44a FEIs development and implementation.
JESSICA Networking Platform	Networking and knowledge-sharing initiative focused on activities and progress made by Article 44b FEIs initiative, involving regular meetings between those involved in Article 44b FEIs development and implementation.

Loan	Loan means an agreement which obliges the lender to make available to the borrower a sum of money for the agreed amount and time. The borrower is obliged to repay the Loan after a certain period. Usually the borrower is obliged to pay interest on the Loan amount.
Managing Authority	The detailed management of Operational Programmes which receive support from the Structural Funds is the responsibility of the Member State of the European Union. For every programme, they designate a Managing Authority (at national, regional or another level) which select the operation and monitor implementation. This can also be delegated to Intermediate Bodies, e.g. for a specific sub-region or city.
Micro Credit	Small Loans, usually up to €25,000, granted either by institutions specialising in microcredit or by other Financial Intermediaries. In the context of this report the purpose of the micro-credit needs to be related to economic activities.
Leverage Effect	As per Article 140 of the Financial Regulation, leverage effect: "*the Union contribution to a financial instrument shall aim at mobilising a global investment exceeding the size of the Union contribution according to the indicators defined in advance*".
Operational Agreement	An agreement between the Member State or the Managing Authority (or the Holding Fund where applicable) and the individual Financial Engineering Instruments.
Operational Programme	Document approved by the Commission comprising a set of priorities which may be implemented by means of Grants, repayable assistance and financial engineering instruments depending on the design of the Operational Programme.
Operational Programme resources	Operational Programme resources include Structural Funds, Cohesion Fund and national co-financing from other public or private entities.
Other Revolving Instruments	Defined in the context of this report to refer to funds which are similar to the FEI/FIs, for the eligible sectors, but which are not established under Article 44 of Council Regulation No 1083/2006.
Principal	The amount of a Loan borrowed, or the part of the amount borrowed which remains unpaid (excluding interest).
Public Private Partnership	According to the EC Communication on PPPs (COM (2009)615, 19.11.2009), PPPs are forms of cooperation between public authorities and the private sector that aim to modernise the delivery of infrastructure and strategic public services. In some cases, PPPs involve the financing, design, construction, renovation, management or maintenance of an infrastructure asset; in others, they incorporate the provision of a service traditionally delivered by public institutions.
Repayable Investment	For the purpose of this report, Repayable Investments shall mean repayable financial assistance or support wholly or partially financed through Structural Funds' programmes, to address Cohesion Policy objectives, by way of Loans, Guarantees or Equity and falling under Article 44 of the General Regulation. In doing so, this will exclude

	repayable investments under Article 43(1)(a).
Resources returned	Resources returned to the Financial Engineering Instrument from investments in Final Recipients can be categorised as 'capital receipts' and 'income receipts'. Capital receipts tend to mean payments or distributions or other amounts received or to be received by the relevant Financial Engineering Instrument (or Holding Fund) representing the repayment or return of all or part of the Principal or capital element of any investment. Income receipts tend to mean payments to, distributions to or other receipts by the relevant Financial Engineering Instrument representing the payment of income, or the earning of revenue by, the relevant Financial Engineering Instrument in respect of its investments other than capital receipts, which could include: (i) interest (including any capitalised interest) (ii) dividends (iii) capital gains.
Risk Assessment	Risk Assessment is a step in a risk management procedure and relates to the determination of the quantitative or qualitative value of the credit risk ("valuation"). This exercise is specifically (but not only) relevant for the issue of Guarantees. Quantitative credit Risk Assessment requires the estimation and calculation of risk (including "expected loss" and "unexpected loss"), the magnitude of the potential loss and the probability that the loss will occur.
Risk Sharing Instrument	Risk-sharing instrument means a FI which allows for the sharing of a defined risk between two or more entities, where appropriate in exchange for an agreed remuneration.
Seed Capital	Seed Capital is the financing provided to study, assess and develop an initial concept. The seed phase precedes the start-up phase. The two phases together are called the early stage.
Specific Fund	A term used in DG REGIO's Summary Reports, 2011 and 2012, referring to Funds which are not a Holding Funds. For instance, in the context of Article 44b FEIs, this refers to an Urban Development Fund. In the context of Article 44a FEIs, this refers to Loan, Guarantee or Venture Capital funds to invest in enterprises. In the context of Article 44c FEIs, this refers to Energy Efficiency and Renewable Energy Funds.
Start-up Capital	Provided to enterprises for product development and initial marketing. Enterprises may be in the process of being set up or may exist but have yet to sell their product or service commercially.
State Aid	Article 107(1) of the EU Treaty prohibits the granting of State Aid, i.e. a subsidy paid by government to the business or economic sector. A number of derogations set out the circumstances in which State Aid is, or may be, compatible with the Treaty.
Structural Funds	EU Structural Funds include the European Regional Development

	Fund and the European Social Fund.
Summary Report 2012	Report prepared by DG REGIO in 2012 providing details on Financial Engineering Instruments, as at the end of 2011. It is a report on the progress made in financing and implementing Financial Engineering Instruments, sent by the Managing Authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006', European Commission DG Regional and Urban Policy and DG Employment, Social Affairs and Inclusion, 14/12/2012.
Summary Report 2011	Report published by DG REGIO in 2011 providing details on Financial Engineering Instruments, as at the end of 2010. It is a report on "Financial Engineering Instruments Implemented by MS with ERDF Contributions – Article 44 of Council Regulation No 1083/2006".
Technical Assistance	In the context of this report this term is to be intended as comprising technical and financial advisory support required to successfully implement Financial (Engineering) Instruments
Thematic Objectives	The proposed Thematic Objectives for 2014-2020 are: • Strengthening research, technological development and innovation • Enhancing access to, and use and quality of, information and communication technologies • Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector • Supporting the shift towards a low-carbon economy in all sectors • Promoting climate change adaptation, risk prevention and management • Protecting the environment and promoting resource efficiency • Promoting sustainable transport and removing bottlenecks in key network infrastructures • Promoting employment and supporting labour mobility • Promoting social inclusion and combating poverty • Investing in education, skills and lifelong learning • Institutional capacity and efficient public administration
URBACT	URBACT is a European exchange and learning programme promoting sustainable urban development jointly financed by the European Regional Development Fund and the Member State of the European Union.
Urban Projects	Public Private Partnerships and other projects, forming part of an Integrated Plan for Sustainable Urban Development as defined under Article 44 of EC Regulation 1083/2006.
Urban Regeneration / Transformation	A range of actions aimed at sustainable renewal, rehabilitation, redevelopment and/or development of city areas, which may include area-based and city-wide initiatives
Venture Capital	Investment in unquoted enterprises by Venture Capital firms who, acting as Principals, manage individual, institutional or in-house

	money. In Europe, the main financing stages included in Venture Capital are early-stage (covering seed and start-up) and expansion. Strictly defined, Venture Capital is a subset of private Equity. Venture capital is thus professional Equity co-invested with the entrepreneur to fund an early-stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of a higher-than-average return on the investment.
Winding-up	A process that entails selling all the assets of a fund, paying off creditors, distributing any remaining assets to the Principals, and then dissolving the fund. Essentially, "Winding up" is to be understood as "liquidation".

TABLE OF CONTENTS

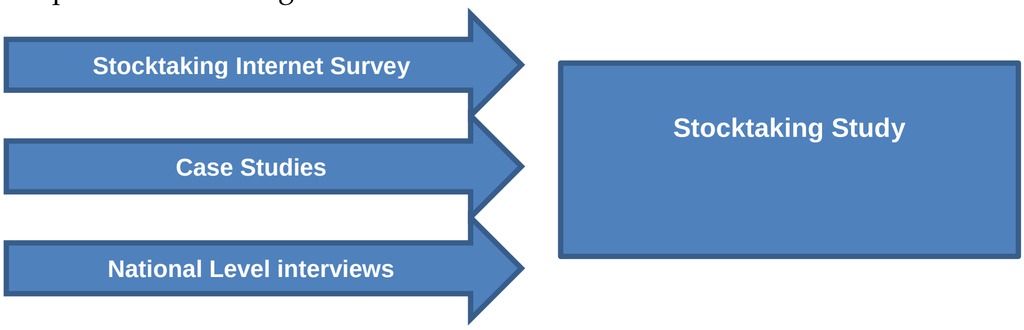
EXECUTIVE SUMMARY

Introduction and Background

As a key instrument of Cohesion Policy, European Structural Funds support regional competitiveness and employment, and aim to stimulate growth and employment within the least developed regions of the European Union (EU). Under the General Regulation[1], the Financial Engineering Instruments (FEIs) can be established to invest in enterprises, primarily SMEs (Article 44a), Urban Development (Article 44b), and Energy Efficiency and Renewable Energy in Buildings (Article 44c). As the European Commission (EC/ the 'Commission') and Member States start to prepare for the 2014-2020 programming period, it was considered important to learn from the experience to date on FEIs and what Member State intentions are in relation to establishing Financial Instruments[2] (FIs).

Within the framework of a grant for supporting studies awarded by the Commission, the European Investment Bank (EIB) has therefore appointed Mazars, Ecorys and the European Policy Research Centre (EPRC) to carry out this Study; *"Financial Instruments: a stocktaking exercise in preparation for the 2014-2020 programming period"* (referred to as the '**Stocktaking Study**'). This Study has been carried out in close co-operation with, and input from, the Commission, the European Investment Bank (EIB), and the European Investment Fund (EIF) as well as stakeholders at Member State and regional level involved in implementation of FEIs. As a stocktaking exercise, the Study does not seek to provide an evaluation of the effectiveness of FEI interventions, but instead aims to understand more about current experience and future intentions in relation to establishing them. Through learning from experience to date, the Study aims to create a pool of knowledge that can be used to assist the Commission, Member States, Managing Authorities (MAs), regions, and Financial Intermediaries in establishing and managing FEIs and FIs as efficiently and effectively as possible in the future.

The Study reviewed current available literature regarding FEI establishment and implementation[3]. This was complemented by inputs from an internet survey, national interviews in the 27 Member States and Croatia, and a detailed analysis of a representative sample of 50 revolving fund case studies[4]:



[1] Council Regulation (EC) No 1083/2006
[2] Within the next programming period, Financial Engineering Instruments (FEIs) will be known as Financial Instruments (FIs).
[3] Includes Gap Analyses, Evaluation Studies, internal Commission documents other research reports and studies
[4] Includes FEIs from Member States where they exist and Other Revolving Instruments where there are no FEIs. Other Revolving Instruments are defined in this Study as similar funds to FEIs but not using Structural Funds

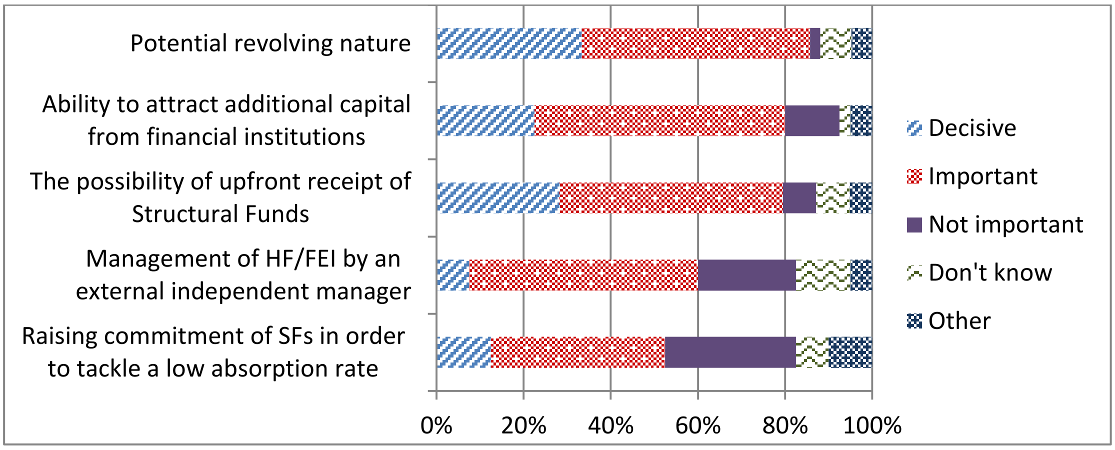
Overall, 301 separate individuals provided data, making this the most comprehensive Study to date on the experience of FEI establishment and implementation. Prior research tended to either have focused on specific countries, particular types of FEIs or financial products, or was undertaken at a much earlier stage in the programming period and/or the FEI implementation cycle.

In summary, the results from the Stocktaking Study indicate that the following would be useful to help ensure quick and efficient establishment and implementation of FIs in the next period:

1. Early clarification and guidance in relation to the regulations for the next programming period;
2. Providing as much flexibility as possible in FI design, together with clear risk and return ratios to help to increase private sector investment in Final Recipients or FIs;
3. Provision of Technical Assistance across a range of technical, legal, and financial topics;
4. A capacity building programme provided at an EU level for all actors involved, especially where the use of FIs is newer.

Rationale for establishing FEIs

The main reasons reported for establishing FEIs are their revolving nature and the ability to attract additional capital from financial institutions. The Study shows that FEIs are felt to have been particularly valuable during the financial crisis as mainstream banks have ceased lending to both SMEs under Article 44a and Urban Projects under Article 44b, and that the FEIs established have plugged a financing gap, thereby supporting the proposition that FEIs are well placed to address market failure:



Source: Stocktaking Study Internet survey (Note: the data doesn't allow any split between Article 44 a/b/c instruments)

Implementation experience

The Stocktaking Study concluded that many delays in establishing FEIs can be attributed to the 'newness' of FEIs and how the current EU regulatory framework is more suited to Grant funding than more market orientated repayable investments, requiring time and substantial clarification to be sought to design FEIs appropriately in accordance with required regulations. Furthermore issues of State Aid were frequently raised as requiring clarification, as well as the need to understand the legal and commercial complexity of FEIs. The need for greater clarity and agreement on interpretation of the eligibility rules, and greater certainty on the regulatory framework, are felt to be key areas for improvement for the next programming period.

Revolving instruments for urban development are felt to be relatively novel, and more complex than Article 44a FEIs, in that the integrated nature of urban development requires many different actors, and it can be challenging for projects to develop enough of a return on investment to be suitable for repayable investment. From this Study it is clear that the lack of experience with any revolving instruments in the public sector has required a steep learning curve and cultural change, and it has taken substantial time to reconcile the interests and views of numerous stakeholders in order to reach agreement on establishing FEI investment strategies.

Other implementation issues identified in the Study related to the difficulties many FEIs have had in attracting the desired private sector co-investment, felt by many to be one of the primary reasons for, and benefits of, establishing FEIs.

Market assessments are seen as helpful in determining the investment strategy for FEIs, including size of fund, target sectors, projects, and products. Study responses support the proposed introduction of Ex-Ante Assessments for the next programming period prior to establishing FIs, even though it should be kept in mind that the market situation can change in the time between assessment and implementation.

Flexibility of FEIs and comparison to Grants

Some FEIs experienced challenges in implementation where the investment strategy was focused on specific target groups, especially where this was combined with geographical limitations. Others changed their products or broadened their investment criteria, where they were able to, as a result of the changing finance requirements during the European wide recession. Therefore flexibility is important as economic circumstances change.

One of the main challenges highlighted in this Study is the lack of familiarity in the public sector around repayable forms of financing and it is also indicated that FEIs can be seen to be competing with Grants which are viewed as less complex, thereby inhibiting demand even where projects are suited to revolving mechanisms.

Use of Holding Funds

Under the General Regulation, MAs have the option of establishing FEIs directly themselves following the appropriate procurement and award process, or employing the services of a Holding Fund Manager to undertake these tasks for them. Holding Funds charge a management fee to provide their services and their advantages include the ability to delegate financial, technical, and administration tasks where MAs have limited relevant technical expertise to be able to establish, manage and monitor FEIs.

Of the total 524 FEIs established at the end of 2011, 33% were established via a Holding Fund Manager, whereas 67% of them had been established directly by MAs. One of the rationale for employing Holding Funds to establish FEIs noted within the data is the opportunity this presents to transfer knowledge from the Holding Fund Manager to the MAs, perhaps suggesting that in the future, some MAs may intend to establish more FEIs directly, once they feel that they have developed the required level of expertise.

As regards its type, whilst the majority of Article 44a FEIs have been established directly by MAs, the majority of Article 44b FEIs have been established using a Holding Fund. Of those Holding Funds established under Article 44a, the EIF manages 27% of them. The EIB manages 95% of Holding Funds established under Article 44b.

Notwithstanding that most Article 44a FEIs having been established directly by MAs it is important to note that where Holding Funds were used under Article 44a, such flexibility has been important during the financial crisis as it allowed a change in the focus of FEIs and products offered to be better tailored to SME needs . Should a Holding Fund be set-up, then management costs are due to the Holding Fund Manager, in addition to fees due to FEI managers.

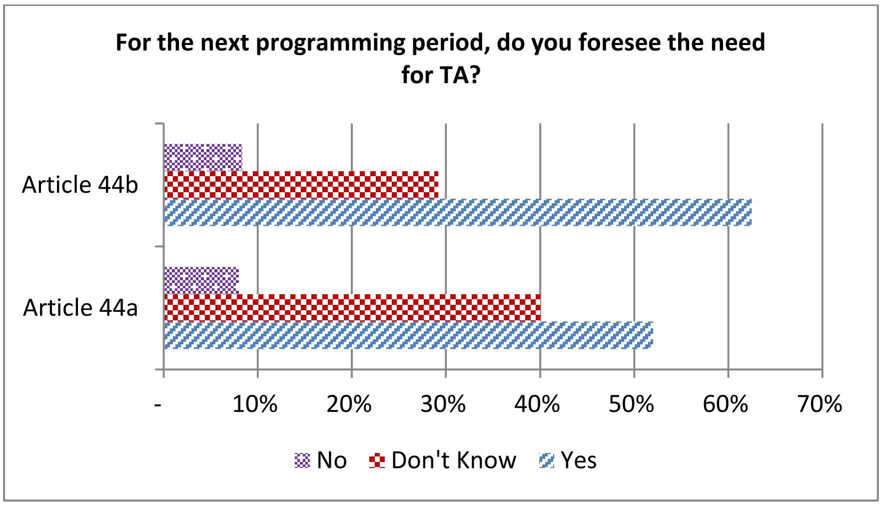
Many of the Technical Assistance requirements highlighted in the Stocktaking exercise include those related to financial and technical matters regarding FEI establishment. Some of these costs of Technical Assistance can be covered through management fees to the Holding Fund Managers or FEI managers. . Where there is a Holding Fund, many of these services are generally provided by the Holding Fund Manager for which Holding Fund Manager is remunerated in line with the arrangements with Managing Authority. Whilst the data does not allow a comparison between the Technical Assistance requirements of those FEIs established under a Holding Fund and those directly by MAs, one might reasonably assume that Technical Assistance would be required in some areas where the MA decides to not proceed with the services of a Holding Fund. Consequently, these findings can be expected to have implications for the focus and nature of future Technical Assistance programmes in the next programming period, when it is anticipated that more FIs are likely to be established by MAs.

Technical Assistance Requirements

The Stocktaking Study highlighted that Technical Assistance was critical to the establishment of FEIs in this programming period. Reflecting the early stage of the establishment and implementation of FEIs, most Technical Assistance requirements have been in this early phase to date, in particular through the market assessments under JEREMIE and JESSICA, and other assistance in relation to legal, financial, and management issues.

When questioned about the need for Technical Assistance in the next programming period, the Stocktaking Study respondents were strongly of the view that both specific Technical Assistance and broader capacity building was needed across all actors involved in FI implementation, including national government, MAs, EU desk officers, as well as Fund Managers in particular in identifying eligible Urban Projects, and to Final Recipients in assisting with project development for Urban Projects. This suggests that where there is relatively little or no existing experience with revolving instruments for a particular sector or Thematic Objective area, then greater levels of specific advice and assistance may be needed at an FI or Final Recipient level.

The Study findings may also indicate that greater levels of assistance are needed in sectors where there is an entrenched culture of Grant funding, or that where there is a weak pipeline of eligible projects that are able to repay 100% of investment provided, that consideration may need to be given to the opportunities to combine Grant and repayable investment financing for areas where there is an opportunity to repay some, but perhaps not all of investment financing due to particular issues of market failure.



Source: Stocktaking Study Internet Survey, Case Studies

Role of the EIB Group

The support provided by the EIF and the EIB in establishing FEIs to date was felt to have been positive and instrumental in stimulating the establishment of these revolving funds. This indicates the potential for an on-going role for these two European Institutions to continue to support existing funds and the introduction of FIs across a greater range of Thematic Objective areas.

In addition to having provided the market assessments, the support from the JEREMIE and JESSICA Initiatives in relation to exchanging knowledge and best practice, and in particular the networking platforms were felt to be useful and a much needed on-going requirement.

Furthermore, the Stocktaking found that what was often mentioned was the need to get assistance in order to be able to interpret EU regulations so as to understand their relevance to FEIs, and to liaise with the Commission in relation to clarifying any issues and creating guidance notes. Where the EIF or EIB acted as Holding Fund Manager, they often provided this support to FEIs.

The need to build capacity amongst those involved in FEI establishment and implementation was also highlighted as important, and given the start of the next programming period in 2014 and experiences from this period, this suggest that a specific capacity building programme should be developed soon, to help provide the relevant actors with the knowledge and skills needed in advance of them being required to help prepare. The Study suggests that this could be through workshops, but also through virtual knowledge exchange platforms. Such programmes would necessarily need to be coordinated at an EU level.

Next programming period

The Stocktaking Study findings indicate a strong interest in setting up new FIs in the next period – almost half of MAs responding that had existing FEIs in operation indicated this. When questioned as to which Thematic Objective areas there was most interest in for FIs, 28% of the MAs stated 'Enhancing competitiveness of SMEs', reinforcing the strong message from the research to learn and build on existing experiences.

An increasing number of so-called 'Other Revolving Instruments' in energy efficiency and other carbon reduction projects was identified in the Stocktaking exercise (inter alia related to the Thematic Objectives of carbon reduction, resource efficiency, or climate change). Therefore, for the next period, this implies a growing market for revolving instruments for energy efficiency/renewable energy, and consequently this is likely to be a strong focus for MAs in the next programming period.

The other main area identified in the Study was in the Thematic Objective area 'Research, technological development, and innovation'.

As regards intentions for the next programming period, outside of the proposed 11 Thematic Objectives, the Stocktaking exercise identified urban regeneration or development as an area to further focus on. The Study also found that in the next period most interest is in establishing FIs at a regional, as opposed to national, level implying that a strong focus on geographical/territorial areas may be the preferred model.

Conclusion

Despite the challenges experienced since 2007, more than 500 FEIs have been established within the European Union to provide repayable investment in SMEs (under Article 44a), sustainable Urban Projects (under Article 44b), and energy efficiency and renewable energy measures in buildings (under Article 44c), in support of the delivery of Cohesion Policy objectives. The Stocktaking Study indicates that FEIs are felt to address market failure in these sectors, and that there is both an interest and intent to increase the number of such FEIs in this programming period and to establish new FIs in the next (2014-2020).

1. INTRODUCTION

1.1. Stocktaking study objectives

Financial Engineering Instruments (FEIs) have been in operation in the European Union (EU) since 2007, although Other Revolving Instruments (ORI)[5] using European funding resources have been established in earlier programming periods FEIs seek to enable a more sustainable use of Structural Funds than the traditional model of one off Grant payments, by allowing Structural Funds to be invested in organisations or projects, known as Final Recipients, via Loans, Equity, or Guarantees. Such investments are made through a revolving fund – FEI – which are then repaid, allowing the FEI to make further investments in other Final Recipients in later periods.

Revolving investment funds are not a new concept; many Member States (MS), such as Belgium, France, Germany, the Netherlands and the UK, amongst others, have operated similar instruments to support a range of policy objectives for decades. However, the extensive use of Structural Fund resources within such funds, and the establishment and implementation of FEIs focusing on urban development and energy efficiency/renewable energy and to a lesser extent small-medium-enterprise (SMEs) is a relatively new development, with the exception of Venture Capital funds which used Structural Funds (SFs) in the 1994-1999 programming period. With the introduction of the Council Regulation (EC) No 1083/2006 (Article 44) for the 2007-2013 programming period, the European Commission (Commission), supported by the European Investment Bank Group (EIB Group), has actively promoted the use of FEIs as a means to increase the impact and leverage of Structural Funds. Since 2007, there has been increasing use of FEIs within MSs, and the Commission is keen for Financial Instruments (FIs[6]) to play a much larger role in the next programming period from 2014-2020 to help deliver the Europe 2020 Strategy.

Within the framework of a grant for supporting studies awarded by the European Commission, the European Investment Bank (EIB) has therefore appointed Mazars, Ecorys and the European Policy Research Centre (EPRC) to carry out this Study; "*Financial Instruments: a stocktaking exercise in preparation for the 2014-2020 programming period*" (referred to as the '**Stocktaking Study**'). This Study has been carried out in close co-operation with, and input from, the Commission, the European Investment Bank (EIB), and the European Investment Fund (EIF) and stakeholders involved in implementation. The Study seeks to understand the factors that influence whether and how FEIs are established in MSs, and through learning from experience to date, the Study aims to create a bank of knowledge that can be used to assist the Commission, MSs, Managing Authorities (MAs), regions, and Financial Intermediaries in establishing and managing FEIs and FIs as efficiently and effectively as possible in the future.

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[5] 'Other Revolving Instruments' or ORI is defined in the context of this report to refer to funds which are similar to the FEI/FIs, for the eligible sectors, but which are not established under Article 44 of Council Regulation No 1083/2006.

[6] Financial Instruments is the term that will be used for revolving investment funds using European resources in the next programming period, rather than Financial Engineering Instruments, which refers solely to this programming period.

The main objectives of the Study, as set out in the Study's Terms of Reference (ToR) are to:

- Analyse the establishment and implementation of FEIs supported from Structural Funds either European Regional Development Funds (ERDF) or European Social Fund (ESF) resources during the 2007-2013 financial period, as well as Other Revolving Instruments (ORI) not supported by Structural Funds, where applicable
- Identify the Technical Assistance (TA) requirements of FEIs and Other Revolving Instruments where applicable, which have arisen to date, to determine those which are expected for FIs during the 2014-2020 programming period and outline ways of addressing these needs
- Develop a high-level market assessment of the potential market for FIs in the next programming period, which will be based on interviews with MS, and analysis of research data per country, type of FI and themes
- Provide specific analysis and guidance, both at the MS and European level, in order to facilitate the implementation of FIs from CSF Funds during the 2014-2020 programming period.

The reader should note that the overall purpose of the Study is to provide a 'stocktake' of activity and plans at the stage of being five years into the current seven year programming period. It does not seek to provide a qualitative evaluation of the effectiveness of FEI interventions, which would be provided through different research methodologies and studies. Rather the objective is to learn from experience in the current programming period so as to inform the next and help ensure that FIs are established and run as efficiently and effectively as possible in 2014-2020. Such information can inform general preparations and planning for the next period. A table setting out how the different elements of the research methodology relate to the various ToR tasks is provided in Annex 6.

1.2. Overall methodology and structure of the Study

A combination of desktop and field research was undertaken in order to address the Study objectives.

Desktop research included a review of the available data and literature from the Commission and EIB Group to identify the background and policy context to the introduction of FEIs and their benefits, as well as the most up to date state of play in relation to the establishment of FEIs across MSs as at the end of 2011. This forms **Chapters 1, 2 and 3** of the Study.

A formal review of the literature discussing and evaluating the introduction of FEIs derived from research undertaken by other authors also formed part of the desktop research. This review identified and studied approximately 100 different documents, which are listed in Annex 3. The full literature review can be found in Annex 2, and a summary of the key themes and points arising from this review are found within the main body of the Study in **Chapter 4.** The final element of the desktop research was a review of Other Revolving Instruments that have been established both in Europe and more widely in order to identify any lessons which may be relevant for the establishment of FIs in the next programming period. (A table summarising Other Revolving Instruments identified is found in Annex 4, and a summary of the lessons in Chapter 8).

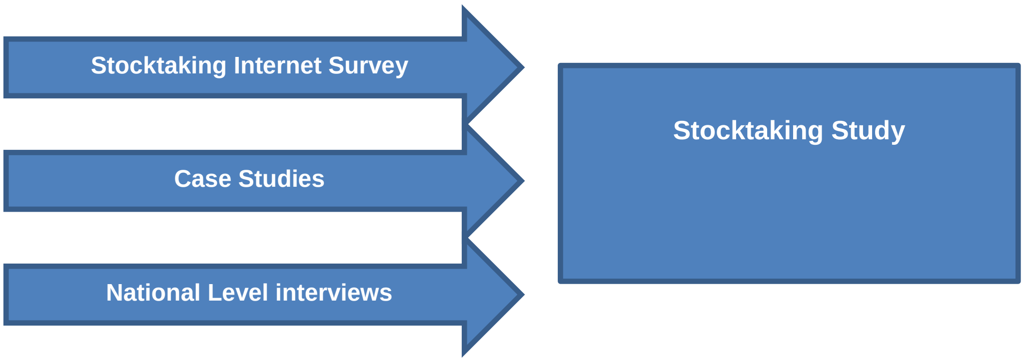
The research findings which detail the rational and decision making process for establishing FEIs are provided in **Chapter 5**. This is followed by a detailed breakdown of the experience of FEI establishment and implementation across MSs, firstly for FEIs for SME and Enterprise (Article 44a FEIs) in **Chapter 6**, and subsequently for FEIs for Urban Development (Article 44b) and Energy Efficiency and Renewable Energy (EE/RE) (Article 44c) in **Chapter 7**.

MA intentions in relation to the next programming period follow the lessons from Other Revolving Instruments in **Chapter 8**. An overview of the TA requirements for establishing and implementing FEIs identified from the research, both in terms of previous experience, and where support is felt to be needed in the future is provided in **Chapter 9**. The need to build capacity of various actors was identified during the course of the study and thoughts on what might be needed are provided in **Chapter 10**. The Study concludes by summarising the overall findings and assessing their implications.

1.3. Field research methodology and data representativeness

The field research sought to build on existing quantitative information and data collected by the Commission to identify qualitative data regarding the rationale and decision making process within MAs in establishing FEIs (or why not, if no FEIs have been established) to understand more about on the ground experience.

Such information was primarily collected through the use of an *internet survey* complemented by qualitative *interviews with 50 FEIs* (case studies listed in Annex 1) to gain further insights into the establishment and implementation issues of FEIs, and also to better understand the Technical Assistance (TA) needs and requirements in relation to FEIs so as to help inform the development of TA programmes for the next period. Finally, *interviews with individuals in national governments* were undertaken in each of the 27 MS, plus Croatia, to gain further insights into FEI establishment and implementation experience, and also in particular to understand national plans for establishing FIs for the next programming period. Anonymity was guaranteed to all those interviewed.



All research was designed and coordinated by a central team, with interviews being conducted by individual country correspondents in the native language of that country. The purpose, design, and methodology for each research method are detailed below.

1.3.1. Internet survey

A comprehensive internet survey was designed to facilitate the collection of a large volume of data from primarily MAs, plus Intermediate Bodies, regarding the decision-making and implementation processes of FEIs, the need for TA and capacity building, as well as FI interests for the next programming period. An internet survey provided the opportunity to contact and obtain data from as many MAs as possible to create a pan European representative data set for the Study.

The list of survey questions was designed and agreed with the Commission in June 2012. These were then inputted in English into an electronic internet survey system called 'Checkmarket'. A list of 350 people within MAs and Intermediate Bodies in all 27 MSs plus Croatia was identified and agreed with the Commission to receive the survey. The survey was trialled by EIB representatives as well as one MA to identify any issues with the questions, data collection, and usability of the survey, and amendments were made. In July 2012, the invitation to participate in the internet survey was then sent by email. If appropriate, MA and/or Intermediate Bodies could ask Holding Fund (HF) Managers to complete specific sections on their behalf. Follow up emails were sent during July and August to all those in receipt of the original email. Where non responses were received, EIB desk officers and country correspondents sought to identify alternative contacts and chase up by telephone, especially in those countries with a high number of FEIs, or where language support may have been required. The survey closed on September 14.

Representatives from all MSs except Ireland (which has no FEIs) and Slovenia responded to the internet survey[7] and responses covered 180 FEIs in operation across Europe[8].

1.3.2. Case Study interviews

A representative sample of 50 FEIs (the "Sample") was identified and agreed with the Commission to act as case studies. The Sample included FEIs in all MSs where they are operating, and Other Revolving Instruments from Croatia, Ireland and Luxembourg which are not implementing FEIs within this programming period. A mixture of Article 44 (a), (b) and (c) FEIs was included. In countries where multiple FEIs are in operation, up to three case studies were analysed per MS, with the exception of Poland, Lithuania and Portugal where four case studies were examined in each. The Sample can be found in Annex 1.

[7] Whilst no response to the internet survey was received for Ireland and Slovenia, information regarding these countries has been obtained through national interviews and case study interviews.

[8] According to the report 'Summary of data on the progress made in financing and implementing financial engineering instruments, sent by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006', European Commission DG Regional Policy and DG Employment, Social Affairs and Equal Opportunities, December 2012, there are currently 524 FEI in operation throughout the European Union.

The aim of conducting research into specific case studies was to enable more detailed information to be collected regarding specific experience with particular types of FEI and to gain more qualitative data than was possible using the internet survey. Information sought through the case studies included detail on experience with implementation, in particular barriers experienced, any lessons learnt which might be relevant for the next programming period, and TA requirements. Using case studies also allowed for inputs from additional actors involved in establishing and implementing FEIs including HF Managers, Fund Managers, and Final Recipients and interviews were held with 150 stakeholders.

For each case study, three interviews were carried out, including one interview with the MA, one interview with the HF manager or Fund Manager, and one with a Final Recipient(s). To conduct the interviews, Country Experts used a structured interview template to ensure consistency of information gathered for ease of data comparison across case studies. Due to the varied type of stakeholders, the questionnaires had specific segments that address specific types of issues per participant.

1.3.3. National interviews

National interviews in each MS plus Croatia were conducted with government officials to obtain a high-level understanding of national policy in relation to FEIs, and to explore future interest in establishing FIs in the next programming period, including which Thematic Objectives are likely to be of most interest, and any specific TA or capacity building needs at a national level. It was felt important that national interviews were carried out to supplement information provided via the internet survey and case study interviews as national governments are key influencers in relation to whether a country's MA will establish FIs in the next programming period.

For each MS, at least one interview was carried out with a national government representative, most frequently within those ministries who have existing knowledge in relation to FEIs/FIs. For countries with relatively more FEIs, multiple interviews were conducted, in some cases up to seven per country with representatives from various Ministries and/or national MAs where relevant. Qualitative data from these interviews was collated using a structured template for ease of comparing data.

National interviews provided data which has been used to inform the findings throughout the Study. In total, 71 national interviews were held, covering all Member States plus Croatia.

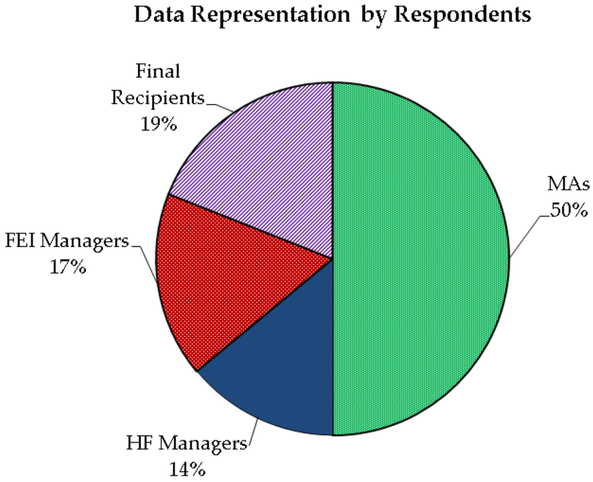
1.3.4. Overall representativeness of the data

Combined, the data collected from the internet survey, case study interviews, and national interviews provides the most comprehensive data set on FEI establishment and implementation collected to date. The data covers:

- Information from 28 countries (all 27 MSs plus Croatia) from over 300 individuals[9]
- 230 Article 44 FEIs representing 45% of FEIs in operation [10]
- Information from approximately 50% of MAs within the EU.

Further breakdown on respondents, data representation by FEI type and products offered, and whether the FEIs covered by the data operate under or outside of a HF is provided below. A detailed breakdown of the representativeness of the information provided for Chapter 9 on TA is additionally provided in Annex 5.

Table 1 - Data Representation by Respondents[11]



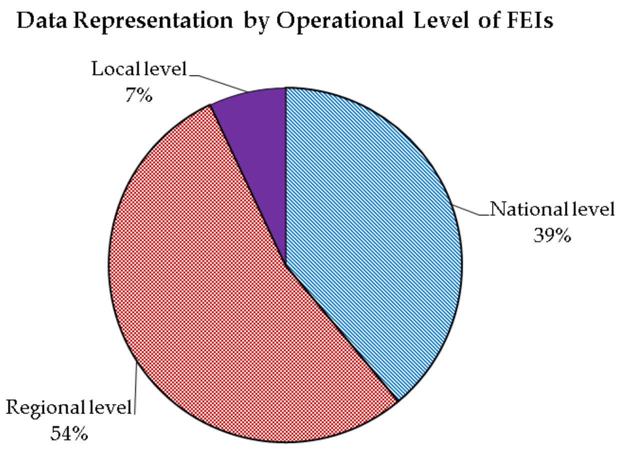
Respondent type	% of responses
MAs	50%
HF Managers	14%
FEI Managers	17%
Final Recipients	19%
	100%

[9] A total of 301 individuals provided input into the Study, comprising of 80 responses to the internet survey, 150 individuals interviews interviewed as part of the case studies, and 71 people interviews at a national level. Where the same person was the contact for the Internet Survey and Interviews they did not have to respond twice. Also some individuals responded in relation to more than one FEI.

[10] According to the report 'Summary of data on the progress made in financing and implementing financial engineering instruments, sent to the MAs in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006', European Commission DG Regional Policy and DG Employment, Social Affairs and Equal Opportunities, December 2012, there are currently 524 FEI in operation throughout the EU. Data collected from the internet survey covered 180 separate FEIs, and case studies were undertaken into 50 FEIs. Therefore data was collected for 230 separate FEIs representing 45% of all FEIs.

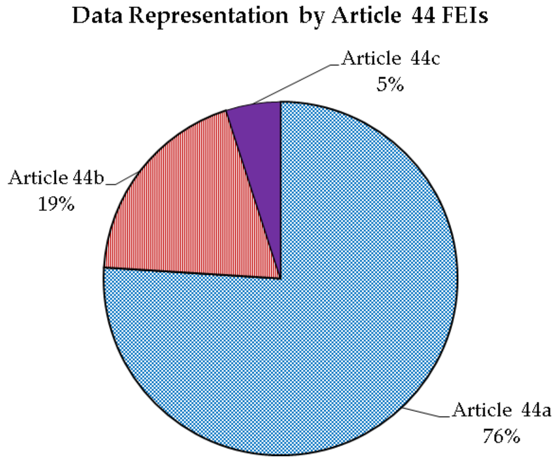
[11] Please note that respondents may refer to FEIs either in operation or planned/in preparation, and includes those who responded to the internet survey and case studies (230).

Table 2 - Data Representation by geographical coverage[12]



Geographical level	% of responses
National level	39%
Regional level	54%
Local level	7%
	100%

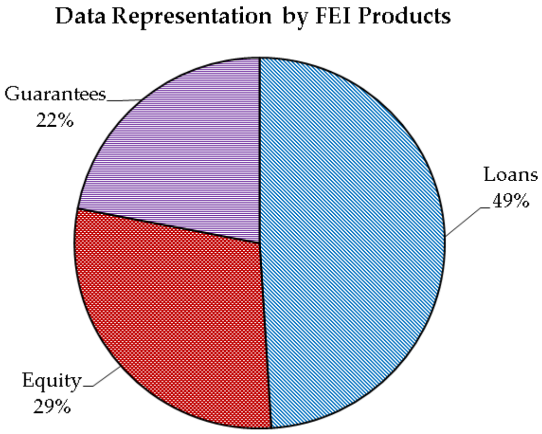
Table 3 - Data Representation by Article 44 FEIs[13]



FEI type	% of responses
Article 44a	76%
Article 44b	19%
Article 44c	5%
	100%

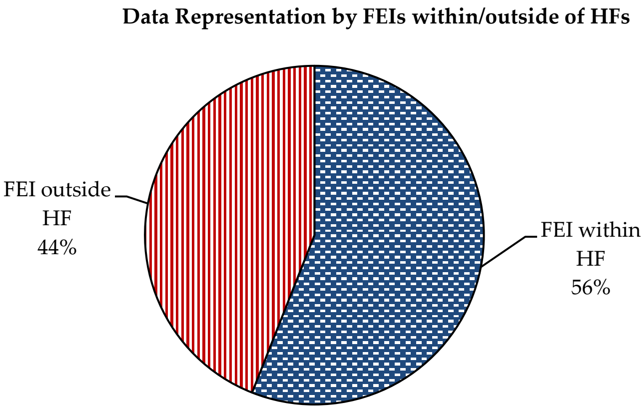
[12]Please note that respondents may refer to FEIs either in operation or planned/in preparation, and includes those who responded to the internet survey and case studies (230).
[13]Please note that respondents may refer to FEIs either in operation or planned/in preparation, and includes those who responded to the internet survey and case studies (230).

Table 4 - Data Representation by FEI products[14]



Type of product	% of responses
Loans	49%
Equity	29%
Guarantees	22%
	100%

Table 5 - Data Representation of FEIs under/outside HFs[15]



FEIs under/outside HF	% of responses
FEI under HF	56%
FEI outside HF	44%
	100%

[14]Please note that respondents may refer to FEIs either in operation or planned/in preparation, and includes those who responded to the internet survey and case studies (230).

[15] Please note that respondents may refer to FEIs either in operation or planned/in preparation, and includes those who responded to the internet survey and case studies (230).

The following table shows what proportion of the FEI data collected was provided by different MSs and Croatia.

Table 6 - Data Breakdown by EU MS[16]

Code	Country	Proportion of responses		Code	Country	Proportion of responses
AT	Austria	2%		IE	Ireland	1%
BE	Belgium	2%		IT	Italy	5%
BG	Bulgaria	6%		LV	Latvia	4%
CY	Cyprus	2%		LT	Lithuania	8%
CZ	Czech Republic	3%		LU	Luxemburg	2%
DE	Germany	5%		MT	Malta	2%
DK	Denmark	4%		NL	Netherlands	2%
EE	Estonia	2%		PL	Poland	9%
EL	Greece	4%		PT	Portugal	6%
ES	Spain	6%		RO	Romania	3%
FIN	Finland	2%		SE	Sweden	2%
FR	France	4%		SI	Slovenia	1%
HR	Croatia	1%		SK	Slovakia	3%
HU	Hungary	4%		UK	United Kingdom	9%
					Total	**100%**

Overall, the dataset represents the largest and most representative dataset in relation to FEI establishment and implementation collected to date. As such, the data enables a much more comprehensive picture of FEI activity, opportunities, and challenges to be presented than previous research allows (summarised in Chapter 4).

The next chapter provides a more comprehensive overview of the policy context for FEIs, the advantages of using FEIs, how they work, the different types of FEIs, and other central level EU instruments.

[16] This table is based on overall geographical coverage of the data (i.e. from the 71 national level interviews, 150 case study interviewees, and 80 instruments covered by the internet survey (including those in development).

2. FEIs IN COHESION POLICY

2.1. FEIs within Cohesion Policy

Cohesion Policy provides the framework for promoting economic growth, prosperity, and social integration across all 27 EU Member States. In the current programming period, 2007-2013, it aims to reduce economic and territorial disparities across the EU by pursuing three main objectives: convergence; competitiveness and employment; and territorial cooperation. These objectives are supported by three funding streams: the European Regional Development Fund (ERDF) the European Social Fund (ESF) (together known as Structural Funds), and the Cohesion Fund (CF). ERDF and CF fall under the responsibility of DG REGIO while the ESF falls under DG EMPL. The objectives of Cohesion Policy are as follows:

- Convergence: to stimulate growth and employment in the least developed regions, focusing on innovation and the knowledge based society, adaptability to economic and social changes, the quality of the environment, and administrative efficiency. This objective is supported through ERDF, ESF, and CF.
- Regional Competitiveness and Employment: to strengthen regional competitiveness by promoting innovation, inward investment, SME development, and job creation in all regions not covered in the Convergence objective. This objective is supported through ERDF and ESF.
- European Territorial Cooperation: to encourage cooperation across borders among regions in different MSs through joint projects and building closer links between border regions. This objective is funded exclusively by ERDF.

MAs prepare Operational Programmes (OPs) agreed with the Commission which set out how their ERDF, ESF, and CF resources will be allocated across different policy areas within Cohesion Policy. OPs are Co-financed by national, regional, or other resources, which can include borrowing from national or international financial institutions. MAs are responsible for the detailed management and implementation of OPs.

Traditionally, OP resources have provided Grant funding to organisations or projects to achieve objectives and outputs in line with the relevant priority within the OP. In order to increase the impact and sustainability of EU funds within Cohesion Policy, under General Regulation EC Regulation 1083, MAs can also decide to establish FEIs using part of their OP allocation within the current programming period, 2007-2013.

FEIs are instruments with a revolving character, meaning that FEIs invest on a repayable basis, as opposed to Grants which are non-repayable investments. FEIs invest in Final Recipients, typically enterprises, Public Private Partnerships (PPPs) or Urban Projects through the provision of Loans, Guarantees or Equity in line with an agreed investment strategy. As the investment is subsequently repaid to the FEI, FEIs enable Structural Funds to be invested in multiple Final Recipients over successive funding rounds beyond the initial programming period, thus creating a lasting legacy from EU funds. FEIs are also designed to attract Co-investment from other sources, in particular the private sector, helping to increase the Leverage Effect of Structural Fund resources.

2.2. Types of FEIs

Under Council Regulation (EC) No 1083/2006, MAs can establish FEIs under Article 44 (a) for enterprises, under Article 44 (b) for urban development, and under Article 44 (c) for energy efficiency & renewable energy (EE/RE) measures in buildings. Further information on these different types of FEIs is provided below.

2.2.1. SME financing under Article 44a

Article 44a FEIs can provide a range of support and products designed for enterprises, in particular SMEs, or micro-enterprises and sole proprietor/self-employed individuals. Investment from Article 44a FEIs in support of access to finance may be combined with other support measures. To date, nearly all Article 44a FEIs are funded by ERDF, although some have been part financed by ESF.

2.2.2. Urban development financing under Article 44b

Article 44b FEIs support sustainable urban development projects in areas including:

- urban infrastructure – including transport, water/waste water, energy;
- heritage or cultural sites – for tourism or other sustainable uses;
- redevelopment of brownfield sites – including site clearance and decontamination;
- creation of new commercial floor space for SMEs, Information and Communication Technology (ICT) and/or Research and Development (R&D) sectors;
- university buildings – medical, biotech and other specialised facilities;
- energy efficiency and renewable energy in buildings[17].

All sustainable urban development projects supported through Article 44b FEIs must form part of an Integrated Plan for Sustainable Urban Development (IPSUD), which requires MS/MAs to take account of Article 8 of Regulation (EC) No 1080/2006 and the specific urban, administrative and legal context of each region. It is up to each MS/MA to define their IPSUD as the regulatory framework for the programming period 2007-2013 does not include a detailed or binding definition. To date, all Article 44b FEIs have been funded through ERDF allocations.

2.2.3. Energy Efficiency and Renewable Energy in buildings financing under Article 44c

Article 44c FEIs are designed to invest exclusively invest in Energy Efficiency/Renewable Energy (EE/RE) measures in buildings, including existing housing. Article 44c was established relatively late in the programming period in 2010, following the adoption of Regulation (EU) No 539/2010[18] in 2010. Projects supported through Article 44c FEIs are not required to be part of an IPSUD.

To date, all Article 44c FEIs have been funded by ERDF.

[17] Unlike Article 44c FEIs, EE/RE projects financed under Article 44b, must form part of an Integrated Plan for Sustainable Urban Development. Prior to the introduction of Article 44c, a number of EE/RE funds were established under Article 44b.

[18] Regulation (EU) No 539/2010 of the European Parliament and of the Council of 16 June 2010 Amending Council Regulation (EC) No 1083/2006.

2.3. Technical Assistance under JEREMIE and JESSICA

Prior to establishing FEIs, MAs have tended to undertake either a Gap Analysis or an Evaluation Study financed and provided under the JEREMIE (Joint European Resources for Micro to Medium Enterprises) or JESSICA (Joint European Support for Sustainable Investment in City Areas) initiatives. JEREMIE and JESSICA are both supported by the Joint EU Initiative TA budgets of the Commission. However, this was not compulsory under the legislative framework for 2007-2013.

2.3.1. JEREMIE

The JEREMIE Gap Analysis was provided in cooperation with the Commission and the European Investment Fund (EIF) to assist MSs in establishing market-oriented FEIs to support SME access to finance with resources from Structural Funds. One of the services provided by JEREMIE prior to FEI establishment is a market assessment known as a Gap Analysis, provides free of charge to MAs interested in potentially establishing Article 44a FEIs. The Gap Analysis highlights the areas in which SMEs encounter a lack of adequate financial support in a given region. They describe the market failures and analyse the prospective demand for FEI in the form of Loans, Equity, or Guarantees, as well as the supply of finance for SMEs. They also provide a series of recommendations in terms of products, size and scale of FEIs, structure of FEIs, and action plans to help establish the FEIs.

Executive summaries of 55 JEREMIE Gap Analyses completed by 2009 at a national and/or regional level in 18 Member States are available on the website of DG REGIO[19] and are included in the list of documents reviewed as part of the literature review for this Study (Annex 3).

2.3.2. JESSICA

JESSICA is a policy initiative developed by the Commission and the EIB to support MAs to invest in urban development through FEIs. These FEIs are known as Urban Development Funds (UDF)s which invest in public private partnerships (PPP)s or other Urban Projects that form part of the IPSUD.

One of the services provided by JESSICA is the provision of an Evaluation Study free of charge to MAs interested in establishing Article 44b FEIs. The aim of these Evaluation Studies is to support MAs in deciding whether or not to implement Article 44b FEIs in their country or region. It outlines the rationale and merits of adopting Article 44b measures, whilst assessing the market appetite for such instruments, and helps to identify a pipeline of 'investment ready' projects. It also proposes a viable FEI architecture, and recommendations on how to take the proposed Article 44b FEIs forward.

To date, 62 JESSICA Evaluation Studies have been completed at a national and/or regional level in 21 Member States, which are available on the DG REGIO and EIB websites and are included in the list of documents reviewed as part of the literature review for this Study. (Annex 3)

[19] http://ec.europa.eu/regional_policy/archive/funds/2007/jjj/doc/pdf/jeremie_sme_access.pdf

2.4. Establishing FEIs

The figure below depicts the typical FEI structure.

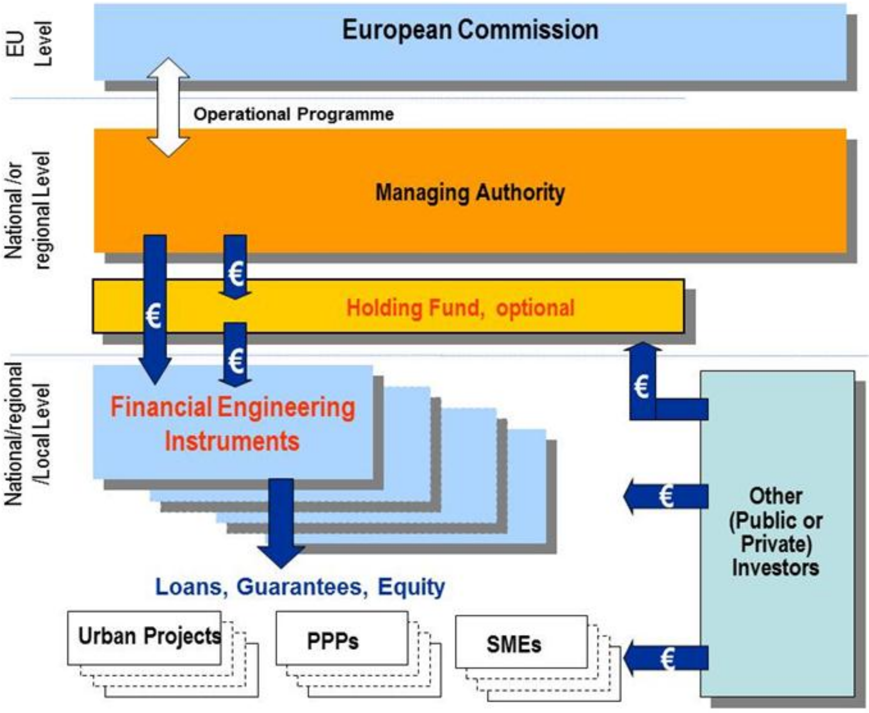


Figure 1 - Structure of FEIs

Once an MA has decided to establish an FEI, normally following a Gap Analysis or Evaluation Study to identify the size of the fund and investment priorities, and has allocated the required amounts from the relevant OP, the MS or the MA can procure or award HF mandates to a Holding Fund Manager through one[20] of the following ways:

> "(a) the award of a public contract in accordance with applicable public procurement law;
>
> (b) when the agreement is not a public service contract within the meaning of applicable public procurement law, the award of a grant, defined for this purpose as a direct financial contribution by way of donation to a financial institution without a call for proposals, if this is in accordance with a national law compatible with the Treaty;
>
> (c) the award of a contract directly to the EIB or the EIF.[21]"

Whilst FEIs can be implemented directly, MAs have the option to establish FEIs through a HF which can invest in multiple FEIs with a thematic or geographical focus.

Co-investment is sought at the FEI or Final Recipient level. Fund Managers identify suitable Final Recipients, and make investments according to an agreed investment strategy. The

[20] For a single FEI would be mutually exclusive
[21] Article 44 as amended by Council Regulation (EC) No 284/2009

current state of play in regards to FEI establishment and implementation can be found in the next Chapter.

2.4.1. The role of Holding Funds (HF)

Establishing a HF allows MAs to delegate tasks to professional fund managers to prepare the investment strategy, negotiate contractual agreements with each FEI under the HF, and monitor the performance of the FEIs on their behalf. The most often cited advantages of a HF are that they can:

- Provide MAs with expertise in fund management;
- Support MAs in ensuring that FEIs are established in accordance with OP objectives and desired outputs;
- Provide the opportunity to combine resources from multiple funding streams of the OP to invest in multiple FEIs with different sector and/or geographical focus;
- Allow the administrative tasks of managing FEIs to be outsourced;
- Provide flexibility; and
- Secure deal-flow for major private partners.

HF Managers are paid a management fee to cover all costs incurred and/or expected to be incurred by the HF for its operations and any additional tasks defined within the Funding Agreement with the MA.

Should MAs wish to employ the services of a HF Manager rather than procure or award FEI mandates directly, then they must either follow the procurement and award process detailed under 2.4 above.

2.5. Benefits of FEIs

There are considered to be a number of benefits for policy makers to use FEIs in preference to Grant funding so as to increase the scale, effectiveness and efficiency of policy measures.

Firstly, as opposed to non-repayable Grants, FEIs can recycle capital for future use. This allows for a much greater efficiency in the allocation of public capital and the long-term sustainability of public investment. The ultimate aim is for FEIs to be self-sustaining which makes them particularly valuable under conditions of economic uncertainty, fiscal deficits and constraints on bank lending.

Secondly, FEIs aim for a Leverage Effect. By unlocking other public sector funding and private sector resources through co-financing and Co-investment, FEIs aim to increase the overall capital available to achieve policy objectives and the corresponding impact of investments made.

Thirdly, private sector participation enables policymakers to make use of private sector skills and expertise in areas such as identifying investment, decision-making, management of commercial operations and the ability to achieve returns.

Fourthly, repayable assistance can also act as incentive for better quality investments as investments need to be economically viable to be able to repay the assistance provided.

Collectively, these attributes potentially lead to greater value-added for policy interventions, as well as greater effectiveness and efficiency in terms of the use of public sector resources, enabling policymakers to achieve more with fixed or limited resources. Moreover, FEIs can be tailored to local, regional and national circumstances with inbuilt flexibility and can be adapted if these needs change.

Finally, as well as satisfying demand-side pressures, FEIs can also make significant long-term contributions to market development through supply-side development and support, through the use of public sector capital, capacity building and knowledge exchange, which can help stimulate and support financially-viable propositions.

Operating under conditions of economic uncertainty, fiscal deficit and consequent budgetary pressures, and encouraged by the early performance and Leverage Effects of FEIs, policymakers see considerable value in supporting the further development of FEIs and for their use in both existing and new policy-related areas of activity. The recent EU Budget Review[22] noted that FEIs could provide an important new financing mechanism for strategic investments by attracting Co-investment from other public and private sector sources in order to achieve EU policy goals more efficiently.

Within Cohesion Policy proposals for the next programming period 2014-2020, a far greater role is envisaged for the use of FIs. It is proposed that FIs be able to cover a wider range of policy areas, and that there be greater flexibility in relation to establishing and implementing FIs. The detail of the new proposals can be found within the draft Common Provision Regulation (CPR). As part of this Study, data has been collected in relation to MS interest to establish FIs in the next programming period, details of which can be found in Chapters 8.

2.6. EU Central Instruments and other Joint Initiatives

FEIs for Enterprise, Urban Development, and EE/RE sit alongside a range of other initiatives and instruments at an EU level in this programming period in support of the Europe 2020 Strategy and achieving CP objectives which include:

- **7th Research & Development Framework Programme (FP7),** including the operated Risk Sharing Finance Facility (RSFF): As an important part of the Commission's commitment to promote growth and jobs in Europe, it invests in SMEs in high growth areas and in other thematic areas.
- **The Competitiveness and Innovation Framework Programme (CIP),** specifically including the funding initiatives developed by the EIF, such as the High Growth and Innovative SME Facility and the SME Guarantee Facility. CIP supports innovation activities, provides access to finance, delivers business support services and encourages the use of information and communication technologies (ICT). CIP is divided into three programmes: Entrepreneurship and Innovation Programme (EIP); ICT Policy Support Programme (ICT-PSP); and Intelligent Energy Europe Programme (IEE).

[22] Commission proposal for MFF of 29.6.2011 COM(2011) 398 final

- **The European Progress Microfinance Facility (Progress Microfinance)**: Launched in 2010 with the aim to increase the availability of microcredit loans to start up or develop a small business through microcredit providers.
- **Loan Guarantee Instrument for TEN-T projects (LGTT):** LGTT is an instrument set-up jointly by the Commission and the EIB aimed at facilitating private sector involvement in core European transport infrastructure, which often face difficulties in attracting private-sector funding due to the relatively high levels of revenue risk in a project's early operating stages.
- **2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite Fund):** Backed by six major European financial institutions to make capital-intensive infrastructure investments, it targets attractive long-term and stable risk-adjusted returns in the development of transportation, energy, and climate change.
- **Technology Transfer Pilot project (TTP):** TTP funds technology transfer activities in universities, research organisations or small and medium-sized enterprises, focusing on the financing of projects seeking to commercialise intellectual property.
- **Joint Action to Support Microfinance Institutions in Europe (JASMINE):** JASMINE is a joint initiative of the EIB Group aimed to support the development of microcredit providers.
- **Joint Assistance to Support Projects in European Regions (JASPERS)**: JASPERS provides advice to the 12 Central and Eastern EU Member States and Croatia during project preparation to help improve the quality of the major projects to be submitted for grant financing under the Structural and Cohesion Funds.
- **European Local Energy Assistance (ELENA):** ELENA is a joint initiative of the Commission and the EIB with the aim of supporting the EU's climate and energy policy objectives by helping MAs prepare energy efficiency or renewable energy projects.

One of the questions posed in the internet survey related to whether those establishing and implementing FEIs have used other joint instruments in providing TA, in addition to JEREMIE and JESSICA. The response to this can be found in Chapter 9.

This chapter has sought to provide an overview of the policy context surrounding the introduction of FEIs, and explain the different types of FEIs, their benefits, how they can be established, as well as other related EU central level instruments and joint initiatives. The next chapter provides the most recent available detailed data, in relation to the state of play on FEI establishment and implementation, as at the end of 2011.

3. LITERATURE REVIEW SUMMARY

This section provides a summary of a review of recent evaluation literature and policy studies on the use of FEIs relating to the current programming period. At this stage in the programming period the majority of FEIs are in the implementation stage, there is a shortage of publicly available EU-wide FEIs evaluative information. Therefore, the review concentrates on high-level EU-wide studies, supplemented with specific national and regional studies where these were available.

The literature review contained in Annex 2 consisted of approximately 100 documents and the final list was agreed with the EIB Group and the Commission at the inception stage of this Study and is provided in Annex 3. The literature reviewed provides a general descriptive overview rather than an in-depth evaluative analysis. Additionally, the literature reviewed tends to be based on secondary data which provided little evidence on the implementation progress, although DG REGIO's Summary Report 2012, discussed in other chapters, provides up-to-date information on the financial state of play for FEIs operating across Europe by the end of 2011.

3.1. Main messages on Article 44a FEIs from the Literature Review

It should be noted that there is considerably more literature available on Article 44a FEIs compared to both Article 44b FEIs and Article 44c FEIs due to Article 44a FEIs being at a more advanced stage. The literature to date also tends to address EU institutions rather than MAs or HF and Fund Managers. In terms of Article 44a FEIs, recent available literature tends to focus more heavily on Venture Capital funds many of which were established in the previous programming period 2000-2007. The main messages on Article 44a FEIs from the literature review are summarised in this section.

This chapter sets out the main messages from the literature regarding Article 44a and Article 44b FEIs before providing concluding remarks. Article 44c FEIs are not considered in a separate section because they were established too recently for much literature to have considered them. However, within Article 44b FEIs there are some FEIs focussed on EE/RE which were established before Article 44c was introduced, therefore some of the main messages from the Article 44b section will also apply to these instruments.

3.1.1. Rationale for Article 44a FEIs

From the literature review it appears that the underlying rationale for public intervention through FEIs is market failure[23] and to increase the supply of early stage finance to SMEs and start-ups[24]. The advantages of introducing FEIs under Structural Funds programmes and the increasing pressure to do so have been well documented in numerous studies, including Cowling 2010, ECA 2012, EC 2012a, EC 2011, EC 2010, EP 2012, EP 2012b, Michie and Wishlade 2011. (See Annex 3)

[23] Bruhn-Leon et al 2012
[24] CSES 2007

According to the literature review, the use of FEIs enables additional support to be allocated to SMEs, and with potentially greater financial impact than Grants because of attracting additional public and private sector resources, thus multiplying the effect of Structural Fund resources and the national /regional contributions used to address market failure. Additionally, Risk coverage or risk participation may encourage investors to invest (more) in projects which are not attractive without public intervention.

Furthermore, the literature review noted that FEIs can promote the long-term recycling of public funds, regarded as particularly important in times of public budgetary constraints. For regional MAs, they potentially enable the reinvestment of Structural Funds at the level of the region beyond the end of the programming period, as experience from the Baltic Investment Fund shows. Their use is thus perceived as helping achieve better value for public money.

Finally, the literature review also identifies that FEIs encourage the pooling of expertise and know-how, for example to support start-up SMEs and to improve the quality of projects.

3.1.2. Challenges in establishing Article 44a FEIs

A report which gathered information from MAs in 17 MSs found that establishing FEIs to support SMEs has typically involved a lengthy process[25] – whether for complex Equity products or seemingly more straightforward Loan funds. Examples of typical time spans to establish an FEI include, 18 months for the JEREMIE initiative in Latvia; 15 months from Gap Analysis to the granting of the first Micro-Loan in Hungary and another three years until the launch of Venture Capital activities; and two years to set up the North Denmark Loan Fund. The length of the process was longer than originally anticipated by MAs.

The literature review suggests that the complexity of the model selected depends on issues such as the market structure in the MS/region, identified funding gaps and the type of MS/region. Some fund structures are found to be more complex to set up than others. For example, in a Fund of Funds, ERDF funding comes in at the level of the Fund of Fund, which invests in other fund(s), with external investors, thus requiring a group of funds to be set up[26]. The main benefits of the Fund of Funds structure are felt to be flexibility and certain benefits of a portfolio approach such as diversified risk and leverage on different levels[27]. Co-investment in Final Recipient models on the other hand, where the public sector invests in a business and/or project alongside the private sector, are considered to be relatively simpler to set up[28].

3.1.3. Implementation experience for Article 44a FEIs

In terms of implementation experience, the typical time frames to set up Article 44a FEIs are shown by the following examples: 18 months for the JEREMIE initiative in Latvia, 15 months from Gap Analysis to the granting of the first Micro-Loan in Hungary and another three years until the launch of Venture Capital activities, and two years to set up the North Denmark Loan Fund. The length of the process was longer than originally anticipated by MAs, especially in cases where funds were set up to provide a rapid response to the economic crisis. The literature review notes that issues of capacity and a need for more expertise in implementing FEIs under shared management was among the reasons for unanticipated delays in setting up

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[25] Michie and Wishlade 2011
[26] CSES 2007
[27] EIF 2012b
[28] CSES 2007

the fund[29]. Furthermore, compliance with Structural Fund regulations and State Aid issues were raised as another source of delay based on the literature review. Additionally, the literature review points out discrepancies between the return requirements and the investment period of FEIs and the approach taken to risk sharing, for example the requirement to invest ERDF financing by the end of the programming period potentially increases the risk that proposals are accepted from companies that are less viable which may in turn increase the risk that the return will be negative,.

Funds established at regional level may not be consistent with the critical mass required, potentially resulting in a scattering effect and high overhead costs according to some literature, although some regional level FEIs which were considered small are in practice working well according to MAs and achieving their stated objectives, for example Malta.

The literature review also stated that there is a need for transparency in the investment processes of FEIs and there has been concern over the issue of management costs; and that marketing of funds, knowledge transfer and wider networking are important in order to maintain the long term positive effects of the FEIs.

In terms of Article 44a FEI project generation, the main reasons cited in the literature review for the implementation rate of FEIs deviating from plan so far have been external problems, for example, demand side problems such as lack of investment due to the economic crisis, or supply side problems such as the availability of other, competing types of business support. However, this is not always the case. Although there is little mid-term evaluation evidence so far publicly available, several reports on Micro Credit funds show that demand has increased during the economic crisis, and that the funds have performed well[30].

3.2. Main messages on Article 44b FEIs from the Literature Review

Uptake of FEIs for Article 44b has been more limited than Article 44a[31]. Therefore, the literature review is based upon the Evaluation Studies provided through the JESSICA initiative and undertaken prior to the implementation of Article 44b FEIs. As many FEIs are currently not yet making investments into Urban Projects, there are no available impact studies as of yet.

3.2.1. Rationale for Article 44b FEIs

In the literature review, the main arguments cited for using Article 44b FEIs were that they would provide new opportunities for private sector participation in urban development projects, leverage additional funding through PPPs, and mobilise additional support beyond Grants.

Michie and Wishlade (2011) found that the provision of new institutional instruments for urban development, through Article 44b FEIs, is viewed as particularly important, given that there are few financial or other vehicles on the market that play a similar role. This importance has been heightened by the economic crisis. In addition, the use of Article 44b FEIs is seen as aligning strongly with the current and future direction of EU (and national) policy objectives.

[29] Michie and Wishlade 2011, EC 2012a
[30] Meyer and Biermann 2010
[31] EC 2010, EIB 2011, Michie and Wishlade 2011

Pro-active external encouragement by the EIB and Commission also seems to have played a major part in MAs' decision-making processes, for example by offering a joint Commission and EIB-financed Evaluation Study to test the feasibility of using Article 44b type funds to support urban development[32].

3.2.2. *Challenges in establishing Article 44b FEIs*

As a relatively new instrument, the establishment of Article 44b FEIs has taken longer than expected according to the literature review. In research carried out in late 2011 among MAs who are members of an exchange of experience Structural Funds network, MAs reported that in some cases it has taken up to three years from the tender to the launch of the UDFs. MAs reported that it took nearly 2.5 years in the case of Śląskie, Poland (May 2009 - December 2011/January 2012) and Wales (UK) (2008-2010); to around three years in Portugal, London (UK) and the Czech Republic, from Autumn 2008 to Autumn/Winter 2011)[33]. This is despite the fact that the intention of operating a FEI was foreseen at an early stage in both Portugal and London and incorporated into the OPs.

3.2.3. *Implementation experience for Article 44b FEIs*

The literature review found that for Article 44b FEIs, there is little information available due to the early stage of implementation. Several Horizontal Studies are underway which will provide more information. However, in terms of project generation, it is noted that urban development projects generally take a longer time to develop than other projects, and putting together packages of urban regeneration activity that generate enough financial return may be a challenge.

Difficulties noted at the stage of preparation of the HFs and UDFs in the literature review include the time-scale of the process, which in one case necessitated additional market testing. Time delays have been attributed by MAs to uncertainty about how the initiative would work in practice; the need to go through a learning process; the difficulties in using land as Co-financing; convincing private sector UDF managers to engage with contracts involving ERDF funding; and issues with State Aid (Michie and Wishlade 2011).

3.3. Concluding remarks from the Literature Review

To date, MAs have established multiple FEIs during this programming period using their experiences based on previous programming periods particularly with Venture Capital Funds during 2000-2007. Some FEIs are now fairly well established, while others have only just started their implementation phase. As the funds have been tailored to the individual needs of the regions and MSs, each has different priorities, funding allocations and implementation structures, while remaining under the remit of the regulatory framework. A Centre for Strategy & Evaluation Services (CSES) evaluation study[34] in 2007 noted that "Different funds are appropriate for different regions…[and]… there is no 'ideal model'", and while there has

[32] Michie and Wishlade 2011
[33] Michie and Wishlade 2011
[34] CSES (2007) Comparative Study of Venture Capital and Loan Funds Supported by the Structural Funds, Final Report, August 2007: http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/2007_venture.pdf

been a great deal of feasibility and evaluation work carried out in setting up these funds, there has also been a significant element of 'trial and error', or 'learning by doing'.

The main messages for future FEI establishment and implementation that stem from the survey of evaluation material and literature, include the following points (relevant for both Article 44a and Article b FEIs):

There is a lack of evaluation evidence on the use of FEIs under Cohesion Policy. There is a need to support the development of expertise in measuring performance of FEIs – the proposed new regulations make provision for strengthened Ex-Ante Evaluations at the start of the process, but MAs and FEI managers may need support and capacity building at this and at later stages in the implementation cycle.

Monitoring of FEIs presents particular challenges. There has been a perceived lack of indicators appropriate for FEIs under Structural Fund programmes. The Commission has been working with MAs on indicator development, but there may be a need for further training or capacity building for MAs in this regard.

There is a need for dialogue and knowledge exchange between public and private sector actors over the objectives of FEIs funded partly or wholly through public sector sources, to increase visibility, encourage understanding and increase knowledge of the requirements of both sets of actors, as well as explicitly address the potential conflict between the commercial approach inherent in many FEIs, and the wider Cohesion-related objectives which may imply non–financial returns.

FEIs are time-consuming to establish and complex to implement (when compared with Grants or private sector Investment Funds not using public monies) and this is exacerbated when the regulatory environment is complex and the instruments are new to the relevant actors. This perception may be emphasised by the traditional experience of MAs in providing support through Grants while investments through FEIs require a different approach from MAs which represents a significant cultural shift. This underlines the need for provision of clear and timely guidance, and to build as far as possible on existing knowledge and experience, and for MSs and regions to be able to benefit from the learning process that has been undergone during this programming period. Consequently, it is crucial that this knowledge and experience gained is reflected in the future regulations.

The compromise regulatory texts on FIs for the 2014-2020 period show that the Commission has attempted to address many of the challenges that have arisen in this programming period in the new regulatory provisions. These include a number of modifications that directly address issues raised by MAs and the European Court of Auditors, for example revised provisions relating to the Ex-Ante Evaluations that must be undertaken before FIs are established under CSF programmes. It has been made clear that Ex-Ante Evaluations will tie the findings related to market gaps more closely into the objectives and priorities of the CSF programmes, and will include more information on what type of financial products should be put in place. The added value of FIs under consideration must be explained, and there must be an assessment of lessons learned from similar instruments or Ex-Ante Evaluations in the past. The Ex-Ante Assessments should outline how FIs may be combined with Grant support if appropriate, and the expected results of how FIs will contribute to the results of the programme. The assessment must explicitly consider State Aid implications and there is provision for the reports to be revised and updated if necessary. The proposed regulation also frequently references the need to ensure compliance with State Aid requirements and there is some clarification on management fees and costs (with further provisions to be included in the secondary legislation) as well as the use of revolving resources.

4. RATIONALE FOR FEIs

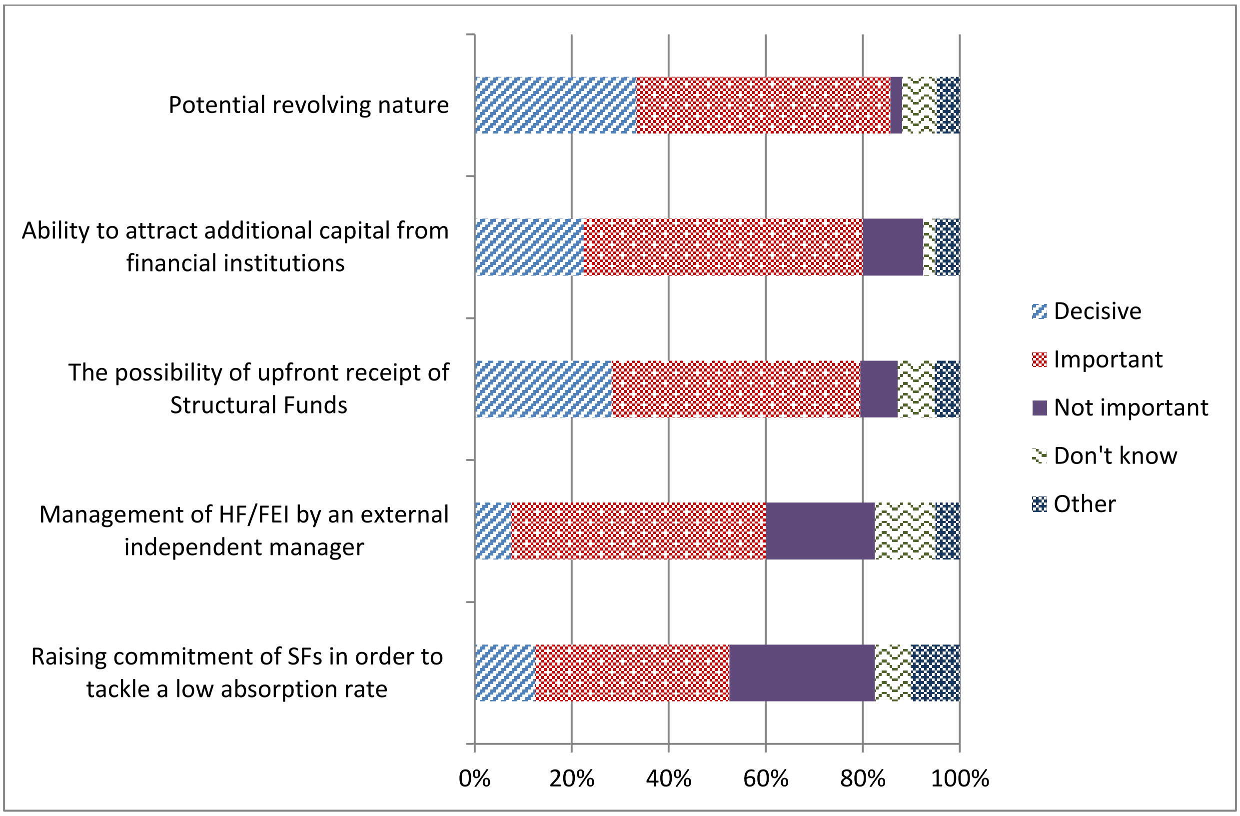
This chapter discusses the rationale for implementing FEIs in a MS or region based on the research data collected as part of this Study. It includes the role of market assessments[35] and intentions to implement additional FEIs or FIs in both this and the next programming period.

4.1. Rationale for implementing FEIs

The rationales provided for establishing FEIs given in the case study interviews were in line with the findings from the literature review. Firstly, FEIs are thought to help to achieve public policy objectives. Secondly, FEIs are felt to address existing market failures in obtaining access to finance. Thirdly, FEIs are regarded to be a more efficient use of public money than Grants because they are revolving instruments.

According to the internet survey, it is clear that while policy and financial considerations are most important in deciding to set up FEIs, technical and administrative considerations also play a part. Figure 2 shows the perceived importance of potential factors according to MAs.

Figure 2 - Factors in decision making about setting up FEIs (including HFs) (respondents=45)



Source: Internet survey (Note: the data doesn't allow any split between Article 44 a/b/c instruments)

[35] 'Market assessments' is used as the general term for a compilation of different studies, including Gap Analyses/Evaluation Studies

The research data shows that the **revolving nature** of FEIs is important to MAs as it potentially enables a more efficient use of public money, whilst creating value for money and providing the mechanisms to build a self-sustaining legacy fund. Additionally, the ability to **attract additional capital** from financial institutions to create a Leverage Effect is considered a very important factor in the decision-making process.

Technical considerations were less important but still played a role. Advanced **upfront receipt of Structural Funds** is seen to be and important administrative advantage of FEIs over Grants and was recognised as such by MAs. The remaining two administrative considerations shown in Figure 2 were all rated 'decisive' or 'important' by 50% of the MAs who responded to the survey.

4.2. Specific factors relating to setting up a Holding Fund

As highlighted elsewhere in this Study, it can be advantageous for MAs to set up FEIs through HFs which can be managed by external financial institutions (for example the EIB Group). Based on the research data, MAs set up HFs to delegate implementation tasks such as designing the financial products, and the procurement process in the selection of Fund Managers, particularly when there was limited relevant technical expertise within the MA to establish, manage, or monitor FEIs. The possibility of transferring knowledge from the HF Manager to the MA was mentioned in the research data as another reason to set up a HF, particularly for MAs who are considering the possibility of establishing FIs themselves in the future.

The view held by 50% of responding MAs was that another reason to set up a HF is the flexibility gained by moving blocks of funding into a HF, and subsequently having the time to decide which FEIs could be established in order to maximise impact and create efficiencies.

4.3. The role of Gap Analyses and Evaluation Studies

Gap Analyses specifically refer to TA provided under JEREMIE (market assessments for Article 44a FEIs) and focussed on financial impacts on particular business sectors. Evaluation Studies specifically refer to TA provided under JESSICA (for Article 44b FEIs) and tended to be more qualitative with more focus on project identification, and in some cases, in-depth analysis around legal issues and the provision of State Aid.

In 83% of case study responses[36], market assessments were undertaken before setting up FEIs. These market assessments helped to identify an investment strategy for the funds, outlining target sectors, types of projects, types of financial products needed and the risk. However, following the actual establishment of FEIs, according to the research, in around 50% of the cases where a market assessment was carried out[37] there were deviations between the strategy set out by the market assessment and the FEIs established.

In 33% of cases, this was due to issues caused by the political situation, financial risks, technical issues or administrative capacity. In 66% of situations, changes to the strategy were caused by a change to the market demand due to the economic and financial crisis. In the majority (66%) of the cases where the market conditions changed, this led to different products being introduced as part of the suite from FEIs. For example FEIs established under Article 44a

[36] The number of individuals who responded to that specific question was 54.
[37] The number of respondents to this question is 45.

introduced an Equity scheme in addition to Loan funds; or, the provision of both was increased. There was also a shift in the target of Article 44a instruments, from encouraging the expansion of new companies to providing working capital for established companies[38].

4.4. Considerations in establishing new FEIs in the future

The overwhelming factor taken into account when considering whether to implement new FEIs/FIs in the future[39] appears to be the desire of MAs to capitalise on the positive experiences they have accumulated with FEIs. This appears to be particularly the case for Article 44a FEIs.

The research data also shows that there is an interest in expanding the use of revolving instruments into **new areas, products and target groups** as well as to introduce **other types of products** such as Loans, Equity and Guarantees if they were not already available.

The concept of using revolving instruments is judged by MAs to be positive as it is felt to be a **more efficient use of public funds**.

It is thought that funding gaps remain an issue. Many of the respondents felt that there will be a growing need to attract the required Co-financing as well as attracting additional Co-investors from the private sector. While it is recognised by all parties that revolving instruments can operate effectively, searching for potential Co-investors is likely to be challenging, according to respondents.

The **roles of the JEREMIE and JESSICA Joint Initiatives have** been credited for stimulating the use of these new instruments particularly through the Gap Analyses and Market Assessments. The promotional role of EIB and the EIF is also credited in helping to encourage the use of funds under Article 44b FEIs for urban development and Article 44a FEIs for SMEs.

Some respondents mentioned that **the use of Grants** needs to be reduced. It was mentioned in the research data that respondents felt that **less distortion of competition** can also be achieved through the use of revolving instruments instead of Grants.

In addition, but as a pre-condition, 5% of respondents felt that the reduction of administrative burdens is an important factor in ensuring that FIs become more attractive in the future.

4.4.1. Plans for setting up FEIs in 2007-2013

A substantial majority of respondents (79%)[40] currently involved in managing FEIs, including MA and FEI Managers, have indicated interest in setting up new FEIs in the current programming period. 48% of MAs with the decision-making power to establish FEIs[41], plan to set up new FEIs/FIs at a regional or national level in this or the next programming period, either under or outside of a HF. Out of the 16 respondents who specifically expressed interest in deploying FEIs through HF, around 70% indicated that they are planning to do so still in this programming period.

[38] Note that this has only been possible from 1 December 2011 onwards.
[39] This question has been answered by 74 people
[40] This question has been answered by 97 people (MAs, HF Managers, FEI Managers)
[41] This question has been answered by 46 respondents (MAs); this constitutes around 20% of all MAs.

According to the research data, the majority of new FEIs are thought to be geared towards Article 44b FEIs and Article 44c FEIs. The MAs planning new FEIs for this programming period have discussed 53% of those FEIs being Loan products and 47% being Equity. Of those who responded, none appear to be planning to establish Guarantee products.

4.4.2. Plans for setting up FIs in 2014-2020

The research survey also attempted to gather information on the interest in establishing new FIs in the next programming period. Out of 22 respondents, approximately 70% indicated an interest in setting up new FI in the next programming period. 37% of FIs planned are Loan products, 21% Guarantees and 42% providing Equity.

Based on the research data, FIs may be established at the regional level (79%) or at the national level (21%). There is no specific pattern to indicate that national level FIs are concentrated in a specific thematic area. The thematic focus of new FIs being considered for the next programming period is discussed in Chapter 8.

4.5. Summary

From the research data, the main reasons for establishing FEIs were found to be:

- To help achieve public policy objectives in the field of SME development and business start-ups (i.e. Article 44a FEIs); urban development (i.e. Article 44b FEIs); and mitigating climate change through energy efficiency measures (i.e. Article 44c);
- To address any existing market gaps in obtaining access to finance, capital, or better rates on Loans;
- FEIs are regarded as a more efficient use of public money than Grants due to their revolving character, and encourage the attraction of private sector Co-investment;
- The ability to attract additional capital from financial institutions to create a Leverage Effect is considered a very important factor in the decision-making process;
- The possibility of upfront receipt of Structural Funds is an advantage over the traditional Grant system;
- Other technical aspects, such as independent fund management, tackling de-commitment or low absorption rates, and the related fact that Structural Fund put into FEIs can be certified as payments are also deemed to be important.

The promotion of FEIs by the Commission assisted by the EIF and the EIB through **Gap Analysis or Evaluation Studies** respectively, allowed market demand to be identified and a pipeline of projects. This was considered to be an important backbone to the success of FEI implementation. However, the actual size of FEIs often varied from the market assessment as the result of a combination of factors.

Some MAs indicated that positive experiences with FEIs and the wish to pioneer pilot initiatives have stimulated considerable interest in establishing new revolving instruments. The research findings show that there is a strong desire to build and capitalise on the good experiences to date, and an interest to also expand the use of revolving instruments towards new areas, products and target groups as well as to introduce other types of products such as

Loans, Equity and Guarantees if not already available. Funding gaps remain an issue and there will be continued need to attract the required Co-financing as well as additional Co-investment for Leverage Effects.

5. FEI STATE OF PLAY

This chapter provides an overview of the overall state of play of FEIs that have already been established in this current programming period across the EU, as well as more detailed information in relation to levels of financial contributions to different types of FEIs, HFs, and the investments made in Final Recipients. The data included here is derived from a document provided to the Study authors by the Commission and referred to as DG REGIO 's Summary Report 2012[42]. Where relevant, information provided is complemented with information contained within the 2012 DG REGIO Evaluation Study into the use of FEIs, also provided to the Study authors by the Commission. Both reports are based on data provided up until the end of 2011.

DG REGIO's Summary Report 2012 was introduced following an amendment to Council Regulation (EC) No 1083/2006 and Council Regulation (EU) No 1310/2011 in 2011, which made it a mandatory exercise for MAs to report annually on FEI implementation, identify the implementing entities, and outline the amounts of assistance paid to and by the FEI[43]. The Summary Report 2012 is the first report to be compiled on this basis using data up until the end of 2011 and provided by MAs. Prior to this, the Commission published a Summary Report in 2011 on the use and performance of the FEIs as part of the Annual Implementation Report. The Summary Report 2011 aimed to accurately capture the current state of affairs of FEIs across EU MSs as at the end of 2010, however, for this initial report data was provided by MAs on a voluntary basis.

As the basis of data collection differs between years, they are not directly comparable. However, it is clear that by the end of December 2011 the amount of Structural Funds implemented through FEIs had continued to increase on previous years, particularly with regards to Article 44a FEIs to support SMEs.

According to DG REGIO's Summary Report 2012, at the end of 2011 there were 524 FEIs in operation through 178 OPs in all MSs with the exception of Ireland and Luxembourg. There was also one region covered by a cross-border cooperation programme[44].

Across the EU, the total value of OP contributions to all FEIs amounted to €10,781 million, including €7,078 million SFs. The table overleaf depicts the breakdown of these figures by the different Article 44a, b, and c FEIs:

[42] 'Summary of data on the progress made in financing and implementing financial engineering instruments, sent by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006', European Commission DG Regional Policy and DG Employment, Social Affairs and Equal Opportunities, 26/09/2012

[43] DG REGIO Summary Report 2012. Whilst the original deadline was set for 30th June 2012, there were a number of anomalies with the data. Therefore the deadline for completion was extended to December 2012.

[44] This constitutes the EUREFI INTERREG SASBRIEY programme for Luxemburg, part of Southeast Belgium and parts of Northeast France.

Table 7 - Overview of Basic Characteristic of FEIs in EU Member States

FEIs	Total number of FEIs		OP support		Structural Funds Contribution	
	Nr	%	€ BN	%	€ BN	% of OP support
FEI for SME (Art. 44a)	484	92.4%	8.903	83%	5.753	64%
FEI for Urban development (Art. 44b)	28	5.3%	1.533	14%	1.075	70%
FEI for EE/RE in (Art. 44c)	12	2.3%	0.345	3%	0.25	72%
Total	524	100%	10.781	100%	7.078	66%

Source: Summary Report 2012, European Commission (from data until end of 2011)

This shows that of the 524 FEIs in operation at the end of 2011, the majority of FEIs established were in support of SME access to finance (92.4%); with a lower number of FEIs targeted at urban development and supporting energy efficiency and renewable energy in buildings (5.3% and 2.3% respectively).

5.1. Article 44a FEIs

The overall contribution to Article 44a FEIs at the end of 2011 constituted €8.903 billion of OP support in almost all MSs, including €5.753 billion of Structural Funds. Products offered by Article 44a FEIs to enterprises included Loans, Guarantees, Equity/Venture Capital and other products such as interest rate and Guarantee fee subsidies. Based on DG REGIO's Summary Report 2012, FEIs for enterprises were reported to have invested in approximately 34,000 SMEs, 16,000 micro-enterprises, and 62 large enterprises.

According to the data provided, Article 44a FEIs had already dispersed approximately 99% of funding to SME Final Recipients in the forms of Loans and Guarantees. Together, Loans and Guarantees make up 80% of allocated amount to Article 44a FEIs.

5.2. FEIs Co-financed by the ESF

The ESF accounts for approximately 10% of the EU's total budget. Its aim is to promote social cohesion and economic well-being throughout regions in the EU. Whilst Article 44 FEIs are generally funded through the ERDF, a small percentage of Article 44a FEIs have been funded through the ESF. €388 million has been allocated to 18 Article 44a FEIs through ESF OPs (€208 million of ESF) in six MS including Germany, Denmark, Estonia, Italy, Lithuania, and Latvia.[45]The vast majority of ESF Co-financed Article 44a FEIs are Micro Credit Loans or Guarantee schemes, with some targeting specific populations such as the self-employed, long term unemployed and women. Although the number of FEIs funded through ESF and the level of disbursements to Final Recipients has been modest, five new Funding Agreements were signed in 2011 according to data provided by DG Employment.

[45] DG REGIO Summary Report 2012

5.3. Article 44b FEIs

By the end of 2011, according to DG REGIO's Summary Report 2012, FEIs for urban development supported through Cohesion Policy constituted €1.533.15 billion of OP support in ten MSs, including €1.075 million of Structural Funds.

These are delivered almost exclusively as Loan funds, with projects supported including brown field regeneration and development of sustainable urban infrastructure.

5.4. Article 44c FEIs

By the end of 2011, according to DG REGIO's Summary Report 2012, FEIs for energy efficiency and renewable energy in buildings supported through Cohesion Policy constituted €344.87 million of OP support in 12 OPs across five MSs, and included €250 million of Structural Funds.

5.5. Contributions to FEIs, under and outside of Holding Funds

According to DG REGIO's Summary Report 2012, out of a total of 68 HFs for which data was provided, approximately 37 are managed by financial institutions or organisations other than the EIB or the EIF. Two thirds of these HFs were set up as a separate block of finance within a financial institution, and one third of these HFs were set up as an independent legal entity governed by an agreement between the Co-financing partners and the shareholders. Of the 47 HFs set up to implement Article 44a FEIs, 13 HFs in 10 MS are managed by the EIF, whilst 18 HFs established under Article 44b are managed by the EIB.[46]

According to DG REGIO's Summary Report 2012, the total value of OP contributions to all FEIs including HFs was approximately €10.780 billion, with just above half, or €5.63 billion being allocated to HFs (of which €4.14 billion was paid as Structural Fund assistance), and the remaining €5.152 billion (including €2.93 billion of Structural Funds) being allocated directly to FEIs established without a HF.

Table 8 - Contributions to FEIs, within and outside of Holding Funds

	Total number of FEIs		**OP support (in billion €)**	
	Nr	**%**	**€BN**	**%**
Implemented through the 69 HFs	171	33%	5.629	52%
Implemented directly, without HF	353	67%	5.151	48%
Total	524	100%	10.78	100%

Figures taken from the DG REGIO Summary Report 2012

[46] These figures derive from the DG REGIO Summary Report 2012.

Of the €5.63 billion of OP contributions paid to HFs, only €1.737 billion of OP contributions had been paid to FEIs within the HFs at the end of 2011. This means that €3.891 billion of OP contributions were still available at the HF level[47].

This combined with the €5.152 billion of OP contributions that were paid directly from MAs to FEIs set up outside HFs, means that as at the end of 2011, in total €6.89 billion of OP contributions have been allocated to FEIs, both within and outside of HFs.

5.6. Investments in Final Recipients

Final Recipients are SMEs, urban development projects or energy efficiency/renewable energy projects receiving financing from FEIs under Articles 44 a, b or c respectively. Based on DG REGIO's Summary Report 2012, which informs this entire section, MAs reported that €3.635 billion of OP contributions had been disbursed to Final Recipients.

Article 44b FEIs disbursed around €6.17 million of OP contributions to Final Recipients, out of a potential €1.3 billion originally distributed to FEIs (including through HFs). Finally according to the DG REGIO 2012 Summary Report, Article 44c FEIs invested around €.52 million to Final Recipient levels.

5.7. Management fees

FEI management incurs management costs and fees[48]. According to DG REGIO's Summary Report 2012, which informs this entire section, the total amount of eligible management costs and fees at all levels of implementation was €3.12 million.

Out of this total, €148.29 million was paid out to HFs as eligible management costs and fees. For FEIs operating under HFs, a further €59.26 million was required in management costs and fees. Finally for FEIs operating outside HFs, €104.5 million of management costs and fees were reported.

Compared to the total amount of OP contributions paid to HFs, FEIs under HFs, and FEIs without HFs, the management fees paid to those same entities amounts to:

- 2.63% of total OP contributions for HFs;
- 3.41% of total OP contributions for FEI operating under HFs;
- 2.03% of total OP contributions for FEI operating outside HFs.

[47] DG REGIO's Summary Report 2012 does not give distinctions for further amounts already committed by HF towards FEI.

[48] Management cost and fees in the meaning of Article 78(6) of the General Regulation comprise any and all fees, costs, expense and other proceeds paid from the OP to the managers of HFs or of FEIs, as reimbursement or compensation for managing the funds provided from OPs for effective investment in Final Recipients and which can be declared as eligible expenditure for reimbursement from Structural Funds. Management costs refer to cost items reimbursed against evidence of expenditure, management fees refer to an agreed price or compensation for services rendered. Thresholds of management costs and fees for each category of funds or instruments on a yearly average, are established as a percentage of the capital contributed from the operational programme, are set out in Article 43(4) of the Implementing Regulation . These rates are maximum rates which should not be exceeded for unless a competitive tendering procedure reveals that higher rates are necessary.

5.8. Summary

According to DG REGIO's Summary Report 2012, by the end of 2011 a total of 524 FEIs have been set up, through 178 Operational Programmes (OPs), in almost all MS (except Ireland and Luxembourg) and in one region covered by a cross-border cooperation programme.

The total value of OP contributions to all funds amounted to €10.8 billion, including €7billion Structural Funds. Of this €10.8 billion, €5.65billion was allocated to HFs, with the remainder (€5.15 billion) allocated directly to FEIs set up without HF.

Of the total of 524 FEIs (Loan, Guarantee, Equity/Venture Capital and other funds) that were set up:

- 484 (92.4% of total FEIs) are FEIs for Enterprises/SME under Article 44a, with a total OP support of €8.9 billion, of which €5.75 billion is Structural Funds (64%).
- 28 (5.3% of total FEIs) are FEIs focused on Urban development projects under Article 44b, with a total OP support of €1.533billion, of which €1.075 billion is from Structural Funds.(70%)
- 9 (2% of total FEIs) are FEI for Energy efficiency/renewable energies in buildings (including existing housing) under Article 44c, with a total OP support of €0.345 billion of which €0.25 billion (73%) is from Structural Funds.

6. ARTICLE 44a FEI ESTABLISHMENT & IMPLEMENTATION

This chapter provides a description of the implementation of Article 44a FEIs for SMEs within the current programming period (2007-2013).

This section synthesises the responses received from the internet survey, the in-depth material gathered through the interviews with national-level officials, as well as the detailed case-study research.

6.1. Article 44a FEIs

According to DG REGIO's Summary Report 2012, FEIs for SMEs represent the highest percentage of FEIs established in 2007-2013.

6.1.1. Progress to date

Target Groups

Among those interviewed as part of the case studies, FEIs both under or outside a HF[49] were generally thought to be addressing the market gap identified in the Gap Analysis. This is thought to be because there was good awareness and marketing of the programme through extensive promotion and events by the Fund Managers. There was also felt to be good cooperation between different stakeholders and good regional networks and contacts. Investors seemed to be ready to Co-invest in Final Recipients (i.e. SMEs) and had the related support services to support the Final Recipients. It was thought that the financial products offered through the FEIs were highly attractive.

Some FEIs found reaching very specific target groups challenging, particularly the FEIs funded through ESF. Stakeholders felt that it was difficult to find companies that met the eligibility criteria and were located within the geographical boundaries. Some stakeholders felt that the geographical restrictions made it more challenging to reach target groups. Other challenges stated by the stakeholders interviewed include a relatively young FEI culture, especially outside large city regions; low numbers of women entrepreneurs in programme areas; or niche companies that were difficult to reach.

Financial products

The financial products are believed to have been appropriately designed to address SMEs' inability to access finance, although some stakeholders noted that the demand has been constrained by economic conditions. Based on the research data, the products created are considered appropriate because of the high demand shown for them, particularly Equity. This is due to many SMEs' inability to provide the necessary collateral to secure the level of financing required to start their businesses. The reduced risk and security for private investors and lower costs for Final Recipients is also viewed by stakeholders as advantageous. Finally, the active monitoring of market conditions and the adaptation the financial products to meet the needs of SMEs were also mentioned positively.

[49] To aid readability, for the rest of this chapter the term FEI is simply used to refer to FEIs under or outside a HF and does not include HFs, unless otherwise specified.

To make products more attractive, the research data suggested some adjustments including revisions to the funding ceilings, offering Seed Capital and more coherent, multi-regional capital. The research also suggested that mechanisms could be put in place to offer short-term support for companies currently experiencing financial difficulties due to the economic downturn. There were only two cases mentioned in which the stakeholder felt that the product was not considered suitable in the current economic environment. These stakeholders commented that investment capital had been considered far less attractive than Loans and working capital, and the interest subsidised Loans were perceived as ineffective in a low interest rate environment.

Disbursement of funds

The research data provided by case study interviewees does not allow for in-depth analysis of progress due to the different reporting styles of MAs and FEI Managers, but it appears that in terms of financial and other outputs, progress varies depending on the type of product, management structure, and maturity of the FEIs. Non-financial outputs are only likely to be available after the completion of projects.

Based on the research data provided by HF Managers, agreements with FEIs through Financial Intermediaries were signed for about 60% to 70% of the available funds, of which approximately one third of the available funds have been disbursed to Final Recipients to support entrepreneurial activities. Although the activities of individual FEIs under HFs had commonly been concentrated on setting up the funds, almost all respondents expected to be able to disburse the funds by December 2015.

Some FEIs outside of HFs have indicated that the targets have already been reached or exceeded in terms of number of companies supported or jobs created, while others have indicated that they have only partially reached their goals or were slightly behind schedule on their plans. FEIs outside HFs did not describe the type of disbursements, but had committed between 36% and 98% of funds, according to the data provided, with the majority of FEIs having committed over 80% of funds. Approximately 30% of the respondents did not have information available on disbursements to Final Recipients.

6.1.2. Indicators

The performance of Article 44a FEIs is measured against output indicators and result indicators with horizontal indicators occasionally used for some Equity instruments. FEIs operating under HFs specified fewer exact quantitative indicators in response to the survey, or have not specified indicators at all as these were confidential.

The most commonly used indicators are <u>underlined</u> in the list of indicators below.

Output indicators

- <u>Number of companies supported or Loans issued by priority area</u>
- <u>Co-investment rate</u>
- Indicators related to Additionality – in other words, would the projects have been implemented without support and/or would it have been implemented to the same extent?

Result indicators/ development of supported companies

- Jobs created / safeguarded
- Growth of turnover or revenue (also growth of export turnover)
- Survival rate of entrepreneurs and growth rate of the companies
- Number of entrepreneurs expanding their business through the funding received.

Horizontal indicators

- Equality: the number of women entrepreneurs supported, the number of women employed; and the number of minority entrepreneurs supported
- Number of environmental projects

Based on the research data, most Final Recipients do not have issues with providing indicator information to FEI Managers to monitor progress. It was reported by the Final Recipients that reporting regular progress was part of the conditions for receiving financing through FEIs, and many Final Recipients felt that the requirements were comparable to other national and ERDF schemes. In approximately 40% of reported cases, only financial documents were required, and in some cases, there were no mandatory reporting requirements. There were two cases in the research data that the Final Recipients felt that the reporting requirements caused an additional administrative burden. In one case, the requirements were judged as too strict and in another, the Final Recipient felt that the reporting requirements were unrealistic because of tight timeframes.

6.1.3. Implementation issues

This section synthesises the responses received regarding the critical factors affecting FEI implementation. As many funds are in the early stages of implementation, the experience to date and feedback mostly pertains to the setting up and the early phases of implementation.

Deviations from plan

For Article 44a FEIs, the most important reason given for deviations from plans was the **economic crisis**. Because of the crisis, some FEIs have had a slow start or experienced a decrease in demand, although other FEIs have conversely experienced an increase in demand, particularly with Loans schemes as commercial banks have become more reluctant to lend to riskier projects.

The table below groups by FEI implementation milestone some of the general deviations from the plan that were found to have occurred.

Table 9 - Deviations from plan

Milestone		Main causes of deviation from plan
1	Preparatory Phase	• Uncertainty in the regulatory framework and changes in the EU legislation, led to the need to seek clarification (which sometimes was then seen to be contradictory), leading to long discussions. The regulations were seen as being better suited for Grant funding and not easily applicable to feis • Legal, eligibility and commercial complexity of chosen structures, necessitated long consultation and negotiation • Discussions regarding the best FEI structure and implementation • Time for studies to examine the impact of potential funds, fund structures and costs • Changes in market demand • Changes required in national legislation • Reprioritisation of national resources, delaying national approval • Delays in agreeing approach to State Aid
2	Funding Agreement Level I with the HF	• Negotiation of Funding Agreement with HF manager taking longer than expected (e.g. Discussions with regard to practicalities of proposed conditions, uncertainty over terms, negotiation of terms). However, it was felt these lengthy discussions paved the way for faster implementation of remaining processes and were considered necessary in hindsight • Knock-on effects from delays at stage 1 • Selection of operation took longer than planned
3	Establishment of Governance Structure	• Changes in local/regional representatives e.g. Due to elections, restructuring
4	Call for Fund Manager	• Procurement issues (no detail supplied by respondents) • Delays in appointment by government of investment board
5	Selection of Fund Manager	• Length of time taken to evaluate tenders for position of tender evaluation adviser, before the full procurement could take place, and length of process due to number of tenders submitted • Complex nature of legal documents being negotiated
6	Signature of Funding Agreement Level II	• Knock-on delays from earlier stages e.g. Approval process and discussions on the provisions of the funding agreement, negotiations with the fund manager, and continuing factor that establishing the setup and governance structure and legal work was more complicated than expected
7	Disbursement from MA to FEIs	• Knock-on delays from previous stages and continuing factor that establishing the setup and governance structure and legal work was more complicated than expected
8	Disbursement from FEI to Final Recipients	• Delay in finding private sector co-financer on a *pari passu* basis, Fund could not make investments until that took place • Economic downturn and change in market conditions

Source: Research Data, 2012

Some of the procedural issues, for example clarifying regulations, were recognised as being unable to be resolved by MAs or FEI Managers and required resolution at EU level. Others were resolved through lengthy discussions with DG REGIO on the interpretation of the eligibility rules, the issuance of national guidance and the COCOF guidance notes, modification of the Implementing Regulations, amending investment strategies, amending financial conditions, adjusting indicators, adding new target groups, and generally through experience gained in an area that was new to some of the MAs involved.

To mitigate the cultural difficulties in terms of the financial sector understanding public sector policy priorities, direct cooperation and involvement with banks' decision-makers was found to be important to ensure an understanding and respect of mutual social and financial priorities. In one case it was observed that developing FEIs for SMEs, although time-consuming and difficult, has had a positive impact on the development and capability of Financial Intermediaries.

Legal Issues

In terms of legal issues, the main factors reported had to do with legislative issues on EU level, for example Structural Fund legislation, MS level and legal issues between EU and MS e.g. State Aid issues. It should be noted however, that several issues that have been reported as 'legal issues' are in fact more managerial issues and have been added to that respective section.

Where possible some of these challenges were overcome by modifications to national legislation, expert work carried out by legal firms, through lengthy and difficult negotiations; or through the responsible people in the government making the decision at their own risk in order to save time.

Management Issues

In terms of management issues, the main factors reported by MAs and FEI Managers as contributing to delays included:

- The lengthy process of setting up management structures and selecting financial intermediaries;
- Long discussions with stakeholders, due to the involvement of a high number of institutions and the complexity of the structures;
- The significant period of time required to win the confidence of private sector investors that the funds would act in a sufficiently commercial manner in terms of speed and nature of investment choices;
- Limited experience and knowledge of national authorities;
- Additional checks due to State Aid issues;
- Need for clarifications, reaching common understanding of legal provisions (regulations) and difficult communication to follow this up;
- Setting up the information and monitoring structure.
- Control issues, between the national level and the regional level, as to ownership of the fund and its resources, or between national authorities and the EIF. This caused

difficulties in completing the Funding Agreement with the EIF, or agreeing on the FEIs to be chosen;

- Commission guidelines were considered by some to be inflexible, preventing support for what MAs would like to do (e. g. prohibiting combining Loans and subsidies in one operation);
- Uncertainty over public procurement call procedure
- Issues relating to the terms and conditions of the HF;
- The EIF taking on legal issues on behalf of the MA, who lacked know-how, but there were some delays in clarifying these issues subsequently with the MA.

The problems described above were solved by a variety of means, including through discussions with the Commission, political intervention and careful negotiations between various stakeholders involved including the MAs and Fund Managers.

Funding Issues

The main area of difficulty cited by MAs was attracting private sector participation. Although this has been an issue more generally for all types of instrument due to the economic crisis, the difficulty of mobilising private investors' funds in the case of Equity instruments was highlighted. Financial Intermediaries claimed that they needed more flexibility in mobilising and managing the funds than is possible with ERDF-funded FEIs. Fund Managers also found the task of having to 'overcome perceptions that the public sector was slow and took poor decisions' to be very challenging. Solutions included awareness-raising and more targeted marketing, finding ways to raise Co-investment on a case-by-case basis, or reducing funding allocations to individual instruments and moving funds back to the HF/reallocating funds. In a number of cases, no solutions have yet been found to the issues cited.

Final Recipient feedback

Feedback from the Final Recipients who responded to questions regarding Article 44a FEIs reveals that the application process was found to be relatively straightforward, particularly where the applicant had dealt with similar bank products in the past, or had already built up an established relationship with the administering bank or financial institution. Financial Intermediaries were cited as having played a fairly strong role in smoothing the application process. The length of the application process varied widely among the Final Recipient interviewed, with a period of six months mentioned most frequently. Eligibility requirements and scheme objectives were generally found to be reasonable and understandable, with information provided to applicants clear and thorough.

6.1.4. Added value and challenges of FEIs

The added value of using FEIs as compared to Grants within Structural Fund programmes and the areas with potential for improvement identified by **MAs and Fund Managers** during the research have been summarised below.

Table 10 – Added value and challenges of FEIs

Added values	Areas for improvement
• Filling the funding gap and increasing access to finance for target SMEs • Revolving character • Flexibility and adaptability of the instrument to the actual needs of the market / SMEs • Mobilisation of private resources, financial sector involvement and high Leverage Effect • Systemic approach to increasing cooperation and trust between different sectors and utilising and transferring know-how • Local knowledge, engagement and fit with regional economic strategy • Tailored support for SMEs and financing can be combined with business support • Permanent system for supporting SMEs and development of VC market • More cost effective management • Quick disbursement of funds, absorption and less distortion of competition • Supporting competitiveness, innovation and entrepreneurship and creating employment (orientation towards innovative enterprises which otherwise would lack funding) • High number of recipients and more effective implementation of projects • Use of HF structure can provide flexibility	• Complex and time consuming administration and set up • Need for greater clarity and agreement on interpretation of the eligibility rules and legislation • Too much uncertainty in regulatory framework • Regulatory framework of the banking system needs adjustments/clarifications • Inflexibility of some HF processes • Clarity and transparency on expected management costs • Inability to combine several products • Implementation in long periods and maturity of investments • Management of HF in some cases seen as expensive • Reimbursement of funds • Obligation to have private Co-investors or difficulties to attract private Co-investments

Source: Research Data, 2012

All **Final Recipients** surveyed, bar two, would use FEI financing again. FEIs added value, particularly for Venture Capital, as Final Recipients found that it was difficult to find other sources either because it was not available, or because they did not meet the eligibility requirements of other financing options.

In particular, FEIs were seen to meet the needs of start-ups, and had certain advantages, such as being able to receive both resources and expertise, compared to other instruments. Furthermore, FEIs were viewed as transparent, easy to manage and made additional funding available through their reputation and regional market knowledge.

In terms of areas for improvement, Final Recipients found fulfilling all the requirements to be exhausting, and the application process to be time consuming. It was widely suggested that control mechanisms and eligibility rules should be simplified. Final Recipients believed that the products should be made more flexible to meet the actual needs of SMEs and the changing market environments.

Some Final Recipients viewed FEI Loans as expensive and others would have liked to have had access to Seed and Start-up Capital at an earlier stage. Other suggested that higher amounts of capital or bigger and more flexible Loans or Guarantees and long term credit or working capital might be useful.

6.1.5. Lessons learnt

The most important lessons for the next programming period are that FEIs are innovative and effective tools and have added value and a positive impact on business. **MAs, HF Managers and Fund Managers** appreciated the experience gained in this period, and understand that the results and successful implementation of FEIs takes time.

Based on the case study interviews, lessons learnt that might help to fully utilise FEIs' potential were:

Positives:

- Although it brings other advantages and in response local offices were established in all of the countries where EIF is involved);
- The JEREMIE conferences and JEREMIE Networking Platforms were useful, however, spreading best practices should have more emphasis; and
- When planning the instrument there is a need for in-depth market analysis as well as incorporating flexibility in FEI design (e.g. ability to move monies around and de-commit capital as appropriate in response to the changing market environment), therefore, the market assessments proved to be valuable.

Areas for Improvement:

- Detailed guidelines and clear and simple rules e.g. eligibility rules, should already be in place before starting implementation;
- The international position of the EIF means that it is sometimes thought to not fully understand local needs;
- Less rigorous audit and procedural requirements, as well as flexible in the regulatory framework concerning implementation such as eligibility requirements would be preferred and actions have already been undertaken by the Commission to address this;
- Management of FEIs (both under and outside a HF) should be left to the institutions with relevant experience, and there is a need for capacity building in the supply chain (e.g. national institutions, regional agencies, Financial Intermediaries) and;
- Time-management of the implementation process could be improved to accelerate the disbursement of funds to Final Recipients.

FEI Managers also emphasised the importance of standardised indicators and monitoring systems, which should be put in place before the start of the next programming period.

Generally, **Final Recipients** would have appreciated more training and information to be provided on the required documentation, the application procedures, eligibility criteria and the added value for the company. It was suggested that FEIs could be marketed more widely in order to increase awareness. Some suggestions were made about streamlining the process of signing contracts. Final Recipients suggested that the size of FEIs in terms of amount of resources available within the existing FEIs should be increased in order to better support innovations and SMEs.

6.1.6. Summary

Based on interviewees' experiences, FEIs have made good progress to date and have reached their target groups because of active awareness raising efforts and good cooperation with different stakeholders. Furthermore, there has been a high demand for FEI products; they make more funding available and lower the cost of funding for SMEs and reduce the risk of private investors.

The single most important reason given for deviations from plan was the economic crisis. Because of the crisis, some FEIs have had a slow start or faced a decrease in demand, although for other FEIs it was a great opportunity to meet the market demand and make changes to initial focus.

The results and successful implementation of FEIs takes time. In order to utilise FEIs' potential, it is seen as important to have more detailed guidelines for implementation and regulations that were fit for purpose already in place by the beginning of the programming period as well as sufficient indicators and monitoring systems. There also needs to be the flexibility to be able to respond to market changes.

7. ARTICLE 44b & 44c FEI ESTABLISHMENT & IMPLEMENTATION

This chapter sets out a description of the implementation of Article 44b and Article 44c FEIs within the current programming period 2007-2013. It synthesises the responses received on progress with FEI implementation from the Internet survey and the in-depth material gathered through the interviews with national-level officials, as well as the detailed case-study research.

7.1. Article 44b FEIs

Article 44b FEIs were only introduced at the beginning of 2007 for the current period, and to date, only 11 MSs have implemented Article 44b FEIs to support urban development. Apart from the novelty of these instruments, there are also issues around the higher level of complexity of the urban sector and the longer time frames required for implementation; typical urban regeneration projects and developments can span decades.

7.1.1. Progress to date

Article 44b FEIs are generally in the early stages of implementation and few FEIs have disbursed any funds. However, it is felt that the Article 44b FEIs address market failures in financing to support urban development projects. Furthermore, it is felt that there is high demand for the products offered through the FEIs due to their favourable credit conditions, given the current economic climate. Pro-active marketing had also been carried out in which target groups were searched out. Good awareness of the FEI was thought to have been raised through information campaigns, active promotion and seminars, and there was cooperation between different stakeholders (e.g. commercial banks) and Fund Managers.

According to the research, the products were considered to be both attractive and appropriate based on the research data. This was mostly due to market demand, flexible application criteria and, where applicable, favourable Loan conditions. Stakeholders felt that the products could be even more attractive if target groups were less restricted and they were not competing with Grants for urban development from other sources. The funds are also expected to become more attractive in future, when the FEI culture matures and public institutions are able to generate more suitable projects. Furthermore, it was too early to assess the progress of FEIs because most of them are in early stages of implementation. Most FEIs have focused on establishing investment structures and the actual investments in projects have been slower than originally planned.

7.1.2. Indicators

The performance of Article 44b FEIs is measured against output indicators and result indicators. The most commonly used performance indicators are <u>underlined</u> in the list below.

Output indicators

- <u>The amount of funds disbursed</u>
- <u>The number of projects financed or Loans issued</u>
- Sums allocated from the programme to increase energy saving per annum

Result indicators

- Number of buildings (apartments/square metres) renovated
- Square metres of brownfield regenerated/revitalised surface area
- Energy efficiency achieved or reduction of CO2
- Number of jobs created

Final Recipients view reporting requirements as standard and do not have any problems with meeting the content-related or financial reporting requirements. Only in one case were these judged as burdensome. In addition to reporting requirements, the project checks are thought to be necessary and are not felt to have caused any additional burden for Final Recipients.

7.1.3. Implementation issues

As many FEIs[50] under or outside of HF are in early stages of implementation, their experience to date, and feedback pertains to this stage of the implementation.

Deviations from plan

For Article 44b FEIs, the main reason for deviations from the original plan was a delayed start to implementation which was often due to the novel nature of the FEIs. An enormous cultural shift was required in order to get private banks involved with Structural Funds and Urban Projects used to the idea of not being Grant funded. There was also a decreased demand for these FEIs due to the economic crisis.

Table 11 – Deviations from plan

Milestone FEIs		Main causes of deviation from plan
1	Preparatory Phases	• Lack of experience with Article 44b FEIs at a regional and national level • Number of preparatory studies to be carried out, especially because this kind of instrument was new and initial experience needed to be gained which took time • Complex regulatory framework, difficulties with State Aid • Political approval processes • Lengthy preparation of tender documents as agreement had to be reached with numerous stakeholders • Difficulties in reconciling the views and interests of a diverse range of stakeholders
2	Signing of Funding Agreement Level I with the HF	• Queries over Funding Agreement conditions and regulatory requirements • Complex legal agreements • Working to reflect national/regional specificities in the HF structure/management • Long negotiations

[50] This section describes implementation issues for FEIs both within and outside a HF structure. Where FEI is mentioned in this section, this relates to both options (under or outside a HF).

Milestone FEIs		Main causes of deviation from plan
3	Establishment of Governance Structure	• Process for getting agreement of required stakeholders e.g. open tender process required in some regions • Changes in representatives e.g. due to elections, restructuring
4	Call for Fund Manager	• Lengthy procurement procedure
5	Selection of Fund Managers	• Delay in advertising the post due to local elections and the wait for political approval • FEIs seeing ERDF compliance as an impediment to their investment goals, causing procurement difficulties
6	Signature of Funding Agreement Level II	• Knock-on delays from Stages 1-5 • Complexity of the Funding Agreement, and length of negotiation with UDFs • Negotiations between HF Manager and Fund Manager • Cultural change process with the financial entities • The need to implement specific provisions in the Funding Agreement to avoid risk as UDF manager is a private body
7	Disbursement from MA to FEIs	• Delay in the preparation of necessary documents and UDF preconditions
8	Disbursement from FEI to Final Recipients	• Difficulties finding and selecting sustainable urban development projects, that meet all of the ERDF criteria • Immaturity of schemes coming forward, plus uncertain and highly cautious/risk market for additional private sector financing of urban projects • Deals taking longer than envisaged to structure and close e.g. When projects were not fully investment-ready • Some potential pipeline projects fell away due to the economic crisis • There was sometimes a low appetite for FEIs compounded by the fact that the delivery mechanisms for FEIs can take longer than those for Grants and Final Recipients who haven't used them before can fear that they may be more onerous

Source: Research Data, 2012

'Learning by doing' solutions to the identified issues were found through building-up experience and improving communication channels for better transfer of know-how and expertise on general management and implementation issues. Collaboration with the EIB was also mentioned as being particularly helpful, especially at the earlier stages prior to setting up Article 44b FEIs. Respondents felt that discussions between MAs and the EIB facilitated the establishment of FEIs as moving from the world of grants to setting up funds requires a new skill set. Other solutions included widening the scope and duration of the instrument; undertaking targeted publicity and marketing campaigns, in particular advising municipalities; promoting legislative changes; developing guidelines by the MA; and the hiring of external expertise with experience of managing EU funds. In one case, a lot of resources were put into building a solid project pipeline, including having a dedicated staff member to advise and provide support in re-shaping projects to get them 'investment ready'.

Legal Issues

In terms of legal issues, the main factors reported had to do with ERDF legislative issues on EU level, MS level and legal issues between EU and MS such as State Aid issues. The main issue reported as contributing to delays was the length of time it takes to complete international contracts due to national legislative requirements. It should be noted, however, that several legal issues that have been reported by the research data as 'legal issues' are in fact more managerial.

Some of these legal issues were solved by having on-going discussions with the Commission and by making necessary amendments in the OP. To aid with the acceleration of FEIs deployment, the Commission made changes to EC General Regulation No 1083/2006 in 2009, and in some cases, new national legislation was adopted.

Management Issues

Private sector Fund Managers tended to consider public sector administration procedures 'heavy' and not 'business oriented'. Beyond this, the main issues reported by MAs and FEI Managers were:

- Incompatibilities with national legislation;
- Public procurement issues;
- Issues and a long decision-making process around Article 55 on revenue-generating projects
- Discussions and negotiations around the definition of Co-financing;
- For EE investments in housing, there was initial uncertainty as to whether measures could be justified under the housing or energy efficiency criterion.

The aforementioned issues were solved by a variety of means, including through discussions with the European Commission and clarification through COCOF guidance notes.

Funding Issues

The funding issues reported in the research data included local staff not having sufficient knowledge and experience of working with FEIs. There were also difficulties with mobilising private Co-investment. Because the Article 44b model is new and had not been tested, private investors were initially hesitant to take on the risk. It was thought they would rather invest in projects directly rather than through funds of funds. Some stakeholders reported that there were difficulties in raising the required Co-financing in certain MSs.

Where these challenges could be addressed by MAs or HF and Fund Managers, action included working to reassure private sector partners.

Final Recipient feedback

The feedback from Final Recipients suggest that the application process was found to be relatively straightforward, with sufficient and appropriate information provided, but entailing a considerable administrative burden in terms of the required supporting documentation. Several Final Recipients reported that they had to enlist external assistance with this aspect of the application procedure, which was found to be too time-consuming. Difficulty with finding private finance was mentioned several times as having been a constraint to the process of preparing an application. The length of time taken in the application process varied very widely, from one to eight months. Although time-consuming, Final Recipients found the application criteria to be reasonable overall.

7.1.4. Added value and challenges of FEIs

The added value of using FEIs as compared to Grants within Structural Fund programmes and the areas with potential for improvement have been summarised below.

Table 12 – Added value and challenges of FEIs

Added values	Areas for improvements
• Revolving character of funds and support to sustainable urban investment • Improve economic, urban and local development while contributing to social cohesion targets • Fulfils considerable market gap in the financing for urban development projects and motivates private sector to invest more actively in urban development • Flexibility (e.g. to structure and to add funds) and possibility of multiple use of fund • Utilisation of local knowledge • Institutional capacity and experience gained from FEI implementation • Improves cooperation between private sector and public bodies (city officials) and makes PPPs more popular • Potential for Grants and FEIs to be combined as well as financing with other forms of support • Integrated projects aiming to improve economic development, urban and local development and social cohesion. • Application process easy for Final Recipients • Decision to cooperate with EIB gives valuable expertise and capacity, helps to structure process and ensures proper communication with EC	• Lack of assistance in preparation of technical documents • Long time needed for set up and take off • Lack/delay of the guidelines necessary for the implementation of Article 44b FEIs resulted in difficulties in the implementation of specific projects. • Need to stimulate latent demand and lack of awareness because of young FEI culture in the urban sector • Management of HF in some cases seen as expensive and lacking flexibility • Difficult to attract private investors • Geographical constraints • Restricted time for the disbursement of funds

Source: Research Data, 2012

Although areas for improvements were listed, FEI Managers stressed there is considerable demand for this type of fund to support urban development projects, especially in light of the current economic climate. However, many Urban Projects are not 'investment ready' to receive funding and this has subsequently caused delays with disbursements to Final Recipients.

7.1.5. Lessons learnt

In general, the experience gained from setting up and implementing FEIs in this programming period was considered to be extremely valuable. Because most FEIs were set up relatively late in the current programming period, and their availability on the market took some time, results and experience to date is expected to be capitalised upon during the next period. It is thought that the experience in the current programming period will help facilitate faster implementation of future FIs in the next programming period.

In the case study interviews, MAs and FEI Managers suggested that the following lessons could aid implementation in the next period:

Positives:

- Market Assessments proved to be useful; therefore, a detailed market assessment should be carried out when establishing the fund.
- Although it brings other advantages and in response local offices with dedicated local HF managers were established in some countries.

Areas for Improvement:

- Flexibility is very important i.e. ability to move funds around, de-commit capital as appropriate and allow the longest investment period possible.
- The international position of the EIB means that it is sometimes thought to not fully understand local needs.
- There should be close cooperation between the FEI Managers (i.e. UDFs) and the private sector with tasks being appropriately allocated between partners.
- Reporting procedures should be simplified. Adjustments in the regulatory framework would be appreciated.
- Many projects presented were still immature; municipalities need capacity building to help them design suitable projects and ensure they are investment ready. Awareness among public authorities on FEIs and their requirements should also be increased.
- Target groups should not be too restricted (allowing FEI funding to be truly complementary to private co-investors).
- Trust between public and private sector organisations is crucial for the implementation of Article 44b FEIs and actors should be aware of the complexity of such projects as well as the time needed and structures involved to make investments happen.

Most of the Final Recipients stated that they would make use of FEI again, simply because they were viewed as useful and innovative instruments. In general, Final Recipients viewed the current system as appropriate, but stated that FEIs should be open to a wider variety of projects, for example sport facilities as part of an urban development scheme. It was also suggested that products offered through the FEIs should be available for longer than the seven year timeframe of the programming period, and that as these instruments represent a new way of financing Urban Projects, project selection processes should take this into account (e.g. through offering sufficient timescales for applications, and assistance to project sponsors).

7.1.6. Summary

Article 44b FEIs are in early stages of implementation, few have reached the point of disbursing funds and most have focused on establishing structures. FEI Managers are optimistic regarding future progress, as there is thought to be a high demand for these FEIs to meet the current market gaps.

The slow start to the implementation of these FEIs was generally due to the novelty of the instruments which required new actors to get involved in the urban development sector and funding to be delivered in new ways. There is high latent demand for FEIs as there is an absence of financing for urban development projects due to in particular the economic crisis. However disbursements to Final Recipients have been slower than initially anticipated due to applicants losing other sources of finance due to the economic downturn. Setting up FEIs requires a long time and experiences from the current period and 'learning by doing' were valuable. FEIs are expected to become more attractive in the future, when FEI culture and suitable projects mature and are able to build on their potential.

7.2. Article 44c FEIs

This section describes the implementation of FEIs under Article 44c, but also includes descriptions of the implementation of FEIs under Article 44b which were specifically aimed at energy efficiency improvements, as these were mostly set up under Article 44b before the formalisation of Article 44c FEIs[51].

7.2.1. Progress to date

DG REGIO's Summary Report 2012 indicates that there are a total of 15 Article 44c FEIs in operation supported by 12 OPs in five MS, including six operating in the United Kingdom; four in Italy; two in both Germany and Greece; and one in Estonia[52]. One of the earliest examples and relatively best known FEIs under Article 44c is the Loans for Reconstruction for Apartment Building Programme (LRABP) in Estonia. Established in 2009 and managed by the national Foundation Kredex, according to the Summary Report 2012 the LRABP is a €42

[51] This section takes a different view on the formal number of FEIs under Article 44c from the findings on 'FEI for energy efficiency and renewable energies' as stated in the report 'Summary of data on the progress made in financing and implementing financial engineering instruments, sent by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006', European Commission DG Regional Policy and DG Employment, Social Affairs and Equal Opportunities, December 2012

[52] The Estonian case is a typical example of a FEI focused on energy efficiency that was however set-up before the formal adoption of Article 44c. According to the DG REGIO Summary Report 2012, the Estonian fund is under Article 44c.

million HF, including €17 million of ERDF OP contributions. Overall, 100% of the available FEI allocation has been disbursed to projects in which 391 loans were offered to Final Recipients.

Although formally established under Article 44b, some FEIs have a strong focus on increasing energy efficiency in the built environment. These were often set up before Article 44c was introduced into the regulations. Examples of these FEIs are the Fund for Energy Efficiency (Exoikonomo kat'oikon) in Greece; the London Energy Efficiency Fund (LEEF) in the United Kingdom; the JESSICA Holding Fund in Lithuania; and the 'Housing Renovation Fund' (HRV) in Bulgaria.

7.2.2. Implementation issues

Energy efficiency retrofit projects under Article 44b or Article 44c FEIs have encountered various challenges in their implementation.

In most of the existing cases where FEI focus on energy efficiency, additional private Co-Investing was required, which initially proved to be difficult, but these challenges have been overcome. In general, there is felt to be a need for more flexibility to allow FEIs to shift funds between instruments.

In addition to flexibility, there is also a need to be realistic about the complexity of such projects and the time and structures involved to make investments happen. Based on experience, it has taken between up to two years to set-up FEIs focused on energy efficiency or renewable energy.

Furthermore, there is a preference, although small, to not have restrictions around the date of construction as a requirement for the funding as this does not necessarily correlate to the way energy efficiency measurements work.

There was a significant amount of resources required for marketing and awareness-raising campaigns to reach targeted groups. However, because of the administrative burdens on Final Recipients due to the volume of update and progress reporting required to the Fund Managers, there is a view that more is needed to encourage Final Recipients to participate in the programme.

7.2.3. Summary

While there are currently fewer Article 44c FEIs than Article 44a and Article 44b FEIs, there are indications that interest in this thematic area is growing. The response shows a positive response to Article 44c FEIs because it encourages home owners to make their houses more energy efficient, and generally to make investments in their property. However, there have been challenges in implementing these instruments and lessons to be learnt for the next programming period. These challenges are similar to those experienced by Article 44b FEIs, and are not listed separately here due to the limited number of Article 44c FEIs formally established in this programming period and the corresponding low levels of data.

8. THEMATIC SCOPE FOR FIs, 2014-2020

This chapter identifies sectors where there is the potential to use FIs to support the eleven Thematic Objectives proposed for Cohesion Policy in 2014-2020. These Thematic Objectives are:

- Strengthening research, technological development and innovation
- Enhancing access to, and use and quality of information and communication technologies
- Enhancing competitiveness of SMEs, the agricultural sector (for European Agricultural Fund for Rural Development (EAFRD)) and the fisheries and agriculture sector (for the European Maritime and Fishery Fund (EMFF))
- Support the shift to a low- carbon economy in all sectors
- Promoting climate change adaptation, risk prevention and management
- Protecting the environment and promoting resource efficiency
- Promoting sustainable transport and removing bottlenecks in key network infrastructures
- Promoting employment and supporting labour mobility
- Promoting social inclusion and combating poverty
- Investing in education, skills and lifelong learning
- Enhancing institutional capacity and an efficient public administration

The aim of this chapter is to identify the extent to which FIs are currently being used in pursuit of these Thematic Objectives in EU27 and more widely, and where possible draw lessons from experience with their implementation.

This is followed by an assessment of MAs' interest in extending the use of FIs into these thematic areas in 2014-2020. Some examples of existing FIs relevant to the 11 Thematic Objectives are included briefly within this chapter. More examples have been listed in Annex 4.

8.1. Lessons from Other Revolving Instruments

The use of non-Grant financial instruments in economic development policy is not a new concept; many countries within and outside the EU have operated such instruments for decades. The importance currently attached to these can be partly explained by budget pressures at all levels of government and by the general political move away from providing aid to business in the form of Grants. In general, however, it is difficult to assess the scale and importance of the use of such revolving instruments, because they often tend to be operated at the subnational level and 'at arm's length' from public policymakers, albeit with public funds.

Looking across the EU, the use of ORIs is well-established in a number of MSs, and considerable experience can, for example, be found in Denmark, Finland, Germany, Spain and the United Kingdom. In other MSs, such instruments are not normally used; this is generally the case for small countries, such as Cyprus and Luxembourg.

In other groups of countries, ORIs are in relatively early stages of implementation, for example in Lithuania. While Cohesion Policy provides the context for operating the instruments in many cases, and Structural Funds provide Co-financing as in the FEIs surveyed and reported on in previous chapters of this Study, some MSs have decided to mainly rely on initiatives that are funded solely from national sources, for example Austria and Finland.

The reason for setting up ORIs is often a general demand for finance from private firms, notably SMEs, as well as the need to involve banks to a greater extent in the financing of development interventions. EU Structural Funds have, in recent years, been an important driver in promoting these instruments, notably in the Programming period 2007-2013 via the Article 44a, Article 44b, and Article 44c initiatives, as discussed in the previous chapters.

In addition, the economic crisis has aggravated concerns over the availability of finance to firms in some MSs. It has also highlighted the crucial role of business support in the form of interest rate rebates or Guarantee schemes. This was notable in MSs such as Poland and Portugal. As a consequence, measures have been stepped up in some MSs, for example in the Flanders region in Belgium, which saw an increase in the capital of SOWALFIN, the main provider of business finance. Norway witnessed a significant increase in Loan provision in 2009, reflecting the impact of the economic crisis, with support provided by Innovation Norway helping to fill the gap created by reduced bank-lending. In Luxembourg, a temporary Guarantee scheme was put in place in the framework of the recovery plan. Other recent centrally-steered initiatives have included the launch of an Innovation Fund in the Netherlands, a Business Angel Co-investment Fund in England targeted at areas most affected by public spending cuts, and a National Start-up Fund in France.

Many of the ORIs of long-standing are Loans and accompanying Loan Guarantees. For example, Austria, Germany, Finland and Sweden have been operating these for several decades. There is also some public sector involvement in Equity provision, but this tends not to be sectorally restricted, rather it is focused on support for high growth young companies, regardless of sector. The use of Micro Credit is also widespread, often with a social inclusion aspect, by means of a focus on the long-term unemployed and disadvantaged areas.

In the EU (and also more widely), most of the public sector's involvement in the provision of access to finance through ORIs is centred on the provision of general **SME and entrepreneurship support**. Indeed, the use of ORIs is an established part of broad SME policy in many EU MSs. In terms of general SME support, many EU MSs operate domestically-funded support mechanisms and have done so for many years. There are two long-standing forms of support to SMEs. The first is through development banks, for example, in Germany a number of regional banks are key lenders in the SME sector, such as the *Kreditanstalt Für Wiederaufbau* (KfW) the German government-owned development bank. The second is through Loan Guarantee schemes which are popular in a number of Organisation for Economic Co-operation and Development (OECD) countries – one example is the Italian Central Guarantee Fund for SMEs (see case study box below) which is considered successful from a cost perspective.

Italy – Central Guarantee Fund for SMEs

The Central Guarantee Fund for SMEs (F*ondo Centrale di Garanzia per le Piccole e Medie Imprese*) is managed by the *Banca del Mezzogiorno* and provides State Guarantees on bank Loans to SMEs. Although the Fund operates throughout Italy, its conditions are more favourable in the regional aid Article 107(3)(a) areas, as well as in areas covered by development contracts and similar forms of negotiated programming.

The Fund has operated since 2000 but has become more active since 2008 in the context of public efforts to enhance credit availability for SMEs. The Fund's resources have been increased (from €350 million in 2008 to €3 billion in 2014), and the scope of its operations has been extended in terms of eligible sectors and the amount that can be guaranteed (from €500,000 to €1.5 million and potentially €2.5 million). In addition, the Fund can now act as guarantor of last resort on behalf of the State if a public fund defaults. By 31 December 2011, the stock of Guarantees was €7.4 billion and the stock of underlying investments was €13.1 billion. In 2011 alone, the Fund approved over 186,000 operations (35% of these in the South) at a value of €17.8 billion (36% in the South), relating to investments of €33.4 billion (29% in the South).

Another common usage for ORIs is in support for **innovation**, through the provision of finance for technology-oriented firms, and support for R&D projects. There are examples of these in many EU MSs (and more widely in other OECD countries), both domestically funded and Co-financed through Structural Funds. Interesting examples include the work of the Finnish Innovation Fund, which provides funding for a wide range of innovative thematic areas, and the renowned *High Tech Gründerfonds* in Germany (see below).

***High-Tech Gründerfonds*, Germany**

High-Tech Gründerfonds is funded through a PPP between the German federal government, the KfW and German industry (ALTANA, BASF, B. Braun, Robert Bosch, CEWE Color, Daimler, Deutsche Post DHL, Deutsche Telekom, Evonik, Qiagen, RWE Innogy, Tengelmann and Carl Zeiss). It provides a high tech Seed Fund aiming to enable start-ups to take their R&D plans through to the preparation of a prototype, a 'proof of concept' or to market launch. The fund has been positively evaluated as having successfully contributed to reducing the financing gap for high tech enterprises, and it is considered to be the single most important seed investor in its market segment. It has succeeded attracting private capital and increased inflow of capital to start-ups.

More recently, the public sector has become involved in ORIs supporting the thematic areas of **low carbon and renewable energy**. There are also a number of examples of ORIs supporting **urban development**, which, although not included as one of the specific eleven proposed Thematic Objectives for 2014-2020, is an area of interest to many national, regional and local government bodies. It is interesting to note that one of the rationale for the introduction of Article 44b instruments through the JESSICA initiative was the lack of similar funding mechanisms at that time, and indeed many of the instruments in EU 27 operating in this area are Co-financed through Structural Funds. However, there are some interesting examples outside Structural Funds, for example, the *Stimuleringsfonds Volkshuisvesting* (SVn) (The Incentive Fund for Housing) in the Netherlands (see below).

***Stimuleringsfonds Volkshuisvesting* (SVn), Netherlands**

Stimuleringsfonds Volkshuisvesting (SVn), (The Incentive Fund for Housing) was founded in 1996 by Bouwfonds, a cooperative of municipalities for urban renewal. SVn is an independent non-profit financial partner that provides financial services for the central state, municipalities, provinces and housing associations as well as private sector partners and social institutions. SVn manages revolving funds with a value of nearly €400 million (2009) from which low interest Loans are provided for projects that contribute to quality of the physical living environment in urban and village centres. The fund has four main instruments:

1) Incentive Loans are aimed at providing funding for maintenance, renovation and restoration. They are customised products and the conditions are determined by municipalities.

2) Starter Loans are funded by municipalities, provinces, and housing associations and target first time buyers. The Loans bridge the gap between house prices and maximum mortgage facilities. The Loan is interest and repayment free for the first three years.

3) Sustainability Loans are low interest rate Loans for private home owners.

4) PlusLoans - SVn makes available part of its own assets (a maximum of €750,000 per project) to municipalities and provinces that have an account with them, for investment in projects that improve the quality of life in a neighbourhood or village. SVn stimulates private investment in socially desirable projects. These projects are often less rewarding to develop for commercial parties. SVn sees it as its task, in cooperation with participants and cooperation partners, to help realise these tailor-made projects.

It is worth noting that, outside of instruments Co-financed through the Structural Funds, very few ORIs in operation in the MSs have a **regional development aspect**, i.e. have support for the development of regions as their primary objective. Examples of domestically-funded ORIs with a regional development component include:

- **The Norrland Fund/*Norrlandsfonden*** in Sweden - established in the 1960s, *Norrlandsfonden* is a foundation that aims to promote the development of manufacturing and service enterprises in the five northernmost counties of Sweden; Norrbotten, Västerbotten, Västernorrland, Jämtland and Gävleborg. The Norrland Fund finances business, primarily SMEs, at start-up, development and expansion stage. Special interest is in the companies that invest in new technology or business areas with promising growth potential. The products offered include flexible Loans, convertible bonds, Guarantees and Grants (only for research and infrastructure projects). In addition to lending, the fund aims to shape the economic and VC infrastructure of the area.
- **ERP regional programme Loans in Austria** - The European Recovery Programme (ERP) Fund, set up in 1962, administers a range of support schemes for the business sector (e.g. low-interest Loans complemented by Guarantees). One of the main Loan instruments, the ERP Regional programme, provides low-interest Loans to enterprises in assisted areas.
- ***Fonds National de Revitalisation des Territoires* (FNRT) in France** - in 2008, the National Territorial Renewal Fund (FNRT) was introduced to provide Loans without Guarantees in employment zones affected by industrial restructuring.

As mentioned above, many EU MS (and other OECD countries) operate Micro Credit funds (e.g. Austria, Finland, the German Länder, UK) and these have an **employment** objective, and also sometimes a **social inclusion** component (by having a focus on the long-term unemployed or disadvantaged areas, for example).

Annex 4 contains examples of other ORIs operating within Europe and internationally in more detail, including lessons learned.

8.2. MA assessment of FIs for the eleven Thematic Objectives 2014-2020

The preceding section highlights how Member States are using revolving instruments outside the context of Cohesion policy to pursue a range of policy objectives. For the next programming period 2014-2020, the draft CPR Regulation opens the possibility of extending the use of FIs into the eleven Thematic Objectives. This section draws on the interview, case study and internet survey research to investigate whether those involved in the current round of FEIs would be interested in using FIs to support Thematic Objectives.

From the research, it appears that MAs are mainly considering establishing FIs around 'Enhancing competitiveness of SMEs' (28%), 'Research, technological development and innovation' (19%) and 'Supporting the shift to low carbon economy' (12%). A total of 21% of MAs are interested in using FIs to address the three Thematic Objectives around these sustainability issues. Thematic Objectives around social improvement appear to be felt by MAs to be areas which may be more difficult to support through FIs and so there is less interest shown in these.

Table 13 - Interest of MAs in Thematic Objectives for setting up new FI for Programming Period 2014-2020

Thematic Objectives Programming Period 2014-2020	Interest in setting up FI in next PP
Enhancing competiveness of SME	28%
Research, technological development and innovation	19%
Support the shift to low-carbon economy	12%
Protecting the environment and resource efficiency	6%
Promoting sustainable transport and removing bottlenecks in key network infrastructures	6%
Access, use and quality of information and communication technologies	5%
Other, please specify (= urban regeneration)	5%
Promoting employment and supporting labour mobility	5%
Promoting social inclusion and combating poverty	4%
Promote climate change adaptation, risk prevention and management	3%
Investing in education, skills and lifelong learning	2%
Enhancing the agricultural sector and fisheries	2%
Enhancing institutional capacity and efficient public administration	1%
Don't know yet	4%
Total	100%

Source: Internet survey (MAs)

Notably, all of the answers given in the category 'Other, please specify' gave details of plans for urban regeneration, despite this not being prompted. Respondents in the case studies have also mentioned this, along with social housing, as being an area of major interest for the next programming period.

On average 37% of the FIs which may be set up in the next programming period are Loan instruments, 21% are Guarantees and 42% are Equity instruments. There is one major deviation from this pattern; respondents expecting to set up FIs for 'Supporting the shift to low-carbon economy' have indicated a relatively more substantial focus on Loan instruments.

It has to be noted that with the Thematic Objectives primarily mentioned and questioned on, no further territorial aspects have been discussed or denounced.

In the case study interviews people mentioned that plans needed to be able to be flexible and they did not wish to be pinned down to any specific theme at this point. This could be because there were concerns about breaking down FIs according to the Thematic Objectives within regions or smaller economies as this could lead to FIs being created with too narrow a scope. Another frequently made remark is that there are opportunities 'everywhere/in all sectors' given that many sectors need support, often together with comments that there are opportunities in 'all revenue generating sectors/projects/products'.

8.3. Summary

In the EU, the majority of current public sector involvement in the provision of access to finance centres around general SME and entrepreneurship support, and support for technology-oriented firms. There has also been a recent increase in the use of instruments around low carbon and energy efficiency/renewable energy.

The Thematic Objectives that are most interesting to MAs in the next programming period reflect the focus of existing ORIs currently supported by government or other public institutions in the MSs. Thematic Objectives mentioned by MAs as being of particular interest for FIs in future programming periods were 'Enhancing competitiveness of SMEs' and 'Research, technological development and innovation'. Sustainability issues across several Thematic Objectives are also of interest. Urban regeneration was also suggested as an area to be supported by FIs despite the fact that it was not specifically mentioned in the survey. However, it should be noted that there is some reluctance to focus new FIs on a particular Thematic Objective or theme as the resulting FI could be too small.

9. TECHNICAL ASSISTANCE & CAPACITY BUILDING

The chapter discusses the TA and capacity building provided in the current programming period and identifies possible gaps in this TA provision. The future needs of capacity building and TA in the next programming period are also considered. A description of the methodology and how the data was obtained for this chapter is set out in detail in Annex 5.

9.1. Definitions of Technical Assistance

There are two types of TA under Cohesion policy: TA at the initiative of the Commission and TA at the initiative of the Member State (one part of the total programme budget of the OP). TA funded from the OP budget line is used to finance the cost of implementing the programmes themselves, including preparatory studies, monitoring, evaluation, and information and control activities. The TA budget line can also pay for administrative capacity to implement the funds at the national or regional levels. In addition, TA could also be used to support publicity, and communication strategies to promote the programme.

Capacity building, on the other hand, is any course of action and/or activity which has a view to increase the capability, skills, and knowledge of individuals and organisations to help improve the design and delivery of projects. Such investments in capacity building activities could take the form of staff training, knowledge dissemination or exchange of experience, or designing new systems, processes, and procedures to help organisations evaluate performance more effectively. It is important to note that while not all capacity building is strictly defined as TA; EU-funded TA should be designed so that it also builds the capacity of institutions. However, it must be noted that institutions will vary in the ability to process and use knowledge provided and this will affect the net capacity building effect. See Chapter 10 for more details.

In the TA section of the survey, a specific definition of "technical assistance" was not provided. The research data suggests that there are issues with the definition, understanding, and visibility of TA. The term "technical assistance", which should be interpreted as encompassing technical and financial advisory services, appears to be variously understood by different respondents, and this may have influenced their responses.

If the respondents only understood TA to be funded through specific Structural Fund OP budget lines or from EU Joint Initiatives, and did not consider other external TA funded from other sources, it is possible that the true levels of TA provided to MA, Fund Managers and Final Recipients may have been underreported within the data. A detailed breakdown of the representativeness of the data provided for this chapter can be found in Annex 5.

9.2. Types of Technical Assistance

TA in the context of FEIs is broadly divided into two camps: financial and non-financial advice. The research grouped TA activities into 9 major categories for this chapter in order to simplify the illustrations and graphs.

A. Financial Advice:

1. *Financial Advice:* Any form of financial advice to support the design and implementation of FEIs such as advice on structuring products or deciding on the mix of products. Management fee structures, the pricing of loans; and leverage ratios for Guarantees would all fall under this category. This could include identifying Co-investment opportunities although this could also be covered in the market assessments. Recipients of financial advice could include individual Fund Managers, MAs if they elect not to use the HF structure, and Final Recipients for structuring their finances.

B. Non-Financial Advice:

2. *Market Assessments:* These specifically refer to the Gap Analysis and Evaluation Studies carried out under JEREMIE for Article 44a FEIs and JESSICA for Article 44b, respectively. MAs are generally the primary recipients of market assessments; however, other stakeholders may find these market assessments useful.

3. *Marketing & Promotion:* This includes raising awareness of FEIs in general or marketing and promoting the HFs and FEIs to entrepreneurs or enterprises; private investors for Co-investment at the fund or project level; or prospective Final Recipients. TA in this category is generally directed towards MAs, HF/Fund Managers, and the general public.

4. *Legal Advice*: This form of TA includes legal advice on the design of FEI products; governance and legal structures for FEI Managers; compliance with the national regulatory framework; and/or the local rules governing FEIs for SMEs and urban development; as well as other legal considerations and operational implications. All stakeholders involved in FEIs benefit from legal advice.

5. *Compliance with State Aid and EU Regulations*: This form of TA includes support with State Aid rules and EU regulations to ensure that FEI structures and products are in compliance with EU-level direct management rules. TA in this category also includes a review of national legislative framework relating to FEIs. This may include guidance on management fees, winding up of FEIs, and treasury management.

6. *Selection of HF/Fund Managers*: This includes all forms of support and assistance with selecting suitable FEI Managers. Such TA could involve drafting ToRs; publicising the ToRs to the wider investment and financial services community; appraising proposals and investment strategies; assessing the compatibility with the OPs; and negotiating Operational Agreements.

7. *Project Selection & Bid Appraisal Process*: TA in this category includes establishing the processes, rules, and procedures related to the application process at the project level. This is focused on the process for selecting the Final Recipients who will receive the funding under Article 44 funds.

8. *External Monitoring and Evaluation of Progress:* This type of TA supports the systematic collection and analysis of information and reporting on status as the FEI progresses through the FEI implementation phases. It can also include assistance in evaluating progress by assessing the project outputs and impacts against the stated objectives of

the investment strategy. Additionally, it could also include on-site monitoring and auditing to ensure compliance with SF requirements.

9. *Support to Final Recipients for preparation of proposals to funds*: General TA provided to interested Final Recipients to help them apply for funding through Article 44 FEIs. TA could include providing general business planning and strategy advice, checks on the final application, and support in helping Final Recipients find additional sources of funding if required.

9.3. Overview of Technical Assistance, 2007-2013

9.3.1. Provision of TA

The internet survey and case studies showed that 39% of respondents from Article 44a FEIs received TA, compared to 58% of Article 44b FEIs respondents.

Article 44b FEIs were only introduced during the course of 2007, whilst Article 44a FEIs under JEREMIE were introduced since the adoption of the Regulations for the current programming period. Higher levels of TA appears to have been required for Article 44b FEIs to ensure their successful implementation, whilst also build necessary technical competencies amongst MAs and related government bodies. It should also be noted that the TA provided through the Article 44a under JEREMIE, particularly with Gap Analyses, stopped by the end of 2010.

FEIs can be implemented directly or through a HF structure. TA in the form of financial advice, project selection and bid appraisal, and support to Final Recipients are generally provided by the HF Manager if the FEIs operate under a HF agreement. Otherwise, if FEIs are managed separately, TA is generally provided by elsewhere. This is reflected in the research where if FEIs operated within a HF, 73% of respondents received some form of TA, compared to 19% of respondents with FEIs operating outside HF.

Whilst there are only 9 Article 44c FEIs in operation to support energy efficiency, some provision of TA was provided according to the case study interviews. Further need for TA is foreseen for the next programming period, however, to what extent and how TA will be funded is yet to be determined.

9.3.2. Recipients of TA

Out of those who responded to the interview survey, MAs and/or Intermediate Bodies received the most complete coverage of TA; 100% of those working with Article 44a FEIs and 93% of those working with Article 44b FEIs stated that they had received TA. MAs are responsible for managing and implementing the SF OPs. Therefore, it is not surprising that the majority of TA was directed towards MAs/Intermediate Body.

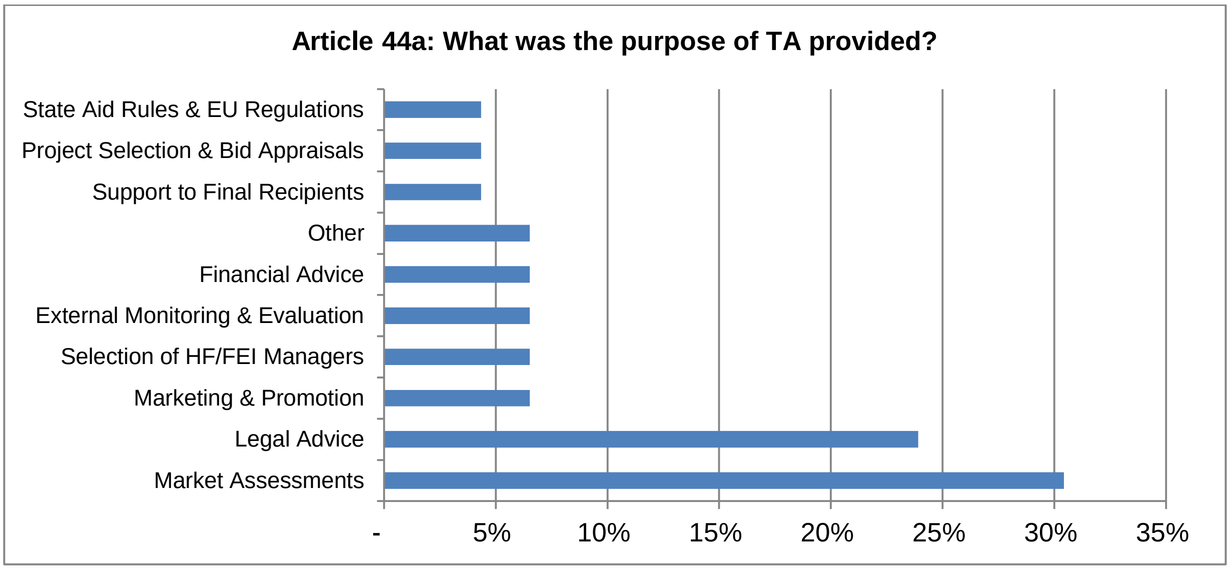
The responses to the survey also suggest that for Article 44a FEIs 40% of public sector organisations involved (for example, state-owned development banks) and 35% of private sector organisations applying to be Fund Managers received TA. In the case of Article 44b FEIs, proportionally more TA was provided to private applicants (36%) than to public applicants (7%) applying to be Fund Manager. TA was also provided to 21% of Final Recipients applying for funding through the FEIs. TA to these individuals could be guidance on State Aid and SF regulations, and financial and legal advice on structuring the investment policy.

9.3.3. Purposes of TA

Figures 3 and 4 provide an overview of the wide range of purposes for which TA was provided for both Article 44a and Article 44b FEIs divided by the purposes of TA by ranked from the lowest to the highest.

TA could be provided through the HF mandates and through the joint initiatives, such as JEREMIE and JESSICA. For both Article 44a (30%) and Article 44b (33%) FEIs the most prominent use of TA was for market assessments prior to the establishment of HFs. As discussed earlier, market assessments were provided to interested MAs who wished to explore the possibility of using some of its Structural Fund monies through a FEI. This, in part, explains the great demand for market assessments from MAs and Intermediate Bodies as they are the organisations likely to request such TA.

Figure 3 - Purpose of TA under Article 44a[53]

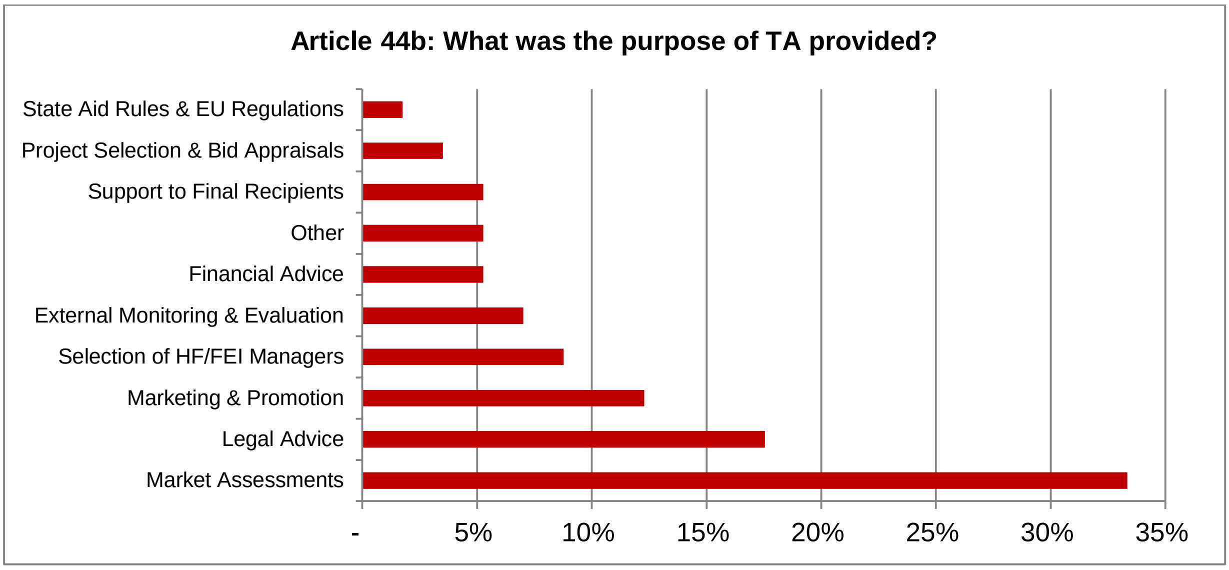


Source: Internet Survey and Case Studies

For Article 44a FEIs, Gap Analyses were well-received by MAs and thought to be critical to the success of Article 44a FEIs (30%). The next most common types of TA to be provided were legal advice (24%), followed by marketing and promotion, financial advice, and external monitoring and evaluation of progress (7% of the total number of responses). These were primarily delivered through one-to-one advisory meetings, workshops, seminars, and networking events.

[53] Note: Questionnaires included an open response if respondents selected 'Other' TA category. If the open response falls into one of the nine categories, then this was calculated in the total for each category. Otherwise, nil response were calculated as a standalone category.

Figure 4 - Purpose of TA under Article 44b



Source: Internet Survey and Case Studies

For Article 44b FEIs, apart from market assessments, other common TA provided was legal advice for FEI governance (18%), marketing and promotion (12%) and support for the selection of HF Managers and FEI Managers (9%). The TA received through JESSICA was perceived as 'good' or 'very good.' The respondents thought the support from the EIB was useful particularly in providing the framework for the decision-making process behind the take up of JESSICA. 'Other' category includes TA activities such as general awareness-raising and publicity about the OPs in general.

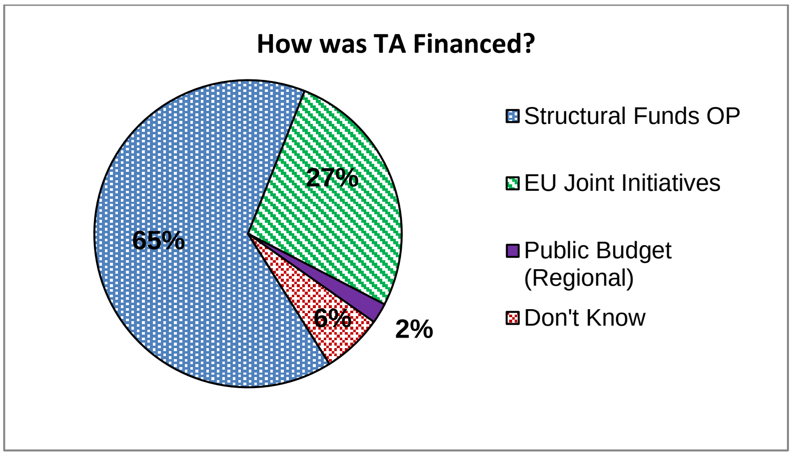
Thus far, it appears that TA has been 'front loaded' towards the needs of establishing FEIs. As many FEIs are at the early stages of implementation, particularly for Article 44b FEIs, this finding is not surprising. Support for monitoring and evaluation, assistance in project closure, and support for interim and ex-post evaluation may prove over time to be equally necessary, but this is not shown in the data, most likely because these services have not yet been needed.

For both Article 44a and Article 44b the quality of TA provided across the spectrum was rated as 'good' by 56% of respondents, whilst 25% rated the TA received was 'satisfactory'. Areas in which respondents felt that the TA provided was 'Not Sufficient' was in legal advice, particularly in support for HF legal structures. A small number of respondents felt that the market assessments were insufficient.

9.3.4. Financing Technical Assistance

The data presented in Figure 5 illustrates the sources of funding for both Article 44a and Article 44b FEIs combined.

Figure 5 - Financing of TA



Source: Internet Survey and Case Studies (Note: The graph represents both Article 44a and Article 44b FEIs)

According to the responses received, the largest contributions (65%) have come from TA at the initiative of MS (Structural Funds OPs), followed by TA at the initiative of the Commission (EU joint initiatives (27%)). A small percentage of TA activities across the spectrum were financed through regional public funds at 2%. No TA was reported to be funded from public budgets at the national or local levels. Some respondents were not aware of how the TA they received were financed.

9.3.5. Other Sources of EU financed Technical Assistance

With regards to niche sources of EU level support such as JASMINE, JASPERS, ELENA, and EPEC, only 13% and 8% of respondents from Article 44a and Article 44b FEIs respectively received TA from EU level specialist instruments.

TA from EPEC included advice on legal aspects for PPP projects financed under Article 44b FEIs. Several newly admitted MSs received TA through JASPERS, whilst a small number of FEIs focusing on energy efficiency received TA through ELENA to help MAs identify and prepare suitable projects.

9.4. Gaps in the provision of Technical Assistance, 2007-2013

Whilst the number of responses to this section of the survey was not large, research suggests that for Article 44a FEIs, almost 26% of all respondents felt that the application of TA could have been increased or improved. This view was echoed by 38% of respondents for Article 44b FEIs.

9.4.1. Reasons for TA Gaps

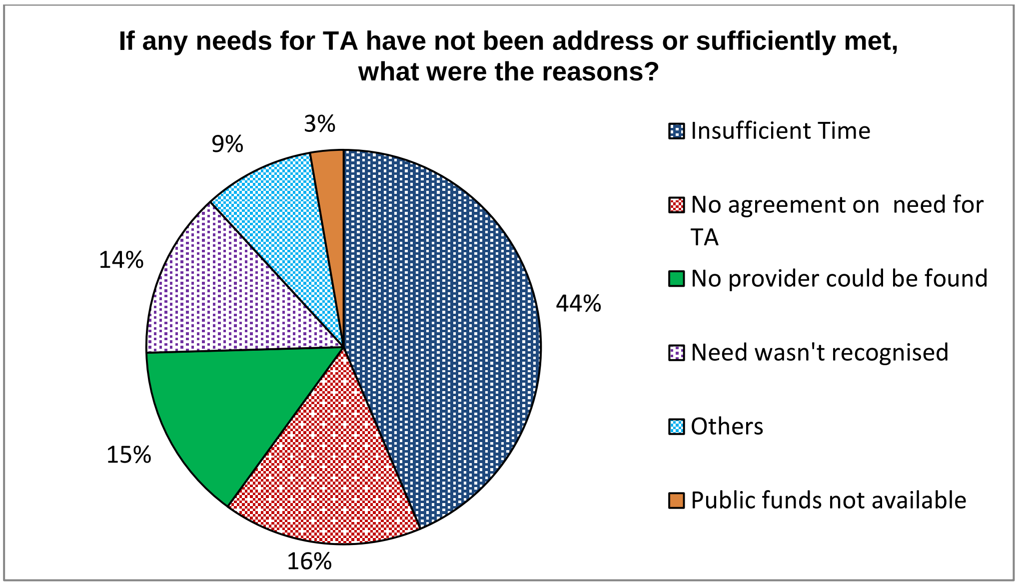
When considering the **reasons for gaps** in TA provision, the most prominent indicator that emerges is **insufficient time** in 44% of cases, and across all aspects of TA.

This issue of timing is reinforced by the fact that the need to support Final Recipients applying for funding from Article 44 funds, and to provide the appropriate level of TA to do so was not recognised in advance in 14% of cases.

The next most prominent indicator was a '**lack of agreement on the need for TA'** at 16%. In such cases, there were disagreements on the ability and capacity of stakeholders on the need for specific TA support prior to the implementation of FEIs. In addition, in some cases, funding for unforeseen TA was not ring-fenced in the Structural Fund OP budget line or in other public budgets.

In 15% of cases, **'no (suitable) provider could be found**' was mentioned as the reason for gaps in the provision of TA.

Figure 6 - Reasons for Gaps in TA Provisions[54]



Source: Internet Survey, Case Studies (Note: The graph represents both Article 44a and Article 44b FEIs)

9.4.2. Assistance from the Final Recipient's Perspective

The Final Recipients felt that the application process should be streamlined to make it administratively easier. Even though seminars on FEIs were provided to potential Final Recipients, it was felt that these seminars did not provide enough information on the application process itself or help to resolve some of the issues around State Aid and EU regulations.

Across both Article 44a and Article 44b FEIs, 72% of Final Recipients received support from the Fund Manager in preparing the application. This included general support throughout the application process such as clarifying eligibility criteria, issuing guidance notes for preparation of various documents, providing feedback on project proposals.

Approximately **55% of Final Recipients of Article 44a funds** also received external assistance from professional services firms to help develop business plans, undertake SWOT analyses, perform additional feasibility studies, or provide accounting services. One Final Recipient stated that the application process to receive financing from Article 44a was outsourced to a professional proposal writing firm as there was no capacity to do so internally. The majority, if

[54] Note that the data presented in the figure below represents both Article 44a and Article 44b FEIs as the number that responded to this section is low.

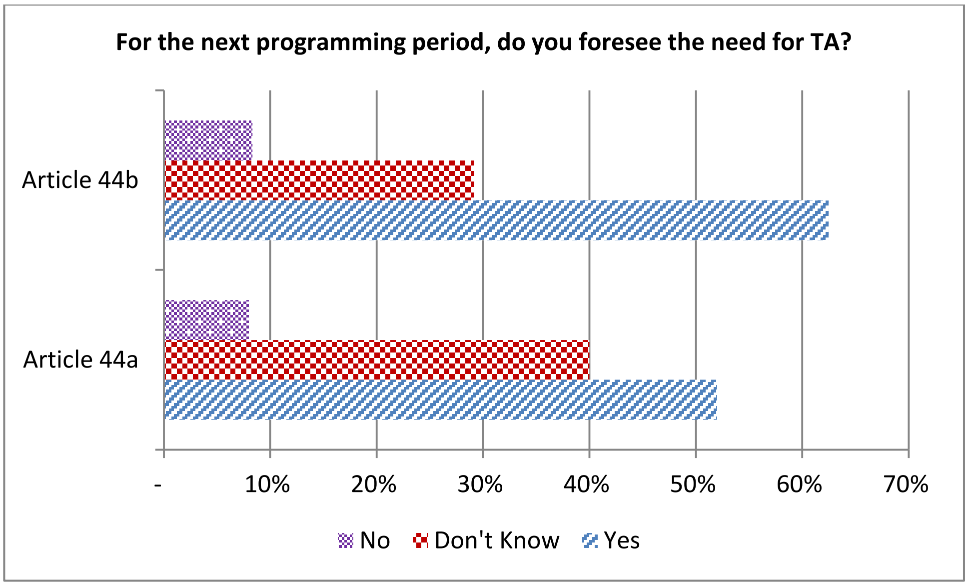
not all, of the aforementioned external assistance was funded by the Final Recipient themselves.

9.5. Future needs for Technical Assistance and capacity building

In terms of future requirements for TA, approximately **52% of respondents from Article 44a FEIs** think that TA will be required for FIs in the next programming period. The percentage increases to **63% for Article 44b FEI** respondents as shown in the figures below. The national level interviews conducted with representatives at the MA level corroborated this view, however, the extent, form, and type of TA required is yet to be determined.

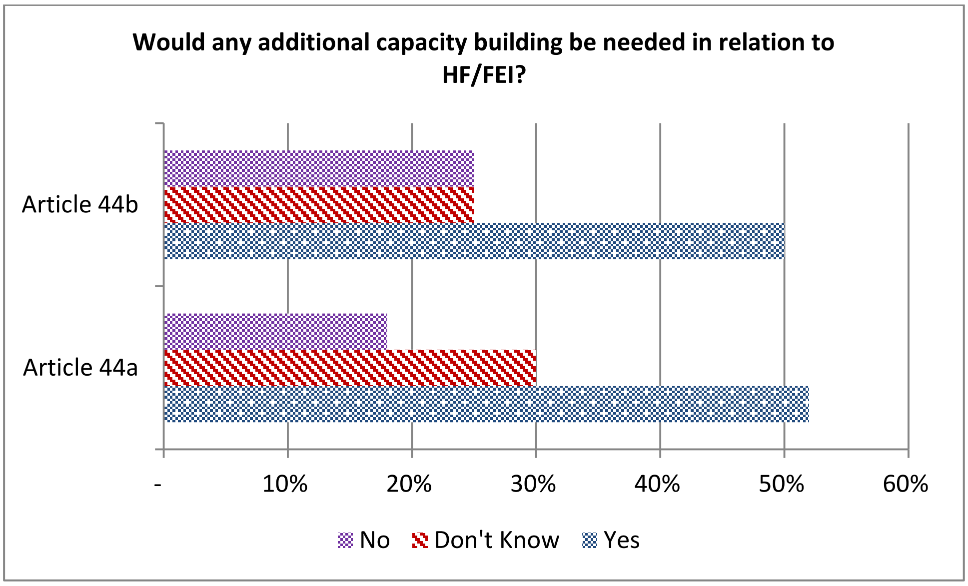
The majority of respondents also held the view that additional capacity building would be needed for the next programming period, whilst approximately a quarter of respondents do not know whether or not capacity building is required.

Figure 7 - Need for Technical Assistance in the Future



Source: Internet Survey, Case Studies

Figure 8 - Capacity Building Needs in the Future



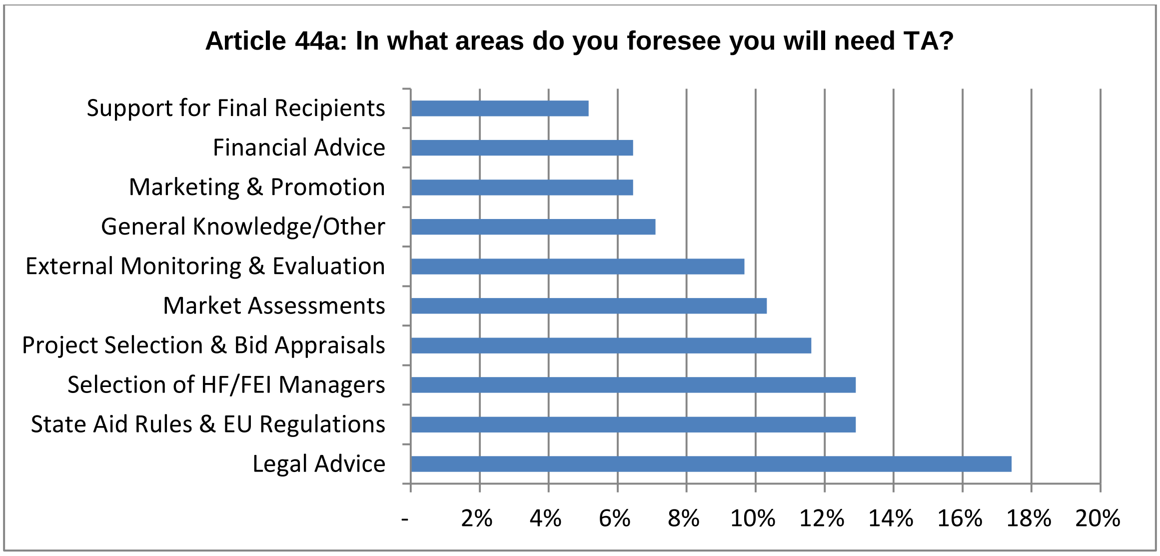
Source: Internet Survey and Case Studies

It is clear that TA will be required across the full spectrum of all potential TA requirements as shown in Figure 9 below. This view was also echoed by consultations with national level representatives involved in managing FEIs.

The factors underpinning the need for TA will be depend on the relevant OP, the thematic areas in which future FIs will be deployed, and the administrative capacity of internal staff.

From Article 44a FEI responses, the main areas that are forecast to require TA in the next programming period, ranked in order, include legal advice for FI design, governance, and HF structures (17%); selection of HF/FEI Managers (13%); and support with State Aid rules and EU regulation including assistance with the OP negotiation with the European Commission (13%).

Figure 9 - Article 44a - Future TA needs

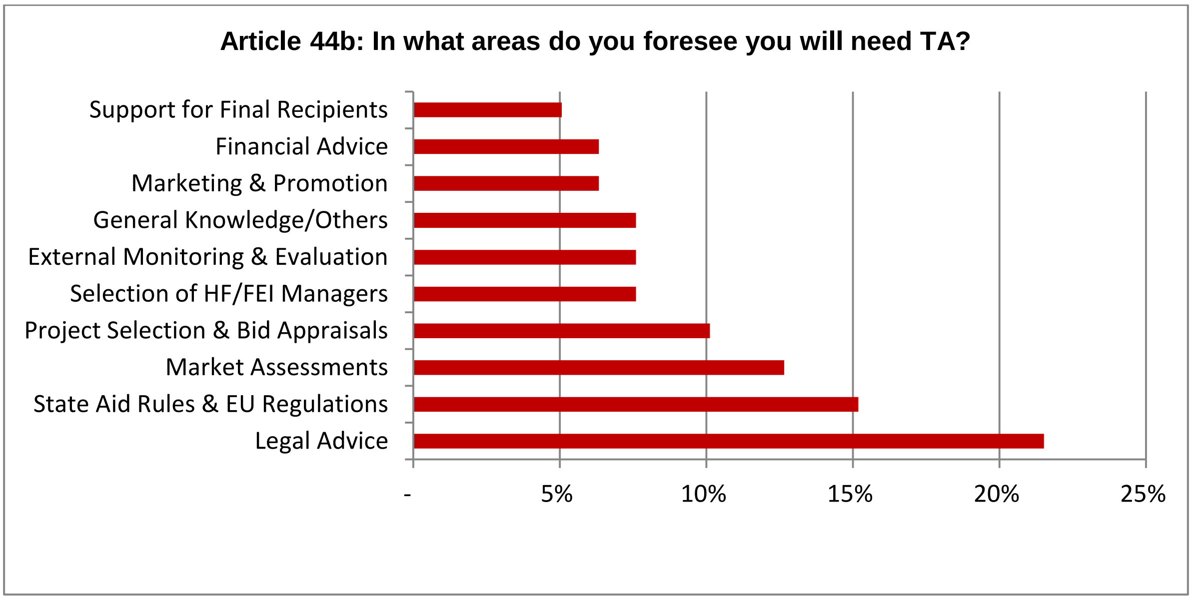


Source: Internet Survey, Case Studies

From Article 44b FEI responses, similar future TA needs were identified and include: legal advice for FI design, governance, and HF structures (22%); followed by State Aid rules, EU regulations, and OP negotiation with the European Commission (15%); and market assessments (13%).

Because of the novelty of FEIs to support urban development and the fact that Article 44b FEIs involve multi-stakeholders and actors due to integrated nature of urban development projects, stakeholders felt that there was a need for greater awareness campaign to promote the FEIs. These FEIs need to visible and transparent, especially to civil servants to gain political support, as well as prospective Final Recipients. General awareness-raising activities of FEIs also extend to the private sector who may wish to Co-invest in projects.

Figure 10 - Article 44b - Future TA needs



Source: Internet Survey, Case Studies

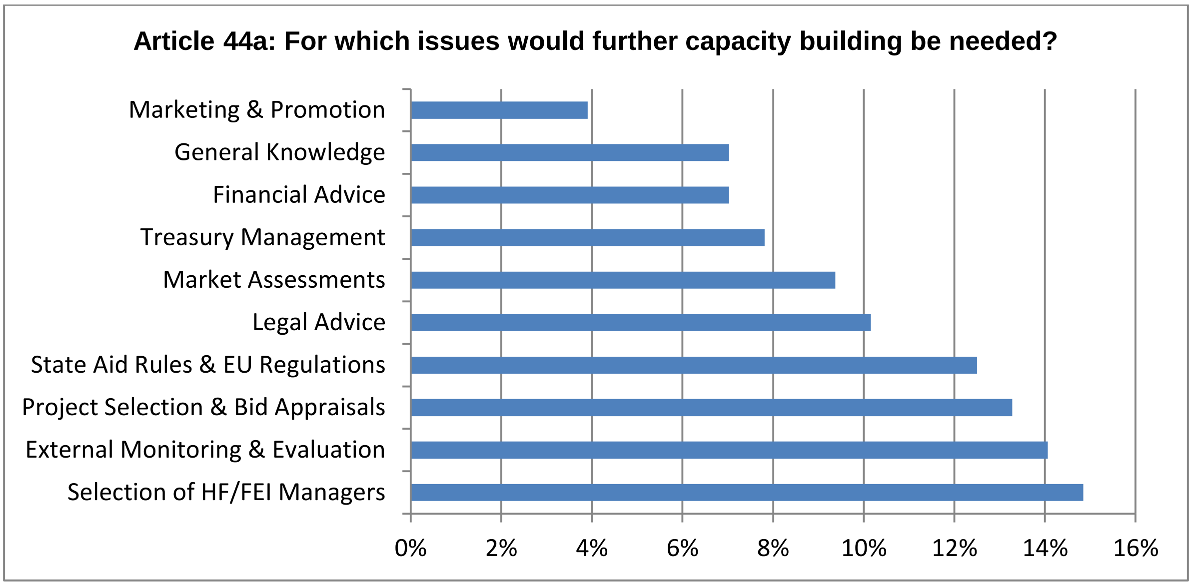
In both cases for Article 44a and Article 44b, the need for greater provision in TA is felt to be especially important given the new thematic areas for the next programming period. For Article 44a FEIs specifically, there is a view that greater capacity building is required to strengthen knowledge and capacities in the field of risk capital.

There is a strong demand for **further awareness-raising activities** about FIs, particularly amongst public institutions currently not involved in FEI implementation, as well as a **demand for the provision of legal and financial support** in designing future FI schemes.

Interviewees at the national level understand that all future FEIs will be designed on the basis of **Ex-Ante Assessments**; therefore, TA will certainly be required in this area during the next programming period.

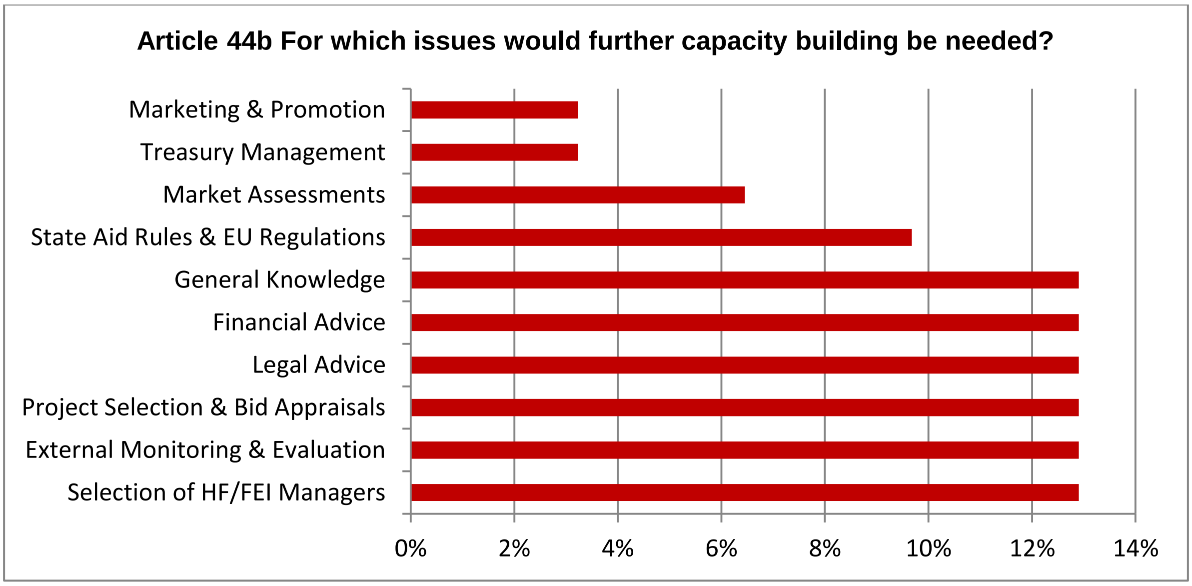
In terms of **capacity building**, the top three areas in which capacity building is foreseen for both Article 44a FEIs and Article 44b FEIs include: '**Selection of HF/FEI Managers,' 'External Monitoring & Evaluation,'** and **'Project Selection and Bid Appraisal'** of Final Recipients' proposals as illustrated in the figures below.

Figure 11 - From Article 44a - Forecast future capacity needs



Source: Internet Survey, Case Studies

Figure 12 - From Article 44b - Forecast future capacity needs



Source: Internet Survey, Case Studies

Several national level respondents noted that capacity building will be required if new institutions, such as MA or other development banks, are involved in the implementation of FIs in the next programming period. In MSs where the intention is to centralise the management of FIs there is a strong view to focus on capacity building activities at the national level.

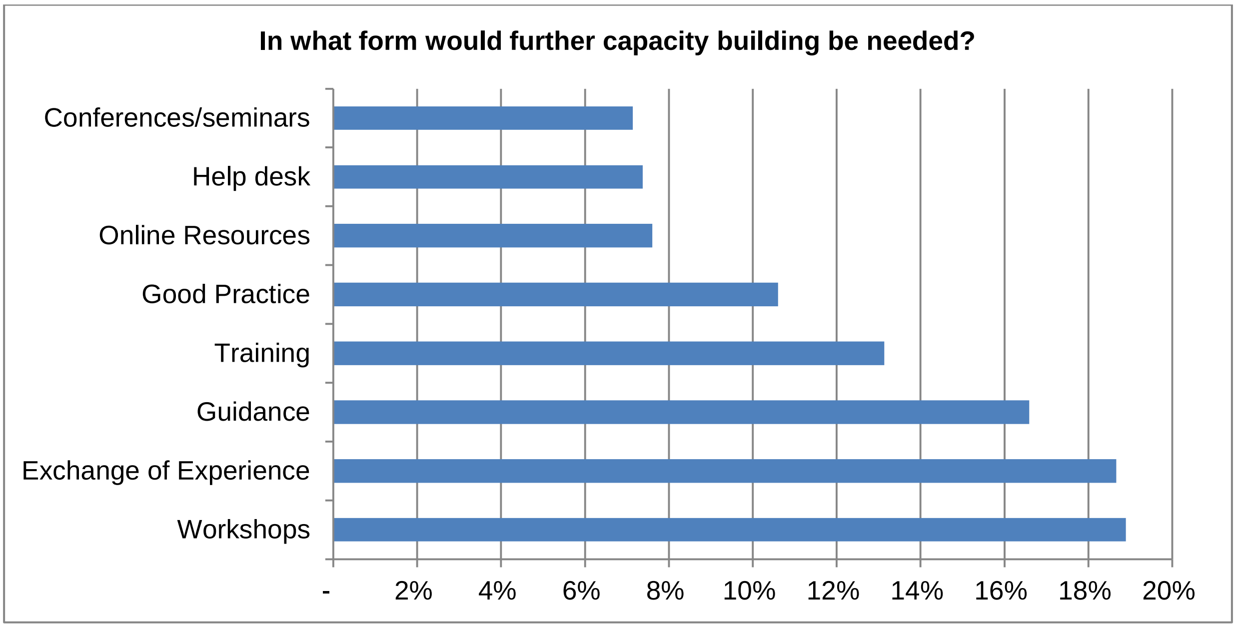
The logic and approach to managing FEIs is very different from the traditional Grant funding model, and requires specialist knowledge in finance and experience in managing complex multi-year EU programmes. Therefore extensive administrative capacity building is required. This should focus on SF regulations, State Aid rules in relations to FIs and building up fundamental knowledge around investment and finance.

Capacity building activity is foreseen at the national, regional, and local levels in order to further accelerate the implementation of FIs. It has been noted by several MSs and the Commission that one of the sources of delays in this programming period is the lack of capacity and specialised technical knowledge to successfully implement FEIs, particularly during the preparatory phase.

In terms of how capacity building could be delivered, a clear preference for an interactive and collaborative learning approach is preferred. The forms of capacity building ranked in order of preference are workshops (19%) and networking and exchange of experience (19%). Interviewees felt that exchange of knowledge and experience is essential and that the lessons of others should be taken into account when designing new FIs in the next programming period.

Respondents expressed a universal need for guidance across all areas of future FI operation and this ranked third in preference for form of support after workshops and exchange of experience at 17%. Other forms of capacity building that may be required include online resources and help desk services.

Figure 13 - Forms of Capacity Building



Source: Internet Survey, Case Studies (Note: The graph represents both Article 44a and Article 44b FEIs)

The capacity building could be provided in the following ways:

- *Workshops* such as thematic working groups and interactive brainstorming and/or discussion sessions;
- *Exchange of experience* through networking events or study tours, and by providing tools to facilitate sharing of expertise, data, and knowledge within and between organisations;

- *Good practices & Guidance* through a repository of case studies, handbooks, guidance notes, factsheets, and databases;
- *Training* such as classroom-style instruction, e-learning, tailored short courses or tutorials with supplementary training manuals.
- *Online Resources & 'Help Desk'* which can include discussion forums, resource library, and FAQs; and
- *Conferences* with keynote speakers, presentations of position papers and reports

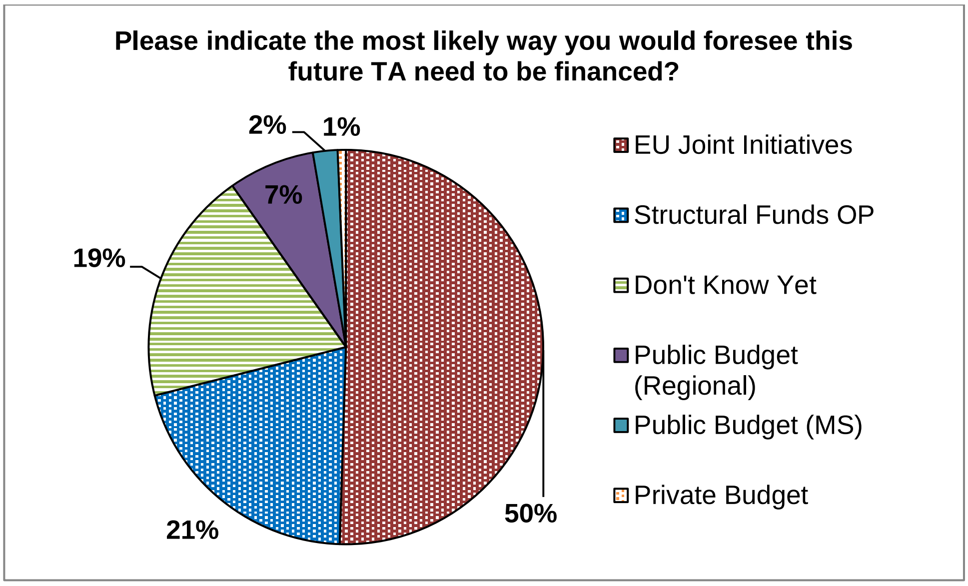
9.5.1. Financing future TA

There seems to be a clear desire that TA be financed through EU joint initiatives according to 51% of respondents, followed by Structural Fund OPs playing a major role in financing future TA activities at 21%. However, the scope of TA needs to be clarified, particularly in regards to which TA services will be provided at the initiative of the Commission and which services will be covered by TA of the Member states.

Only 9% of respondents believe that the provision of TA should be funded through public budgets at the national or regional level. There is almost no anticipation of financial support from the private sector at 1%.

Approximately 19% of the individuals surveyed did not have a view of how TA could be financed for the next programming period.

Figure 14 - Future Financing of TA



Source: Internet Survey, Case Studies (Note: includes both Article 44a and Article 44b FEIs)

Similarly, based on national level consultations, the majority of respondents share the same view that future TA should be financed within the OP or through another EU-level instrument. Some raised the question of whether the 4% Structural Fund allocation for TA in the current OPs is sufficient to provide the level of TA required to successfully implement FIs on the scale now being proposed, particularly in cases where MAs would have a smaller SF/ or Cohesion Fund budget.

Amongst the new MSs, several mentioned that TA could potentially be provided through other EU-level instruments such as JASPERS, or provided through other multi-lateral organisations such as the World Bank.

9.5.2. The Time Dimension of Technical Assistance

Specific TA requirements differ as the FEIs move through the various phases of the project lifecycle from the feasibility stages to the investment phase (i.e. disbursement of funds to Final Recipients). In this sense, TA needs are a function of FEI maturity. For example, at the preparatory stage prior to implementation, it is evident that TA requirements have mainly been in market assessments, legal advice in interpreting the compatibility of EU and national level legislation regarding FEIs, setting up the fund structure, and establishing the system and procedure for selecting a FEI Manager. As such, one may expect the type of TA required to vary as FEIs move into the latter implementation stages where TA support is more likely to be required around marketing and promotion of FEIs, supporting Fund Managers in project appraisals of Final Recipients' application for financing, and monitoring and reporting.

This is an important point to bear in mind when designing specific TA interventions for the next programming period. TA should be well embedded in the implementation timescale to help enhance the effectiveness of implementation and equip the key individuals responsible for OP and FEIs with the skillsets and knowledge in advance of when they need it.

9.6. Summary

The overwhelming majority of TA provided was provided to MA and Intermediary Bodies. Funding for TA for this current programming period came primarily from Structural Fund OPs (65%); followed by EU Joint Initiatives (27%). The quality of TA received to date was considered Good (56%) or Satisfactory (25%). Only a small percentage of respondents felt that the TA was insufficient (3%) or did not have a view either way (16%). EU-level instruments such as JASPERS, ELENA, EPEC, and JASMINE played a small role in the provision of TA for FEIs based on the research data.

There is a clear perceived need for TA in the future. From the respondents from Article 44a and Article 44b, 52% and 63% respectively stated that TA is envisaged for FIs across the spectrum in all topic areas, namely in legal advice, compliance with State Aid rules, market assessments, and selection process for Fund Managers. There is a preference for TA to continue to be funded through EU joint initiatives or Structural Fund OPs in the future.

There is a strong need for capacity building. Over 50% stated that capacity building will be required, and another quarter of respondents do not as of yet whether capacity building is required. There is a preference for interactive workshops and exchange of experience as a means to share knowledge and build capacity.

10. ACTIONS FOR CAPACITY BUILDING

This section provides an overview of a possible approach to FI capacity building action plans, including the types of activities required to build the capability and technical knowledge of key individuals involved in the design and management of FIs.

Capacity building, as defined in Chapter 9, is any course of action and/or activity which has a view to increase the capability, skills, and knowledge of individuals and organisations. Such capacity building activities could take the form of staff training, knowledge dissemination or exchange of experience, or designing new systems, processes, and procedures to help organisations. However, it must be noted that institutions will vary in the ability to process and use knowledge provided and this will affect the net capacity building effect.

Over 50% of respondents from the survey agreed that additional capacity building activity is required to build technical capabilities amongst individuals involved in future deployment of FIs. Given that there will be greater scope in using FI in the next programming period, and coupled by the fact that there will be changes in EU regulations, this implies that there will be greater emphasis for the need of capacity building activities moving forward into the next programming period.

10.1. Objectives of capacity building

Broadly capacity building, in the context of FIs, falls into one or a combination of these three categories:

- Improving the knowledge base on relevant topics, in this case FIs, investment concepts, and EU regulations;
- Enhancing practical skills and know-how, such as designing FIs into future programmes, structuring financing packages or evaluating associated risks; and
- Developing systems and procedures for the FI cycle, from FI establishment and implementation to monitoring progress and measuring performance.

These capacity building activities are intended to maximize the effectiveness of programme delivery, and in turn to maximise outcomes and impacts. The end goal of such capacity building programme would be to ensure that FIs are set up and managed as effectively as possible and aligned with the strategic objectives of each region by:

- Broadening the geographical and functional scope of FIs by improving understanding of, and confidence in, their added value;
- Accelerating the process of creating and deploying FIs where there is a market demand;
- Creating more efficiencies in terms of monitoring and implementation;
- Improving the performance of FIs through good design and management; and
- Delivering and disseminate good quality intelligence on FI operation and impact

Designing fit-for-purpose capacity building programmes requires significant time and resources. As such, consideration should be given as to whether EU institutions or individual MSs themselves have the capacity to develop and implement such programmes. Needs will vary and an in-depth preliminary diagnostic should be undertaken in the relevant region or organisation before topics, delivery methods and support can be developed for a high quality capacity building exercise.

The capacity building has to be designed to help to deliver more and better FIs in good time and in a manner that is consistent with EU policy and strategy. It has to be coordinated across the EU and be able to draw on the information and resources of EU, national and local expertise. As such it should be fully endorsed by the Commission in cooperation with the EIB Group and other IFIs and overseen by those bodies, but national level delivery should benefit from the input of MAs and other local experts.

10.2. The needs of different recipients of capacity building

Given the involvement of different stakeholders throughout the implementation of FIs, each element of capacity building has to be carefully designed to meet the needs of individuals and organisations. Furthermore, capacity needs will change over time with greater emphasis on preparatory activities at the earlier stages of implementation and moving to more focus on operational issues, such as monitoring and reporting progress. Bearing in mind that any capacity building programme would need to be catered for the relevant party, the types of needs of different participants that could be expected are illustrated in the table below.

Table 14 – The needs of different recipients of capacity building

Level	Who	Capacity Building Areas	When	Possible Funding
EU Level	• Desk Officers • DG REGIO • DG EMPL • DG AGRI • DG MARE	• Improving understanding of how FIs might facilitate the implementation of policy • Gaining a better understanding on the practicalities of implementing FIs, including best practice on how to monitor and measure FI progress • Developing methods to explain the regulatory framework in relation to FIs to a wide range of stakeholders	Early 2013	EC budget

Level	Who	Capacity Building Areas	When	Possible Funding
MS Level Regional & Local Level	• MAs • Intermediate Bodies • Related Departments • Local governments	• Assistance in designing and implementing FIs • Assistance with interpreting EU regulation and how FIs fit within the national framework • Gaining a better understanding on different delivery models for FIs e.g. fund of funds, Off the shelf • Programme management and developing indicators to measure progress. • Gaining a better understanding of practicalities of implementing FIs, including best practice on how to monitor and measure progress • Understanding more how FIs can support policy objectives and the added value of deploying FIs • Support with Ex-Ante Assessments	Early to Mid 2013	MA budgets Local Budgets
Private/public Sector	• EIB Group • Financial Institutions • Final Recipients • Investors • Other public bodies	• Interpretation of EU regulations with regards to FI • Understanding the audit and reporting requirements • Gaining understanding of the policy context underpinning the deployment of FIs by MA as outlined in the OP • Guidance on project design to meet all requirements	On-going	
Public Sector	• Various Units	• Awareness-raising on the added value of FIs • Tools to promote FIs to a range of private sector audiences • Designing, implementing, and managing FIs	On-going Mid 2013	

10.3. Capacity building delivery mechanisms

The capacity building programme has to be engaging and cost effective, and delivered in a style that encourages participants to invest time and energy in the process in a manner that will reinforce the theories, concepts, ideas and/or processes. The delivery structure should vary according to purpose and include a combination of knowledge-based and skills-based elements depending on the roles and needs of participants.

- **Exchange of Knowledge:** This is an important in the delivery of capacity building programmes, allowing MAs to share operational lessons and providing them with best practices and models that they can draw upon to develop their own FI programmes.

For this, the Commission, in collaboration with the EIB Group and other relevant stakeholders, could draw upon the success of the JEREMIE/JESSICA Networking Platforms as a mechanism for exchanging knowledge.

- **Workshops and Conferences**: There is a strong preference for interactive forms of learning through either workshops or conference, however this could be expensive.
- **Web-based e-modules and e-learning:** As an alternative that make much greater use on online, web based and social media channels should be exploited wherever possible. There could be consideration for an e-learning module to cover the fundamentals of FI, EU regulatory framework, and State Aid rules to build the basic understanding and awareness of FIs using CSF funds. Whilst there is strong preference for face-to-face training, e-learning does have advantages in that it reaches a broad range of people and it is accessible, repeatable, and relatively affordable to set-up.
- **Manuals and Guidance Notes:** A training manual could be developed and used in conjunction with interactive instruction. If required, the Commission should continue to provide guidance notes e.g. COCOF notes to clarify rules, which are particularly important as the legislative framework will be changing for 2014-2020.
- **Data Base/Repository:** The Commission could also host a repository that consolidates practical information from various stakeholders from MAs, HF Managers, Fund Managers, and Final Recipients across MS involved in managing and implementing FIs. The repository offers the opportunity to learn and build upon successful case studies.
- **On-Site deployments:** Consultants or employees working on location in the regions alongside the MAs and relevant stakeholders are a way of building up capacity on the ground.

10.4. Key areas of capacity building

Evidence from the inputs from the surveys and consultations revealed that there is a need to increase capacity in all areas and across all levels as discussed in the previous chapter. Gaining technical knowledge and skills on FIs in relations to EU legislative framework were viewed as equally important as acquiring the necessary project management and delivery skills required to successfully implement projects.

Given the importance of gaining acceptance and buy-in on the potential benefits and features of FIs, in addition to the required technical skills there may be a need to enhance ‘soft’ skills, such as in communication and presentation, in order to explain new topics to a wide range of stakeholders.

Table 15 – Key Areas of Capacity Building Required

Type of Knowledge Areas	Areas of Expertise
Technical	• Understanding FIs (Loans, Equity, Guarantees, Venture Capital) • Typology of FIs • Delivery structures e.g. Funds of funds, Off the shelf etc. • Knowledge Management • Ex-Ante Assessments • Financial Modelling • Risk Assessments
Delivery	• Project Management • Performance Management • Public procurement and selection procedures • Monitoring and Evaluation • Audit and Assurance Requirement • Risk Mitigation
Legislative	• EU Rules and Regulations • State Aid rules • Articles 32 to 40 in the proposed CPR • National Legislative Framework
Communications and Organisation	• Negotiation Skills • Presentation Skills • Meeting Skills

10.5. Capacity building action plan

The chart overleaf suggests a timetable for the delivery of a capacity building plan covering the areas highlighted in the previous table.

This is an indicative timetable only. Any final version would reflect the time taken to decide on the resourcing and delivery of future capacity building and would also be designed to reflect the early needs of DG REGIO, DG EMPL, DG AGRI and DG MARE desk officers. It would also be developed to differentiate between EU wide activities (such as the creation of the online forum) and work in individual MSs. The MS work would be designed to precede the development of CSFs but would in reality be staggered depending on the progress of these across the EU.

For simplicity this chart displays the 'first round' minimum input of capacity building. In reality there would be likely to be later phases to deal with emerging topics (such as the needs/potential of the 11 Thematic Objectives, and/ or changing regulatory or economic framework) and/ or to reflect changes in staff over time.

The different needs of regions and/or organisations also need to be considered when developing capacity building programmes. Differences in factors such as the level of experience in a sector, the administrative set-up, the motivation/reward to use new knowledge and skills and the size of a body will all have an effect on the net capacity building effect in an organisation and/or region.

Capacity Building Programme																											
	2012			2013												2014											
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Task																											
Strategy Development																											
Finalise CB Strategy																											
Steering Group Meeting				•																							
Approval of CB Strategy					•																						
Establish Governance Structure																											
Public Tendering Process for Delivery																											
Delivery of CB Programme																											
Development of CB Programme																											
Design Training Manual and Materials																											
Creation of online forum																											
Introductory E-Learning Module																											
Technical																											
Understanding FIs																											
Knowledge Management																											
Ex-Ante Assessment																											
Policy Design and Formulation																											
Financial Modelling																											
Risk Assessments																											
Legislative																											
EU Rules and Regulations																											
State Aid rules																											
Article 44 on FEI																											
Article 43 on Implementing Regulation																											
Articles 32, 33, 35, 39, 40																											
National Legislative Framework																											
Delivery																											
Project Management																											
Public procurement/selection procedure																											
Bid Appraisals																											
Monitoring and Evaluation																											
Audit and Assurance Requirement																											
Risk Mitigation																											
Reporting																											
Soft Skills																											
Negotiation Skills																											
Communications Skills																											
Leadership Skills																											
Other Related Activities																											
EC/EIB Marketing Collaterals																											
Training of new staff (on-going)																											
EC Guidance Notes (on-going)																											
FI Networking Platforms (quarterly)																											

10.5.1. Timing of Capacity Building Programme

Timing of capacity building is a critical issue. The input has to take place in sufficient time for the knowledge and skills to be embedded before they are needed. Capacity has to be put in place so that FIs can be established early in the life of OPs and thus deliver tangible outcomes during the life of the OPs. Early delivery of such capacity building is particularly important for those individuals, organisations, geographies or themes where FI experience is limited or non-existent. This implies that capacity building programmes start as soon as possible and as early as mid-2013 in order to lay the groundwork before the start of the new programming period. Once underway there should be a rolling programme of capacity building across the EU with the content timed to meet the needs of participants as the FIs move from market assessment to design, implementation investment, and evaluation.

Focus on capacity building could in the first instance focus on desk officers well advance of the approval of the next round of CSFs, both to inform those CSFs and to ensure that those seeking to develop FIs 'hit the ground running'. In doing so, desk officers can help support MAs in building a stronger understanding of the practical challenges of FIs.

10.5.2. Funding of Capacity Building Programme

Based on the research data respondents felt there are many aspects of capacity building that would have been helpful, but did not happen due to the lack of resources or the need was not identified as discussed in the previous chapter. As such, it is difficult to quantify how much TA might have been devoted to FIs if the preparatory approach had been more systematic in providing TA. Based on the perceived gaps in the provision of TA and capacity building, it is reasonable to infer that future capacity needs will require more TA funds than were used for this purpose in past OPs. If previous TA budgets were fully spent on other purposes the implication is that future TA budgets will have to expand to meet the capacity building needs of more, and possibly more complex, FIs.

The need for capacity building to take place in advance of the approval of CSF OPs presents challenges. If respondents believed that capacity building should be funded from TA this would normally have to be incorporated in and await approval of CSF OPs, but this may not be the optimal approach owing to the fact that capacity building activities should ideally start in 2013. If possible, resources left in the current programming period could possibly be used for capacity building for the next programing period to take place prior to, and in parallel with, the development of CSFs.

Other funding options would be placed on the respective MA/regional/local budgets. However, this could create risk in that the required capacity building will not happen due to budgetary constraints. Alternatively, MAs could use any underspend (if existing), from current OP budgets, current TA budgets and/or other sources.

Going forward, capacity building might be funded from TA once programmes are approved.

10.6. Summary

The logic and approach to managing FI funds is very different from the traditional Grant funding model, and requires specialist knowledge in finance and experience in managing complex multi-year EU programmes. It is clear from this study that capacity building is required across all levels, from desk officers at EU level, to the national level and MAs. Both private and public sector should be involved. The responses from interviews and case studies suggested that a wide spectrum of topics should be encompassed by this capacity building, but there should be a focus on the selection of prospective HF and Fund Managers; monitoring and evaluation of progress; the project selection and bid appraisal process; and compliance with State Aid rules, which will require more in-depth training and support.

To deliver such a broad spectrum of capacity building to such a diverse set of recipients will require a carefully thought out and structured plan. Lessons learnt from this programming period suggests that this capacity building should be organised and carried out as soon as possible in order to ensure that the people who will be working with FIs in the next programming period are given the knowledge and skills they need ahead of that knowledge being required.

Responses from the interviews and questionnaires suggest that this capacity building should take the form of workshops or other interactive methods of sharing knowledge. In the current climate however, there is a need to recognise that fulfilling interactive capacity building needs to take place on cost effective platforms, as well as delivering results within a tight time frame. Taking both of these factors into account, it is clear that harnessing technology such as social networking websites might be a good way to deliver cheap and efficient capacity building.

11. IMPLICATIONS & CONCLUSIONS

It is envisaged that FIs will play an increasing role in the delivery of key EU policy objectives, most notably Europe 2020, the EU's growth strategy. National level governments across the EU are also supportive of increasing the use of FIs in their MSs. Against this backdrop, it is important to consider the implementation of FEIs in this programming period and to reflect on the factors which have encouraged effective implementation and identify areas for improvement.

For MAs responsible for the management and allocation of Structural Funds within MSs, the introduction of FEIs has presented a need to learn and understand how instruments of a revolving and repayable nature may be introduced and operate within their territories. Similarly those seeking to manage FEIs, or seek investment from FEIs, have also had to understand and appreciate the requirement to combine the principles of investment with the regulations around Structural Funds and ensure that both adequate financial returns and required socioeconomic and/or environmental objectives are achievable and delivered. These issues have presented many challenges and frustrations for all involved, the need for cultural change in both public and private sectors, and have led to implementation timelines often being much longer than original anticipated, and the need for TA for the introduction of FEIs to be realised.

However, despite these challenges, since 2007, more than 500 FEIs have been established within the European Union to provide repayable investment in SMEs, sustainable urban development projects, and EE/RE measures in buildings, in support of the delivery of Cohesion Policy objectives. Research indicates that such instruments are felt to address market failure in these sectors, and that there is both an interest and intent to increase the number of such FEIs in this programming period, and to establish new FIs in the next programming period.

There is a strong desire amongst those who have been involved in establishing and implementing FEIs to date to capitalise on their existing experience and learning from this period into the next, and the research suggests that where there is existing experience, establishment and implementation of FIs will be far quicker and easier. This suggests a focus on FIs in the same areas of SMEs, Urban Development, and EE/RE in buildings from 2014-2020, but with greater scale and a greater range of financial products. There appears to be far less interest and prior experience in relation to other Thematic Objective areas, with the exception of Research, Technology, and Innovation, and therefore further research may be needed before this or other areas are promoted to ascertain their appropriateness and/or TA requirements needed to support the use of FIs in these areas. The role of Ex-Ante Assessments appears to be crucial to the subsequent successful establishment and implementation of FIs, even though it should be kept in mind that the market situation can change in the time between assessment and implementation. There also appears to be a strong bias towards regional rather than national FIs for 2014-20.

To address some of the issues identified in order to help ensure quick and efficient establishment and implementation of FIs in the next period, the research indicates that the following would be useful:

- Early clarification and guidance in relation to the regulations for the next period
- Providing as much flexibility as possible in FI design together with clear risk and return ratios to help to increase private sector investment in Final Recipients or FIs
- Provision of TA across a range of technical, legal, and financial issues (whether through or outside of a HF)
- A capacity building programme for all actors, especially where the use of FIs is newer, provided at an EU central level.

11.1. Summary of Key Findings and Implications

The table below picks out the key findings from the report and collates them together with their implications.

Table 16- Summary of Key Findings and Implications

	Key Findings		**Implications**
From the Literature Review			
1	According to DG REGIO's Summary Report 2012, 524 FEIs were in operation in 2011 across almost all MSs. Contributions from OPs distributed to FEIs and HFs amounted to almost €10,781 million, including € 7,078 million of Structural Funds.	**A**	For FEIs to be adopted on such a large scale, this shows the popularity of FEIs and the belief among EU MSs that such instruments address market failure.
2	Article 44a FEIs have been adopted in order to address a general market failure to provide SMEs with access to capital.	**B**	With credit constraints having been experienced across the market, Article 44a instruments have been particularly successful in addressing this issue. With credit constraints looking set to continue into the near future, it seems likely that Article 44a type instruments could continue to be set up by MAs to respond to the needs of SMEs.
3	Article 44b FEIs have largely been set up in order to address credit constraints and address market failure for integrated urban development projects which deliver socioeconomic and/or environmental returns.		Implication B is also relevant here, but for Article 44b FEIs.
4	It has been difficult to encourage the private sector to participate because of general credit constraints but also because of a lack of clarity around regulatory issues such as the Structural Fund regulations and compliance with State	**C**	Using Structural Fund monies is a new concept for many private sector investors. Capitalising on the experience to date and being able to point to successful existing FEIs, and being clearer on risk, will help to mobilise

	Key Findings		Implications
	Aid.		future interest from the private sector.
5	There were difficulties in implementing FEIs in a regulatory framework which was designed for a Grant-funding model.	**D**	The requirements, eligibility criteria and timescales for the use of Structural Funds make FEIs much less attractive to the private sector and more difficult for the public sector to implement. To encourage a broader adoption of FIs, EU legislation governing future FIs should be more flexible and designed for loans, equity, or guarantees in mind, rather than based on Grant funding
6	Indicators for monitoring FEIs are judged to be inappropriate for FEIs as respondents felt that the indicators are more suitable for the grant-funding model.	**E**	Indicators are important benchmark tools to monitor progress. Therefore, suitable indicators should be adopted and the reporting mechanism should be simple and straightforward to allow HF or Fund Managers to focus on deploying the investment strategy.
From experience of FEI establishment and implementation to date			
7	The main reasons given in this Study for establishing FEIs were to address market gaps in obtaining finance (as also discussed in Key Finding 2 and 3); FEIs are a more efficient use of public money than Grants due to their revolving nature; FEIs attract additional private sector funding; and FEIs allow upfront receipt of Structural Funds.	**F**	It is evident that stakeholders recognise the benefits associated with deploying FEIs as discussed in the literature review. As regards attracting private sector funding, those implementing FEIs should be aware of Key Finding 4 and be prepared for some difficulties in attracting private sector investment.
8	Article 44a instruments were generally implemented quicker than Article 44b FEIs as they were able to build on past experience with funds for SMEs. Article 44b instruments were introduced only in the current programming period and required a longer time to establish due to the novelty of the instrument and the number of stakeholders involved. For all types of FEIs the time taken to implement the instruments was far longer than expected.	**G**	FEIs became operational under Article 44 in the current programming period, 2007-2013, however there are some MSs who had prior experience with ‘Other Revolving Instruments’ which also used SF resources to support SMEs through Venture Capital funds. The implication is that with experience, establishing and implementation of future FIs will be relatively easier as traction and knowledge has been built. MAs need to be aware that establishing FIs in areas where such instruments have not been previously used will need more time. MAs should factor learning time into the

	Key Findings		Implications
			timescales.
9	FEIs, but particularly those related to Article 44b instruments, highlighted the importance of learning by doing and were keen to set up FIs in the next programming period.	H	Stakeholders involved in implementing FEIs are keen on capitalising on the lessons learnt and the experience to date. These lessons can also be shared with new MAs who are interested in implementing new FIs, for example in urban development. Knowledge dissemination and forums for exchanging experience should be spearheaded by the Commission and EIB Group.
10	Supporting Key Finding 5 from the literature review, the research suggested that one reason for delays in implementation was the lack of a clear regulatory framework relating to FEIs and issues with State Aid compliance.	I	To encourage a broader adoption of FEIs, the regulations for the use of FEIs for both Structural Fund and State Aid need to be clearly explained. Regulations should be supplemented with clear guidance notes.
11	Approximately, 48% of MA expressed interest in setting up or expanding current FEI schemes or set up new instruments for different areas, products or target groups moving forward.	J	This implies that there has been a positive experience with FEIs thus far, and that they are perceived to be successful. Please also see Implication A. It also implies that there will be more FIs developed in the next programming period due to the expressed interest of the MAs, as well as greater emphasis by the Commission on investing via FIs to achieve policy objectives.
12	The promotion of FEIs by the EIB Group was seen as important in encouraging MAs to set up FEIs, namely through the Gap Analyses and Evaluation Studies.	K	Given that FEIs involved a very different use of Structural Funds than had been seen previously, it was necessary to have the EIB Group to continue to provide support and aid in the promotion of FEIs. Ex-Ante Evaluations will play a part in progressing FI establishment and implementation in the next programming period.
13	The financial crisis highlighted the importance of flexibility within FEIs to change the investment strategy, move funds between FEIs, change and expand product offerings, especially for Article 44a FEIs.	L	Such flexibility will be key for successful implementation of FIs in the next programming period. HFs can provide additional flexibility so the pros and cons of HFs vs. direct FI establishment by MAs should be a key consideration prior to

	Key Findings		Implications
			establishing future FIs.
From the experience of Other Revolving Instruments			
14	The majority of Other Revolving Instruments currently support SMEs and entrepreneurial activities. 'Enhancing competitiveness of SMEs' was highlighted by 28% of respondents as a key area where FIs would be set up in the future	**M**	There will be experience of using public money in these kinds of instruments. This supports Implication B. The wealth of experience from this programming period will make implementing those instruments much easier in the next programming period.
15	There has been an increase in the use of Other Revolving Instruments around energy/efficiency and low carbon (sustainability) over the last few years. A fifth of respondents highlighted sustainability issues as an area where FIs might be used in the future.	**N**	There will be experience of using public money in these kinds of instruments going into the next programming period. MAs may have recognised Implication H and are keen to set up FIs in areas where instruments have already been established.
16	Urban regeneration was not listed as a specific Thematic Objective, however, 5% of respondents expressed interest in FIs to support urban development	**O**	This implies that MAs are keen to set-up or expand FIs for urban development in the next programming period. Support will continue to be required by the MAs who wish to set up FIs in urban development and regeneration in order to address several Thematic Objectives together in a territorial mechanism, rather than directly in a Thematic Objective.
From Technical Assistance and Capacity Building			
17	Technical Assistance and Capacity Building is required across the spectrum in all areas.	**P**	MAs and others clearly feel that these are complex instruments and therefore would appreciate more support to enable them to develop successful FIs in the next period.
18	There is a preference for interactive workshops and exchanges of experience to build capacity.	**Q**	This finding supports Implication H. MAs and HF managers want to share their experiences and learn from each other. More interactive forums would enable sharing of information.
19	The main reasons given for a lack of TA in this programming period are insufficient time or the need was not recognised in advance.	**R**	It is key that TA and Capacity Building is carried out ahead of when the skills developed will actually be required.

ANNEX 1: SAMPLE OF CASE STUDIES

	Country	Name case study	FEI Type - Loan(L); Guarantee (G); Equity (E)	Type (article 44 a/b/c)	Note
AT	Austria	Ober Osterreichisches High Tech Fonds	e	a	instead of Risikokapitalfonds Burgenland as the director was not available at the time of the fieldwork
BE	Belgium	Innodem II	l	a	
BG	Bulgaria	ProCredit Bank BG (FLPG) (part of JEREMIE HF Bulgaria)	g	a	
		Regional Urban Development Fund (part of HF Bulgaria)	l/e	b	
		Housing Renovation Fund	l	c	
CY	Cyprus	Bank of Cyprus - SME (FRSP) (part of JEREMIE HF Cyprus)	l	a	
CZ	Czech Republic	E 2007 Guarantee Fund	g	a	
		UDF CMZRB (part of HF Moravia Silesia)	l	b	
DE	Germany	VC Fonds technologie Berlin	e	a	
		Stadtentwicklungsfonds Brandenburg	l	b	
		KMU Darlehensfonds Sachsen Anhalt *(ESF funded)*	l	a	
DK	Denmark	Fonden CAT Invest Zealand, CAT Innovation A/S	e	a	
EE	Estonia	Start-up micr loan guarantee programme *(ESF funded)*	g	a	
		Loans for reconstruction of appartments building prgramme/Swedbank (part of National Fund for EE/Kredex)	l	b	
EL	Greece	Hellenic Fund for Entrepreneurship and development	l	a	
		National Bank of Greece UDF (part of HF Greece)	l/e	b	
		"Eksikonomo kat' oikon" (i.e the Housing Fund for EE investments)	l	c	
ES	Spain	IFEM/ICF (part of JEREMIE HF Catalunia)	l/e/g	a	
		Ahorro Corporation UDF (part of JESSICA HF Andalucia)	l/e	b	
		IDEA (part of JEREMIE HF Andalucia)	l/e	a	
FI	Finland	Finnvera loan instruments	l	a	
FR	France	Soridec VC Co - investment Scheme (part of JEREMIE HF Languedoc Rousillon	l	a	
		Crealia-SME FRSP (part of JEREMIE HF Languedoc Rousillon)	e	a	
		Fonds de garantie de Champagne Ardennes	g	a	
HR	Croatia	Micro credits to SMEs; HBOR (Croatian bank for Reconstruction and Development) and guarantee schemes,HAMAG (Croatian SME Agency)		other	instead of IPA Regional Competitiveness Operational Programm, CFCA
HU	Hungary	Venture Finance Hungary, Micro loan fund	l	a	
IE	Ireland	-		other	No alternative found for Commercialisation Fund (NSRF) (which was a grant scheme)
IT	Italy	Lombardia region: "Made in Lombardy", BNP Paribas	l	a	
		Sardinia region: SFIRS (SOCIETA' FINANZIARIA REGIONE SARDEGNA), Fondo di Garanzia FESR	g	a	(3 out of 5 were requested)
		Finpiemonte, Fondo di garanzia per il microcredito	g	a	
LV	Latvia	BaltCap equity fund/ Primekss SIA	e	a	
LT	Lithuania	JEREMIE HF Lithuania	l/e/g	a	
		Siauliu Bankas (part of Lithuania JESSICA HF)	l	b	
		Entrepreneurship Promotion Fund *(ESF funded)*	l	a	
		Lithuania Funded Risk Sharing Instrument (Credits), AB SEB Bankas	l	a	
LU	Luxemburg	-		other	The director at SNCI (National Company for Capital Investment) was not available at the time of the fieldwork. No alternative case study was available.
MT	Malta	Jeremie HF Malta, Bank of Valetta First Loss Portfolio Guarantee Product	g	a	
NL	Netherlands	Innovation Fund East Netherlands	e	a	
PL	Poland	Poland Wiekopolska region; Pozna?ski Fundusz Por?cze? Kredytowych Sp. z o.o. (guarantee fund)	g	a	(4 out of 5 were requested)
		Bank Gospodarstwa Krajowego (BGK) UDF (part of HF Wielkopolska)	l	b	
		Bank Ochrony ?rodowiska S.A. (BO?), UDF (part of HF West Pomerania)	l	b	
		Poland West Pomerania Province; Szczeci?ski Fundusz Po?yczkowy (loan fund)	g	a	
PT	Portugal	Banco BPI (part of Portugal Continental HF)	l	b	(3 out of 4 were requested)
		PME Investe I + II	g	a	
		Turismo de Portugal (part of Portugal Continental HF)	l	b	
RO	Romania	Raiffeisen bank Romania FLPG (part of JEREMIE HF Romania)	g	a	
SE	Sweden	Almi Invest Ostra Mellansverige	e	a	
SI	Slovenia	Slovenian Enterprise Fund	e	a	
SK	Slovakia	JEREMIE HF Slovakia	e/g	a	
UK	United Kingdom	One Northeast England Holding Fund	e	a	
		Scottish Investment Bank Loan Fund	l	a	
		Foresight Environmental Fund (part of London Green Fund)	e	b	
	Total	**Total number of 50 case studies**			

ANNEX 2: FULL LITERATURE REVIEW

This literature review assesses the recent evaluation literature and policy studies on the use of FEIs relating to the current programming period. At this stage in the programming period where majority of FEIs are in the implementation stage, there is a shortage of publicly available evaluative information with EU-wide coverage for FEIs. Therefore, this review concentrates on the high-level EU-wide studies, and supplemented with specific national and regional studies where available.

This literature review consisted of approximately 100 documents in which the final list was agreed with the EIB Group and the Commission at the inception stage of this Study and is provided in Annex 3. The literature provides a general descriptive overview rather than an in-depth evaluative analysis. Additionally, the literature tends to be based on secondary data which provided little evidence on the implementation progress, although DG REGIO's Summary Report 2012, discussed in other chapters, provides up-to-date information on the financial state of play for FEIs operating across Europe.

Whilst it is still early in the implementation phase of FEIs to evaluate results, but the literature notes that, although FEIs represent a very small amount of the EU budget, they are considered to be significant in terms of expected outcomes. This is likely to be a very important feature in the next programming period, when there will be a strong emphasis on assessing performance in Co-financed programmes and projects. Measuring the performance of FEIs is noted to have posed challenges, at both fund and EU level.

Overview of material used

This introductory section provides a brief overview of how the currently available information was used and what it covers:

Coverage: EU-level information for FEIs established at this stage in the current programming period is limited. The remit of the few EU-level studies and reviews that are available have tended to provide a general overview rather than evaluative comment. Where more evaluative material at a MS or regional level is available this has been included. There is currently more material available relating to Venture Capital funds in the 2007-2013 period than for Loan and Guarantee funds (although these have been evaluated extensively in previous programming periods, this work falls outside the scope of this study).

Data: Much of the chapter analysis, with a few exceptions, is based on secondary data and literature reviews. The DG REGIO Summary Report 2012 has been updated to describe the state of play by the end of 2011. Up until then, DG REGIO's Summary Report 2011 contained the largest source of gathered financial data which was submitted voluntarily by MSs. It should be noted that the Commission observed significant differences, in terms of the completeness and accuracy, in relation to the quality of the information provided in the reporting templates and a limited number of MSs and regions did not provide feedback or did not complete the reporting templates.

Depth of analysis: Due to timing (early to middle of the programming period), the available material tends to be quite descriptive, although providing a good overview of the state of play. Individual JEREMIE gap analyses and JESSICA evaluation studies concern the preparatory phase and do not provide evidence on implementation progress. The EIF compiled a summary of all the JEREMIE evaluation studies that had been completed to draft approval stage by early 2009.

Utility of conclusions: Reviewed report conclusions and recommendations tend to be at a general level. There are exceptions to this – for example, the Centre for Strategy and Evaluation Services (CSES) report from 2007, which, although concentrating on implementation during the 2000-2006 period, includes concrete and targeted conclusions and recommendations. The 2011 Reid and Nightingale report includes only a brief mention of EU initiatives and Cohesion Policy, but provides interesting commentary about public policy intervention, and regional funds in particular. Several of the DG REGIO studies also provide a detailed analysis of the lessons learned, although these tend to be aimed at Commission level, rather than at MAs, HF Managers or Fund Managers. Similarly, the European Parliament Committee (EPC) on budgetary control report of 2012 includes highly relevant recommendations concerning future policy formation. Individual MS/regional studies have specific and useful recommendations, but these are useful mainly to the MS/region concerned and not necessarily applicable more widely.

Article 44a – FEIs for Enterprise Support

There are significant differences between MSs in the use and operation of FEIs Co-financed by ERDF (Michie and Wishlade 2011).

Most countries operating FEIs are doing so using HFs. Several countries have more than one fund – Greece, Spain, France, Italy, Lithuania, the Netherlands, Poland and the United Kingdom all fall into this category.

Some countries only operate FEIs outside of HFs – Austria, Belgium, Denmark, Germany, Estonia, Finland and Sweden.

Others operate FEIs both within and outside HFs – Italy, Lithuania, Latvia, the Netherlands, Poland, Slovenia and the United Kingdom.

Overall there are significant variations between countries in terms of the overall allocations of funding, partly related to country size.

Financial Products and types of Article 44a FEIs

According to the preliminary data available, in 2010, the majority of Article 44a FEIs set up are Loan funds, followed by Equity and Guarantee funds (EC 2012a, EC 2010).

There are few publicly available EU-level evaluations of Co-financed Loan and Guarantee funds during the current programming period. There are, however, examples of MS level evaluations, including a 2010 evaluation of the Small Firms Loan Guarantee Scheme in the United Kingdom (now the Enterprise Finance Guarantee, EFG) (Cowling 2010). This found that the Loan Guarantee Scheme, which is distributed by participating banks in the UK, appeared to be a particularly cost effective way of creating additional employment in the United Kingdom.

Much of the available evaluation literature focuses on Venture Capital. In terms of specific country examples, the mid-term evaluation of regional Venture Capital funds in Sweden

(Tillväxtverket 2011), one of very few mid-term evaluations of FEIs available for this report, notes that Tillväxtverket (the Swedish Agency for Economic and Regional Growth) chose to finance different fund models to test out various approaches in order to understand how different working models function in the Swedish context and in the regions where they operate. In addition to differences in structure, effective implementation organisation with clear and efficient processes was seen as being crucial to the operation of Venture Capital funds.

Another study (Tykvová et al. 2012) notes that EU policy in terms of the supply of Venture Capital has tended to focus almost exclusively on addressing supply constraints. The report states that due to the frequently regional character and relatively small size of the Venture Capital-related instruments supported, the introduction of Article 44a FEIs on the Venture Capital industry overall has not been seen as crucial. On the other hand, experience shows that returns on Article 44a FEIs can enable recycling of revolved Structural Funds, to create trans-national funds, such as the Baltic Investment Fund (EIF 2012a).

Combining Grants and FEIs

An interesting aspect to the reviews on the use of FEIs in Cohesion Policy concerns the discussions about the use of combined approaches. This was explored at the JEREMIE Networking Platform in Brussels in May 2011, where several participants (Finlombarda 2011, Asselberghs 2011) outlined their rationale for complementing repayable forms of support with Grant support. According to them the advantages of combining approaches include:

- being able to tailor support to Final Recipients' needs, particularly taking into account the effects of the economic crisis;
- using the mix of grant and repayable FEIs to suit the different typologies and recipients e.g. higher aid intensities for more innovative projects in sectors of regional interest with more difficulty accessing traditional finance;
- enabling a 'smooth shift towards' more innovative forms of finance to sustain the development of sectors which have traditionally benefited from 'non repayable' forms of finance; and
- making financial engineering mechanisms attractive to SMEs.

Risk

One study (EP 2012b) discussed the risks involved in the use of FEIs under Cohesion Policy. The study found that investing through FEIs does not imply more financial risk than Grants to the EU budget. The main types of risks foreseen are the risk of inadequate returns below the opportunity cost of capital, and poor performance in achieving Cohesion Policy objectives.

Fund structures and costs

The Fund of Funds structures are found to create extra indirect costs, including monitoring to mitigate objective drift as well as management fees (EP 2012b).

Establishing FEIs

The European Parliament (2012b) noted that FEIs require time, high skills in investment matters, well-prepared project pipelines, and strong knowledge of the market, as well as sensitivity to a changing regulatory environment, and close cooperation between the Commission and the EIB Group.

Rationale for introducing FEIs for SME support

The literature identifies that the underlying rationale for public intervention is market failure (Bruhn-Leon et al 2012) and to increase the supply of early stage finance to SMEs and start-ups (CSES 2007). The advantages of introducing FEIs under Cohesion Policy programmes, and the increasing pressure to do so, have been well documented in numerous studies (Cowling 2010, ECA 2012, EC 2012a, EC 2011, EC 2010, EP 2012, EP 2012b, Michie and Wishlade 2011).

A typical list of the perceived advantages for national authorities, MAs and Final Recipients highlighted in the evaluation literature includes the following features:

- Use of FEIs enables additional support to be allocated to SMEs, and with potentially greater financial impact than Grants because of attracting additional public and private sector resources, thus multiplying the effect of Structural Fund resources and the national /regional contributions used to address market failure. Risk coverage or risk participation may encourage investors to invest (more) in projects which are not attractive without public intervention.
- There is evidence that ease of access to finance for viable SMEs is a key driver of productivity, through its impact on investment, enterprise creation and innovation.
- FEIs can promote the long-term recycling of public funds, regarded as particularly important in times of public budgetary constraints. For regional MAs, they potentially enable the reinvestment of Structural Funds at the level of the region beyond the end of the programming period, as experience from the Baltic Investment Fund shows. Their use is thus perceived as helping achieve better value for public money.
- Pooling expertise and know-how can be encouraged, for example to support start-up SMEs, to improve the quality of projects.
- FEIs use can build institutional capacity through partnerships between the public and private sector.
- FEI use can broaden involvement of Financial Intermediaries/institutions in implementing EU regional policy.
- Use of FEIs can encourage efficiency among Final Recipients, through greater financial discipline.
- For MAs, FEI use can speed up programme implementation, accelerating the absorption of funds and reducing the risks of automatic de-commitment (although this practice has been criticised by the European Court of Auditors).
- In a number of cases, the decision by a MA has been based on experience during the previous programming period (Italy Guarantee Fund for SMEs, North Denmark Loan

Fund, Scottish Co-investment Fund), or on information gathered during the exchange of experience with other Structural Fund programmes. For example, the idea of establishing a Loan fund in North Denmark arose during exchange of experience at a meeting of a Structural Fund best practice network in 2003.

Many of these advantages help explain the motivation of the Commission in encouraging the increased use of FEIs. However, the list of advantages attributed to FEIs above is based on the actors' perception of how they will perform, but other studies have raised some caveats to these. For example, although filling a financing gap has been a rationale for setting up FEIs, one study (EP 2012) suggests that it is impossible to determine the size of the financing gap, as demand for Venture Capital is difficult to quantify for two reasons: information is only available for those enterprises that obtain funding and some financially constrained companies do not apply for it. In addition, not all stakeholders agree when there is a shortage of public funding (EP 2012).

In terms of micro-finance, the rationale behind introducing FEIs tends to have a higher social focus, with an ultimate objective of tackling poverty and unemployment while fostering financial and social inclusion. More generally, it has been noted that easing access to finance for credit-constrained SMEs, through schemes such as Loan Guarantees, provides support for important agents in the regeneration of deprived areas and businesses who are employers of under-represented groups in the labour market (Cowling 2010).

Conduct of Gap Analyses

The review of evaluation material reveals a mixed opinion of the utility of the Gap Analysis studies that took place on a major scale after the launch of the JEREMIE initiative. However, it should be noted that the European Commission views as very important that funding to FEIs is provided corresponding to the needs identified in the Gap Analysis (ECA 2012).

In the 2000–2006 programming period, the Commission and the MSs generally did not assess SME financing gaps. Gap Analyses were neither mandatory nor recommended by the Commission, nor did Ex-Ante Evaluations, as described by the Structural Funds regulations (EC no 1260/1999) include dedicated SME financing Gap Analyses (ECA 2012). In contrast, between 2006-2009, the EIF prepared 55 Gap Analyses, the bulk of which were in Spain, France and Poland (ECA 2012).

The Gap Analyses took a standardised approach, with one methodology for all studies which was developed by EIF and presented to DG REGIO. All apart from one which used a SME survey were based on secondary data, sometimes complemented with stakeholder interviews. This standardised approach was recommended by the European Parliament (EP 2012).

The Gap Analyses were 'a combination of an analysis of existing macro-economic and/or regional data, an inventory of existing structures and initiatives, and an analysis of statistical material on the SME situation' (EIB 2011a). The analyses were intended to differ from existing studies, of which there were many in some countries, by going beyond an analysis of existing gaps and including an analysis of all possible FEIs '*from a portfolio perspective*' (EIF emphasis).

MAs were found to be relatively uninvolved in the design of the Gap Analyses, but repeatedly, although not unanimously, viewed the input of external organisations carrying out the work as valuable and as providing an experienced 'objective view' (EIB 2011a). Although expectations of the Gap Analysis varied as to whether it would be original research work or be able to provide definitive solutions (rather than simply being the first step in a process), in a majority of cases the national or regional authorities found the Gap Analyses to be of good quality, and a useful and additional element, with the EIF's contributions viewed as having been highly professional and showing an in-depth knowledge of the field (EIB 2011a).

The fact that the Gap Analyses were funded by DG REGIO and the EIF was found to have played a significant role in the MAs' decision to undertake the Gap Analyses, and then proceed with establishing a fund (EIB 2011a). Costs of the Gap Analyses ranged from several thousand Euros to several hundred thousand Euros where there were complex design issues. Most MAs would not have been prepared to cover such costs themselves, especially when they were not convinced of the feasibility of the initiative. Where studies were carried out, the financial contribution was therefore considered to be highly significant, especially in smaller MS. Taking this into account, it seems, that the contribution agreement according which, in the current period, the EIF would carry out the evaluation studies free of charge (DG REGIO would finance 85% of the studies' cost and the EIF the remaining 15%) for interested Member States (EIF 2009) has proved its usefulness. In the next period, the *Ex-Ante Evaluation* must be funded by MS. However, the new regulation does not specify that a MS can appoint EIB Group directly to undertake the *Ex-Ante Evaluation* (nor appoint EIB Group for preparatory work).

The EIF's involvement through the JEREMIE initiative was found to have been important in shaping Article 44a FEIs, serving in some cases as an intermediary body identifying regulatory issues encountered in preparing HFs and able to address these with the Commission, who would then go on the prepare guidance. This role was possible due to the fact that the EIF was the HF Manager and able to provide the specialised advice requested. The EIF was reported to have flagged a series of critical implementation issues very early on in the process and these were answered in subsequent meetings, correspondence and the Committee for the Coordination of the Funds (COCOF) notes. The EIF also developed the widely used template Funding Agreement. In summary:

- The Gap Analysis process was found to have **yielded wider benefits**. For example, enabling experience to feed into the guidance and regulations, the development of standardised EIF models, changes in national legislation with regard to the implementation of FEIs, and the JEREMIE networking platform (EIB 2011).
- In a number of cases, the EIF's **technical contribution was valued highly**, and their involvement contributed expertise, independence and legal advice, as well as served as a communication channel between the MAs and DG REGIO (EIB 2011). However, there was sometimes a perceived lack of transfer of knowledge of this expertise to the MAs, and there was a limit to their ability to act as go-between between the MA and other parties involved.

In some cases issues were identified in the Gap Analysis process (EC 2012a, ECA 2012, EP 2012b). First, the Gap Analysis process was delayed and took up to two years of a seven year programme period. The launch of the JEREMIE initiative across the EU involved challenging workloads for all parties involved, and there was considerable time and resources pressure. Despite the standardised approach to the Gap Analyses (i.e. common template), there was a range of approaches taken, ranging from quite general statistical analyses to very detailed descriptions of the different actors at regional levels involved, types of instruments proposed and overlaps (EIB 2011). It is worth noting that the ECA identified the gap assessment for Sweden as good practice and used it as a benchmark (ECA 2012). Reports noted that a useful addition to the Gap Analysis process would be a review of previous experience with FEIs in the region or MS concerned, and an assessment of how new FEIs could fit in with existing provisions and institutions. It would be helpful to conduct this together with an assessment of the fit with Structural Funds regulations, especially if a link could be established between programme allocations and the financing gap (EIB 2011, ECA 2012).

The European Commission (2012a) has seen that successful design and implementation of FEIs hinges on a correct assessment of market gaps and needs and therefore during the 2014-2020 period FIs should be designed on the basis of an Ex-Ante Assessment, which should identify market failures or sub-optimal investment situations (including the financial gap analysis) that the instrument will address; respective investment needs, possible private sector participation and resulting value added of the financial instrument in question. The Ex-Ante Assessment will also avoid overlaps and inconsistencies between funding instruments implemented by different actors at different levels.

Challenges in setting up FEIs for SME support

As most FEIs to support SME development have only recently progressed into the implementation phase, recent evaluation literature understandably concentrates on the initial establishment stage. The strong message is that this has been an extended process, for a variety of reasons.

A report which gathered information from MAs in 17 MSs found that establishing FEIs to support SMEs has typically involved a lengthy process (Michie and Wishlade 2011) – whether for complex Equity products or seemingly more straightforward Loan funds. Typical time spans have been e.g. 18 months for the JEREMIE initiative in Latvia, 15 months from Gap Analysis to the granting of the first Micro-Loan in Hungary and another three years until the launch of Venture Capital activities, and two years to set up the North Denmark Loan Fund. The length of the process was longer than originally anticipated by MAs, especially in cases where funds were set up to provide a rapid response to the economic crisis. Table 17 shows some of the main causes to which implementation delays have been attributed.

Such delays could in most cases be explained by the novelty of the instruments and by State Aid-related issues, according to the Commission (ECA 2012). A number of initially unclear issues have also since been resolved such as the definition of 'Beneficiary' and 'Final Recipient', which have since been clarified by the Commission Guidance Note on Financial Engineering Instruments (reference COCOF 10-0014) and the regulatory proposals.

Table 17- Main reported causes of delays of implementing ERDF FEIs in the 2007-13 period

Cause of delay	Member State
Time consuming structuring and negotiations	Greece, London, Hungary, Poland, Slovakia
Obtaining private sector contribution	London, West Midlands, Hungary
Administrative reasons	Andalusia, Greece, Poland, Sardinia
Management cost negotiations	Poland, Slovakia
Governance arrangements	Greece, Slovakia
Uncertainty of working capital eligibility	Hungary
Negotiating entity not a Managing Authority	Slovakia

Source: European Court of Auditors 2012 p33

The complexity of the model selected depends on issues such as the market structure in the MS/region, identified funding gaps and the type of MS/region. Some fund structures are found to be more complex to set up than others. For example, in a Fund of Funds, ERDF funding comes in at the level of the Fund of Fund, which invests in other fund(s), with external investors, thus requiring a group of funds to be set up (CSES 2007). Still, the main benefits of the Fund of Funds structure are flexibility and certain benefits of a portfolio approach such as diversified risk and leverage on different levels (EIF 2012b). Co-investment models on the other hand, where the public sector invests in a business and/or project alongside the private sector, are considered to be relatively simpler to set up (CSES 2007).

In Sweden, specifically, a number of problems delayed the launch of the regional Venture Capital funds and took the focus away from core activities. The biggest problem was a delay in disbursement of regional Co-financing, problems in recruiting Managing Directors for the Venture Capital funds, lack of clarity and disagreement about the main objectives and mission of the Venture Capital funds and uncertainty regarding how the rules should be interpreted. The latter was perceived as a major problem because interpretation of the rules took place afterwards i.e. when the Venture Capital funds had already started, and were then applied retrospectively. The slow start was also due to the need to develop procedures for assessment and implementation of investments.

The complexity of public procurement processes, in particular ensuring compatibility between national and EU approaches, has been found by MAs to be a significant source of delay in some programmes (Michie and Wishlade 2011,) although those programmes which chose the EIF as HF Manager were able to do this through a direct award potentially resulting in fewer delays. This was also the case for the German *Länder* (federal states), as the direct award route could be used for the *Land* promotional banks 100% owned by the *Land* governments.

Capacity among MAs and European institutions has also been identified as a delay factor by MAs themselves (Michie and Wishlade 2011, EC 2012a). An example might be where capacity has not been in line with needs, or where there may be a lack of capacity with expert knowledge on State Aid issues.

Establishing State Aid compliance

Few studies discuss the State Aid issues encountered by MAs when setting up FEIs, but two reports (Michie and Wishlade 2011, Wishlade and Michie 2009) identified the rules on State Aid as a key source of frustration and anxiety in the context of the use of FEIs. Many MAs have addressed State Aid compliance by using the 'no aid' option, for example by offering Loans on a *de minimis basis* or at market rates, structuring Equity such that private and public contributions are *pari passu* (treated the same), or providing Seed Capital on a *de minimis* basis, as in the case of Latvia. The main justification for using the *de minimis* facility is ease of use. However, there are two main disadvantages to *de minimis*: the sums available are quite small and monitoring requirements for ensuring that the threshold is not exceeded in the three year period are onerous. In practice, few countries have very rigorous systems for ensuring this - Portugal is one of the few that does. Many countries rely on declarations from Final Recipients and some MAs have viewed this as a risk, for example in the context of audit or checks by Directorate General Competition (DG COMP).

As an alternative to the 'no aid' route, some use is also made of General Block Exemption Regulation (GBER) compliant instruments, and a further option is notification, which is used by a number of MAs for Venture Capital measures targeted at SMEs (e.g. Finland, France, Hungary, Slovenia and UK).

Management and governance structures

The FEIs have differing management and governance structures depending mainly on the fund model chosen. The CSES (2007) study emphasises that, in terms of Venture Capital FEIs, there is no ideal management structure or fund model, but some models are better suited to less developed regions with novel Venture Capital markets and others to economically developed regions with more mature Venture Capital markets. Most FEI Managers, across all type of funds, are national or regional public legal entities such as national or regional development agencies and/or financial institutions directly or indirectly owned by MS or regions.

In some cases, the role of the EIB Group as both advisor and Holding Fund Manager has not been well understood. Although there are also local offices for EIB institutions, the location of the headquarters in Luxembourg is perceived as a disadvantage, implying additional bureaucracy and distance from citizens. As an EU institution, some MAs have also felt that its services should not be invoiced, and have therefore perceived fees to be high (Michie and Wishlade 2011.) In spite of this, high EIF fees were not highlighted as an issue in the European Court of Auditor's JEREMIE review (ECA 2012).

Specifically relating to EIB Loans, which can be an additional source of funding into a HF where such a loan agreement is made, there has been some conflict over what has been viewed as an overly risk-averse approach taken by the EIB on some occasions, for example, by taking 'rights' over the ERDF element of the funding package; this has been reported to have led to detailed, intensive and legally complex negotiation of Funding Agreements (Michie and Wishlade 2011).

The model (e.g. tendering, network recruitment) by which HF Managers are selected varies and no superior model has been found. Despite this, there are certain potential advantages in selecting the EIF as a HF Manager, because the EIF may receive a grant from MA to manage on its behalf without having to follow JEREMIE tendering procedures. This reduces the MAs administrative procedures, and this model of selection is widely recognised throughout Europe (EIF 2012b). Likewise, there are different approaches to portfolio management, and so far it is felt that no ideal model has been found (CSES 2007).

Administrative experience and challenges

Some issues related to the management of FEI implementation, common to all FEI types, have been identified in the literature:

Issue of capacity and a need for more expertise in implementing FEIs under shared management: The Commission has had to meet the need for appropriate guidance on a rapidly growing number of issues to support implementation. MA capacity issues have contributed to delays in launching funds and delivering investments to Final Recipients, and in finding the most appropriate structures in combining the principles and objectives of Cohesion Policy and the market reality. Indeed, the use of FEIs requires knowledge of three areas: Structural Funds Regulations, State Aid rules and investment know-how (EC 2012, Michie and Wishlade 2011). According to Tykvová et al. (2012) experience is important to select promising entrepreneurial start-ups, and industry-specific experience increases the ability to stimulate the growth of portfolio companies. In relation to legacy funds, it is seen as important to keep the same management for the next implementation period (CSES 2007). In relation to this, EIF is currently helping to launch a legacy fund in the Baltic countries, Baltic Innovation Fund, which uses proceeds funds from EIF-managed Article 44a FEI.

There are contradictory issues around return requirements and the appropriate investment period: The requirement to invest ERDF financing by the end of the programming period potentially increases the risk that proposals are accepted from companies that are less viable. This in turn increases the risk that the return will be negative, which will mean that the funds have a smaller capital base to reinvest into future projects (Tillväxtverket 2011). At the same time, from the perspective of MAs, the requirement has the effect of raising the activity level of the fund (CSES 2007). The requirement of a return on investment threatens to make FEIs more averse to risk, making it potentially more difficult to reach the target group. On the other hand, a good return is a condition for attracting private investors. This can create incentives to make fewer, larger investments in more traditional industries (Tillväxtverket 2011).

Scattering effect: The regional approach of Cohesion Policy, with 27 MSs divided into 271 statistically-defined Nomenclature of Territorial Units for Statistics (NUTS) regions, has in some cases worked against the necessary critical mass for the FEIs. As a result, this could create a scattering effect and high overall costs. Providing access to finance below critical mass is seen as unsustainable as the overhead costs of and the risks associated with investments or Loans cannot be spread over a sufficient number of SMEs (ECA 2012). On the other hand, for many Member States this was the first attempt to develop FEIs and this is why a certain critical mass was not achieved in relevant programmes. The Commission noted that in some circumstances it is justified to have funds with smaller sizes to achieve Cohesion policy objectives (ECA 2012). It is worth noting that in the Commission's proposals for 2014-2020, there is provision for FIs to be set up at EU level, with OP contributions ring-fenced for investments within regions, which would help to address this issue (EC 2012a).

Management costs: In some instances administrative costs have not always been very transparent. There is also a fundamental question of which costs should be included in the fund's administrative costs (ECA 2012). However, the issue has been, and will be, clarified further in the Commission's regulatory proposals for 2014-2020 and secondary legislation (EC 2012a).

Knowledge transfer and networking: It has been found that the visibility of funds, knowledge transfer, largely between the fund and co-investors, and wider networking are important for long term impacts of the funds. There is a need for increased involvement of regional actors in networks and more strategic thinking should be encouraged (Tillväxtverket 2011). However, synergies between FEIs and overall regional development strategies have been limited in previous periods (CSES 2007).

According to the European Court of Auditors (ECA 2012), the effectiveness and efficiency of FEIs for SMEs Co-financed by ERDF in the current programming period was hampered by the lack of fit between the Structural Funds regulations and the specific features of FEIs, together with significant weaknesses in the Gap Analyses carried out. In terms of administrative experience, they contend that this has contributed to significant delays and a poor ability to leverage in private investment compared to other EU SME programmes. However, the Commission's regulatory proposals for 2014-2020 are intended to provide a detailed implementation framework which builds on experience gained in this (and previous) programming rounds and addresses the issues raised by the ECA, and this has been further strengthened in the June 2012 compromise text for the Financial Instruments parts of the Common Provisions Regulation (EC 2011c, EC 2011, CEC 2012). These include more detailed rules regarding the use of FIs, and specific provisions regarding monitoring and reporting of FIs.

The Common Provision Regulation includes a wide range of implementing options and clear financial management rules, particularly for qualification of financial streams at different levels of FIs and corresponding eligibility or legacy requirements. These include: phased contributions to the instruments, keeping EU contributions to FIs in interest bearing accounts in MSs, re-use of capital resources corresponding to the EU contribution for the same or another FI and the share of gains/yields/earnings corresponding to EU contribution should be used for in the same or other FI or management costs/fees. Moreover, the three implementing options available for MAs are: 1) Financial Instruments set up at EU level (Contributions from OPs to these FIs will be ring fenced for investments in regions and actions covered by the OP); 2) Standardised FIs set up at national/regional level (so-called 'off-the-shelf' products); 3) Existing or newly-created FIs set up at national or regional level (MAs themselves can directly implement Financial Instruments consisting solely of Loans or Guarantees and a separate priority axis is to be foreseen in the OP) (EC 2012b).

The June 2012 compromise text on financial instruments includes a number of modifications that directly address issues raised by the ECA and Managing Authorities. These include revised provisions relating to the Ex-Ante Evaluations that must be undertaken before FIs are established under Common Strategic Framework (CSF) programmes. It has been made clear that Ex-Ante Evaluation will tie the findings related to market gaps more closely into the objectives and priorities of the programmes, and will include more information on what type of financial products should be put in place. The added value of FIs under consideration must be explained, and there must be an assessment of lessons learned from similar instruments or Ex-Ante Evaluations in the past. The Ex-Ante Evaluation can outline how FIs may be combined with grant support if appropriate, and must outline the expected results of how FIs will contribute to the results of the programme. The assessments must also explicitly consider State Aid implications and there is provision for the reports to be revised and updated if necessary.

Project generation and absorption

The project generation (i.e. the investment activity) rate varies significantly across different FEIs. According to CSES (2007) this is to be expected, given their different objectives and investment environments. Despite these natural differences in project generation, the economic crisis has had a serious, primarily negative, effect on the implementation rate of FEIs in many programmes. Despite these negative effects, some FEIs have seen an increase of their deal-flow and an overall improvement in project quality, particularly from businesses that would normally have gone to a bank (Michie and Wishlade 2011). Moreover, some FEIs, after an initially slow start, are on the path towards achieving their objectives.

So far, the main reasons for the slow implementation rate of FEIs cited by MAs have been on the demand side, such as lack of valuable investment and/or supply side problems such as the availability of other types of business support (Michie and Wishlade 2011). The following supply and demand side reasons for deviations from investment plans have been found in the literature:

Lack of market demand

Several FEIs (e.g. in Greece, Hungary and Latvia) have reported that demand from Final Recipients has been subdued, making it progressively more difficult to find suitable projects. This is because some firms have been found to be behaving more cautiously or there is a lack of sufficient funds to invest in development (Michie and Wishlade 2012). The level of interest from companies seeking Venture Capital can vary between and within regions (Tillväxtverket 2011). Also very narrowly defined target markets may slow project generation, although are likely to create long term job and wealth potential (e.g. Tykvová et al. 2012).

Availability of other types of business support

Michie and Wishlade (2011) found that in some cases, MAs have reported that FEIs have become less competitive when aid levels of alternative instruments have been raised to the maximum because of the economic downturn. However, Co-financed FEIs tend to be designed as 'last resort' schemes, where potential applicants do not have alternative sources of finance. Only a small proportion of businesses which were Final Recipients of the Small Firms Loan Guarantee Scheme (SFLG) in the United Kingdom, for example, reported possible access to alternative sources of finance. Micro-businesses, in particular, had a 12% lower probability of having alternative sources of finance available. Where businesses did have alternatives available, it was suggested that they used SFLG to complement a package of finance (Cowling 2010).

Understaffing

It has been found that FEIs are very dependent on sufficient skilled management capacity. Furthermore, FEIs managements' involvement on company boards may hamper project generation although involvement was seen as an important part of FEIs implementation. The risk aversion of Fund Managers was also seen as one potential reason for slow project absorption (CSES 2007).

Difficulties finding Co-investment partners

Some FEIs have had difficulties in finding independent and/or competent Co-investment partners and have had to target efforts to find potential private investors with which to cooperate (Tillväxtverket 2011).

Although limited mid-term evaluation literature was available at the time this review was carried out, some early evaluation has been carried out, with positive findings. For example, because the NRW/EU Micro Loan Fund in Nordrhein-Westfalen, Germany, was initially set up on a pilot basis, the MA decided to undertake an evaluation relatively quickly (in 2010, after launching the fund in 2008), in order to see whether the fund should be extended and made permanent, or whether any of its key features needed to be amended (Meyer and Biermann 2010). The economic crisis is seen to have increased rather than restrained demand for Micro Credits, and the NRW/EU Micro Loan Fund was found to have supported a relatively high number of firms and thus reduced funding constraints for start-ups and increased their chance of survival. It was thus considered to have been successful in filling a financing gap and to have addressed a market segment with genuine demand.

Similarly, the mid-term evaluation of the SME Loan Fund in Sachsen-Anhalt, Germany revealed that the Fund is making an important contribution to extending and modernising business capital stock and thus to the goal of economic growth. The Fund has also contributed to the programme goal of 'improving employment opportunities' by stimulating productivity growth, which in turn has led to wage growth and thus employment effects (Banke, Bötel and Schneider 2010).

Article 44b - FEIs for Sustainable Urban Development

Article 44b FEIs

Uptake of FEIs for Article 44b has been more limited than Article 44a (EC 2010, EIB 2011, Michie and Wishlade 2011). By the end of 2011, according to DG REGIO's Summary Report 2012, there are 28 FEIs (either under or outside the 19 HFs) for urban development projects under Article 44b. According to the same Summary Report, Article 44b FEIs supported through Cohesion Policy for urban development constituted €1,533.15 million of OP support in ten MSs, including €1,074.71 million of Structural Funds.

One study developed a typology of five UDF prototypes (Kreuz 2010). The first three are what the study calls 'first generation' prototypes, which have a low level of complexity so that they can be developed in a fairly short period of time, and the concept and innovative character of the instrument can be disseminated as quickly as possible:

- EE/RE funds, focusing on renovating existing assets to save future energy costs, and upgrading in buildings to generate alternative energy;
- Infrastructure funds, e.g. for waste management;
- Environment funds: financing projects relating to renewable energy and other environmental objectives.

The two 'second generation' prototypes require more expertise and time to be established:

- 'Smart City' Investment Funds, supporting sustainable urban investments to improve the quality of the location; and
- Area-based brownfield funds, combining multiple sectoral components in areas designated for regeneration.

This study makes recommendations on governance structures for each prototype.

Article 44b FEI investment for Smart cities

Another study examines how the JESSICA Initiative could promote the development of smart cities to deliver EU 2020 objectives found that cities generally start with city-wide strategic initiatives, before projects are developed (EIB, 2011). Projects are typically implemented in broad collaboration and have a variety of organisational models. The study found that to date most projects look to public authorities to assist projects financially with Grant support. Some pilot projects have received sponsorship from technology suppliers, R&D programmes, city authorities and Grants. Commercial financing has been challenging due to long payback periods, high risk, or the difficulties with measuring financial return while simultaneously delivering economic, social, or environmental benefits.

Rationale for introducing FEIs

Building on the results of the feasibility evaluation studies undertaken, the main arguments cited for using funds through Article 44b were that it would provide new opportunities for private sector participation in urban development projects, leverage additional funding through PPPs, and mobilise additional support beyond Grants. The main arguments cited in favour of proceeding with UDFs over traditional Grant schemes included the ability to:

- open up a broad spectrum of financing opportunities for public authorities;
- allow better cash management given the revolving nature of funding;
- mobilise additional funding, attract private sector Equity and achieve Leverage Effects;
- provide a flexible instrument that reduces investment risk;
- allow greater project discipline, and a greater number and new types of projects;
- create more sustainable projects and stimulate social responsibility among private investors;
- construct partnerships, stimulate knowledge transfer and capitalisation of private sector know how;
- encourage pooling of local resources and cities' ownership of projects;
- represent a holistic, comprehensive and long lasting approach in resolving urban regeneration;
- help to deal with the requirements of n+2 (although this has been criticised by the ECA);
- use administrative and technical capacity from the EIB.

In addition, Michie and Wishlade (2011) found that the provision of new institutional instruments for urban development is viewed as particularly important, given that there are few financial or other vehicles on the market that play a similar role to the UDFs. This importance has been heightened by the economic crisis. In addition, the use of Article 44b FEIs is seen as aligning strongly with the current and future direction of EU (and national) policy objectives and pro-active external encouragement by the EIB and Commission also seems to have played a major part in MAs' decision-making processes, for example the offer of a joint Commission and EIB-financed Evaluation Study to test the feasibility of using Article 44b type funds to support urban development (Michie and Wishlade 2011). Furthermore, JESSICA can act as a catalyst for the establishment of the partnerships between Member States, regions, cities, EIB, CEB, other banks, investors, and others that will be required to address the problems which urban areas are confronted with now and in the future (EIB 2011).

Only one evaluation study (EIB 2009a) did not recommend setting up UDFs. The concerns related to possible Grant allocations from Structural Funds to UDFs, which would be substantially smaller than required for an efficient fund structure and additional public Co-investment was considered to be unlikely.

Challenges in setting up FEIs

As a relatively new instrument, the establishment of Article 44b FEIs has taken longer than expected. In research carried out in late 2011 among MAs who are members of an exchange of experience Structural Funds network, MAs reported that it has taken up to three years from the launch of the tender to the establishment of the UDF. MAs reported that it took nearly 2.5 years in the case of Śląskie, Poland (May 2009 - December 2011/January 2012) and Wales (UK) (2008-2010) to around three years in Portugal, London (UK) and the Czech Republic (all about autumn 2008 - autumn/winter 2011) (Michie and Wishlade 2011). This is despite the fact that the intention of operating a FEI was foreseen at an early stage in both Portugal and London and incorporated into the OPs.

Difficulties noted at the stage of preparation of the HFs and UDFs include the time-scale of the process, which in one case necessitated additional market testing. The market assessment was commissioned to identify the on-going impact of the recession. Time delays have been attributed by MAs to uncertainty about how the initiative would work in practice; the need to go through a learning process; the difficulties in using land as Co-financing; convincing private sector UDF managers to engage with contracts involving ERDF funding; and issues with State Aid (Michie and Wishlade 2011).

In line with the Michie and Wishlade report (2011), the Commission (2012) highlighted that setting up FEIs under Structural Funds implied a whole new concept for some MSs, requiring a timely learning process (ECA 2012). According to the European Court of Auditors (2012), there were deficiencies in the Structural Funds regulatory framework; which the regulatory framework for the forthcoming programming period attempts to address.

Conduct of Evaluation Studies

This section is based on a synthesis of the findings of publicly available Evaluation Studies carried out by the EIB under the JESSICA initiative. DG REGIO would finance 85% and the EIB the remaining 15% of the studies' cost which were provided free of charge to national or regional authorities (see Reference list in Annex 3). There is no publically available synthesis of these already existing, as was produced by the EIF for the studies carried out under the JEREMIE initiative (EIF 2009). In addition, there is also very little other evaluative material available yet on the funds launched under the JESSICA initiative. So far, around 65 JESSICA feasibility studies have been conducted with the support of EIB in 21 MS. Approximately 54 of these are currently publicly available.

All studies undertaken, except one (FIN) (EIB 2009a), recommended setting up UDFs and concluded that implementation of funds under Article 44b would provide considerable advantages and added value. Most of the studies (see reference list) underlined continuous and increasing demand for urban development activities.

Most of the Evaluations Studies noted that taking into account public spending constraints in urban development and a decreasing EU contribution in the next programming period, the Article 44b FEIs were considered to offer an opportunity to compensate for declining budgets, with UDFs being able to fill the market gap identified in all the feasibility studies. Indeed, there was a demand identified for new types of financing for urban development and in most cases, cities, other parties associated directly with urban development, banks and MAs expressed a keen interest in getting involved with Article 44b FEIs through JESSICA. Interested MSs included Belgium, Cyprus, Czech Republic, Lithuania, Poland, Sweden, Slovakia, and the United Kingdom. Commercial banks and particularly private investors' interest and contribution however remained a great concern in the MSs of Lithuania, Slovakia, and for example in Moravia-Silesia cohesion region in the Czech Republic. In Andalucía, Spain, some Fund Managers were reluctant to Co-invest their own funds to projects supported by public investment.

The JESSICA Evaluation studies showed that the planning culture and environment in which UDFs are set up varies across MS and regions. Some MSs were reported to have a strong planning framework and urban issues were clearly embedded in national and regional documents, while others such as Greece and Lithuania were considered to lack a clear urban approach. In some cases such as Greece and Hungary, urban development projects were delayed or cancelled because of the financial situation, bureaucracy or legislation. Some feasibility studies (for Wallonia (Belgium), Pomerania (Poland) and Galicia, (Spain)) identified regions or MS which had a strong planning tradition and framework but lacked an integrated vision of urban development or unified urban development concept. In general, it was viewed that all projects should be integrated into a long term plans and UDFs should adopt a demand-oriented approach that fits with respective urban policy objectives.

The feasibility studies identified a number of suitable urban development projects which were already at sufficient stage of preparation for Article 44b support (Belgium, Bulgaria, Finland, Greece, Spain, Portugal, Sweden, and United Kingdom). However, certain studies (Brussels-Capital Region, Belgium; Cyprus, and Hungary) showed that only some projects were mature enough to be implemented. Many projects were in an initial stage or needed to be developed (Castilla - La Mancha, Spain; Cyprus; South-East Cohesion Region, Czech Republic and Sweden) and thus were not ready to receive support. Furthermore, finding suitable projects was considered to demand expansion of the geographical area the UDF would cover. On the other hand, only one study (Liguria region, Italy) emphasised that it would be difficult for the region to formulate project proposals which conform to the characteristics required for Article 44b FEIs. Some studies (Greece, Spain, and South-Poland) showed that projects had eligibility issues. The number of suitable projects was generally expected to increase in time when awareness and experience of FEIs increases and projects can be planned from the start to attract repayable finance rather than Grant support.

The scope of the suitable projects identified in the studies included waterfront regeneration and brownfield development (Belgium; Czech Republic; Greece; Hungary; Italy, Netherlands, Portugal), thematic investments such as tourism, culture leisure and sports (Belgium, Czech Republic, Greece, Hungary, Poland, Portugal), new business facilities (Bulgaria, Czech Republic, Finland, Spain, Portugal, Romania), urban mobility (Czech Republic, Hungary, Spain, Italy, Netherlands), transfer institutions between research and industry (Czech Republic, Greece, Poland, Romania, United Kingdom), housing (Bulgaria, Hungary, Greece, Portugal, Slovenia), upgrading public spaces of social infrastructure and educational institutions (Bulgaria, Greece, Czech Republic, Poland, Portugal, Romania) EE/RE (Greece, Spain, United Kingdom, Poland, and Lithuania), and large scale urban wastelands (Belgium and Greece). Many of the projects identified were considered suitable for Article 44b FEIs as they have high upfront costs with long payback periods, making it difficult to undertake them through purely private investment.

Synthesising the Evaluation Studies (see Reference list) shows that proposed fund structures varied by MSs and regions but in most cases setting up a HF has been seen to be suitable. Especially in cases where experience in UDF-type models and PPPs is limited, utilising the expertise of EIB was seen as crucial. Establishment of a HF was seen to provide significant advantages such as independent and professional management, a more comprehensive and diversified UDF structure, the ability to leverage funds and attract more private investors, a better balance among different funds and a better transfer of know how.

Preconditions for success of Article 44b FEIs were identified as quick establishment of the UDFs, funding of investment-ready projects, identifying suitable OP resources, and being able to invest in projects during the lifetime of the current OP.

There are differences in how UDFs were suggested to be managed, by public or private bodies. Although the private contribution was highlighted as a concern, banks were noted as willing to manage UDFs. The legal form of funds proposed also varied with no one superior form identified, as well as the type of financing that the UDFs were proposing to offer.

The Evaluation Studies (see Reference list) proposed different initial allocations to HFs. For example, one feasibility study suggested that the HF in Portugal would be established with an initial allocation of €100 million. Commonly, only a relatively limited amount of funding was noted as being available from the OPs to feed the UDFs (Cyprus; Moravia-Silesia (Czech Republic), and Romania). Moreover, it was highlighted that the use of Article 44b FEIs via JESSICA started very late in the programming period when funds were already allocated for priority axes and major changes in allocations would have only been possible via amendments to the OPs.

The mobilisation of non-EU resources was stressed within Evaluation Studies and in some cases (e.g. Finland, Lithuania, Czech Republic, Poland, and Greece), the availability of public and private Co-investment was expected to be limited. In some cases problems emerged when monies had to be allocated from several priority axes to UDFs and financing streams for eligible and non-eligible costs separated. In some cases (e.g. Poland) regulations needed to be amended before JESSICA could be implemented.

The main challenges identified by the evaluation studies in terms of potential operational difficulties were:

- A young FEI culture, lack of experience of PPPs and UDF-type funds, the general lack of practical experience with Article 44b-type operations, and the need for competent staff, additional know-how and expertise;
- UDFs are bounded by ERDF criteria of programme volume and use of ERDF funds and FEI Fund Managers may not be used to dealing with these. The current legal framework, regulations and implementation rules are complex, and there is uncertainty over State Aid issues;
- The volatile economic climate and the complex nature of urban development adds a risk factor, which is combined with political risk and a potential lack of political will;
- Low awareness of Article 44b and the JESSICA initiative, and the need for active promotion and marketing;
- The challenge of bringing forward new high quality projects and the commitment required from the MA to act as a catalyst for project generation; and
- The considerable degree of preparatory work needed to apply for financing by Final Recipients (which may itself need financing).

In general, the implementation of the JESSICA initiative and the Article 44b FEIs in this programming period was seen as paving the way for the next programming period, helping make a smooth transition possible from one kind of support to another.

Establishing State Aid compliance

Article 44b FEIs have been found to present particular challenges in a State Aid context – more so than for business development measures targeted at SMEs (Michie and Wishlade 2011). While the Commission has a well-developed basis for dealing with business development measures for SMEs, this is not the case for urban development measures where there is no overarching framework setting out eligible expenditure types or projects. Routes which are useful for Article 44a FEIs, such as *de minimis*, are less useful for Article 44b FEIs as the sums available are quite small, and it is unlikely systematically to provide adequate funds in the context of urban development programmes. Similarly, General Block Exemption Regulation (GBER) compliance is restricted to SMEs, and is only available to large firms if they are located in assisted areas, so this route is also less useful for urban development measures.

The extent to which State Aid issues continue to cause concern reflect the absence of a single coherent framework covering Article 44b FEI. This leads to a highly fragmented approach with relevant constraints and parameters spread across a range of documents. In addition, many MAs have not been well-prepared and may not have given enough thought to State Aid considerations at an early enough stage in the process. It remains to be seen to what extent the State Aid approval for Article 44b FEIs for North West England (United Kingdom) and Andalucía (Spain) will prove a useful precedent for other MAs[55].

Management and Governance Structures

Due to the early stage of implementation of most Article 44b FEIs, there is so far little information available on implementation in the existing literature. However, a number of

[55] The North West Urban Investment Fund (NWUIF) in the UK was notified to the Commission, and its State Aid compatibility on a 'systemic' basis can be considered a landmark or 'precedent' case. Commission Decision SA.32835 (2011/N) – United Kingdom: Northwest Urban Investment Fund, 13 July 2011: http://ec.europa.eu/eu_law/state_aids/comp-2011/sa32835-2011n.pdf

horizontal studies (Energy-focused Urban Development Funds; Methodologies for Assessing Social and Economic Performance in JESSICA; Housing in JESSICA Operations; JESSICA for Smart and Sustainable Cities; and Marketing, Communication and Knowledge Dissemination Strategies for JESSICA Operations) are currently underway or have recently been completed, which will provide more information when publicly available. These horizontal studies complement the geographically focused evaluation studies in order to provide guidance on operational matters relevant to stakeholders across MS.

Administrative experience and challenges

Administrative issues have also emerged concerning using Article 44b FEIs to support urban development. There has been for example a lack of clarity within MAs over exit policies, including winding-up provisions for UDFs and re-use of resources returned to the UDFs (Michie and Wishlade 2012).

Project generation and absorption

Although most of the UDFs funded under Article 44b are at the early stage of implementation, there is a latent demand and some UDFs have proposed potential projects ready for implementation or under preparation in their business plans. However, there are some concerns regarding the ability to spend the total allocation before the end of the allotted period. The following reasons for delays were found:

Type of projects: For example, infrastructure projects take a longer time to develop than other projects. On the other hand, the nature of the projects funded is expected by some MAs to be similar to that supported under traditional Grant funding, with the main difference being the requirement of profitability (Michie and Wishlade 2011.)

Not all urban regeneration projects generate a return: Challenges around putting together packages of urban regeneration activity that do generate enough return were identified. Thus, there will continue to be a need for Grants alongside FEIs (Michie and Wishlade 2011).

Other reasons for delays such as MA uncertainty over rules e.g. exit policies and re-use of resources were found (Michie and Wishlade 2011). OPs were also found to have only a limited level of resources available (EIB 2009).

Experience with monitoring and control

The following sections do not differentiate between FEIs for entrepreneurship/SME support and those for urban development.

As a result of OPs making an increasing financial contribution to FEIs, the availability of data has now become crucial. Closer monitoring requires the Commission and national authorities to carry out a sufficient level of audits and management verifications during the programming period. Treasury management and accounting need to cater fully for the specificities of FEIs while the eligibility rules of Cohesion Policy need to be followed (EC 2012). According to the ECA (2012), the standard Cohesion Policy monitoring instruments put in place for the ERDF are felt to be not well adapted for the purpose of FEIs for the following reasons:

- Monitoring Committees are not generally in position to address the specificities of the different types of FEIs.
- OP indicators do not make the distinction between FEI investments (repayable) and Grants (non-repayable).

As a result, most of the indicators used — output-oriented 'macro-indicators of development' — are not considered to be helpful for assessing the progress of FEIs or their revolving nature (ECA 2012).

For Article 44b FEIs in particular, output-based indicators such as 'land developed' are considered appropriate, but indicators relating to 'number of jobs created' were found by MAs to not work as well for infrastructure/regeneration investment (Michie and Wishlade 2011). MAs have noted the difficulty of reconciling FEIs with the targets and indicators set out in the OPs. To improve monitoring, it was recommended by the ECA that the Commission and the MSs should agree on a small number of measurable, relevant, specific and uniform result indicators for FEIs, and that there should be more standardised way of providing information (ECA 2012). Reporting provisions will be strengthened by the Commission for 2014-20, with MAs being required to send a specific report to the Commission on operations comprising of FIs as an annex to the Annual Implementation Report (EC 2012a).

As Cohesion Policy primarily intervenes only in regions which are facing obstacles to development, different indicators could be used to assess FEI performance and quality of investments. The primary concerns of FEIs in Cohesion Policy should not be solely evaluated by financial returns or by the extent of participation by the private sector, rather also by reference to public policy objectives and achieving a balance (EC 2012a, EC 2011c). Indeed, the performance indicators normally used by FEIs do not capture the wider regional development impacts. For example, there is a potential mismatch between investing in technology-based business designed to provide long term returns and high quality jobs, and the ERDF job measures on job creation during the programming period itself (CSES 2007). However, monitoring social indicators and the value that the investments can generate is also not without problems (Tillväxtverket 2011, CSES 2007).

The regional approach inhibits the use of some potentially suitable indicators that could be used for FEIs, such as the percentage of foreign Equity in SME balance sheets, banking intermediation rates or Equity-to-debt ratios as these statistics, in many instances, do not exist at regional level or at the NUTS level. The accuracy and completeness of data reported has varied, and had not always given enough information to draw conclusions (EC 2010). In the COCOF guidance note (2011), the Commission recommended to the MSs that they report on over 100 indicators (ECA 2012). It should be noted that the regulatory provisions for 2014-2020 propose further strengthening of reporting, monitoring and evaluation of FIs (EC 2012a).

Financial Control

One of the most serious concerns in relation to absorption has been the alleged practice of over allocation OP resources to FEIs, which then remain in the funds instead of being disbursed to the Final Recipients, circumventing the automatic de-commitment rule (EP 2012b). Over allocation of resources has been discouraged by the Commission, since leaving significant amounts of funding unused on accounts delays the positive effect investment could have on the economy (EP 2012b) and the capacity to recycle the funds (EC 2012). Commission guidance since 2009 has repeatedly stressed that only payments made to Final Recipients will constitute eligible expenditure at programme closure (EC 2012a).

Other concerns have been the detected practice of transferring funds to FEIs before mature business plans were in place (EP 2012). Room for improvements has also been identified in the areas of setting up clear exit strategies and winding-up provisions (EP 2012). Lastly there are concerns in relation to the management costs and fees that have not always been seen to be set up in a transparent manner (EP 2012b). According to CSES (2007) it is not always clear whether management costs are based on fund size, or investment size or whether they are tied to financial performance of the investments. In 2010, amendments to the General Regulation clarified the need to keep management fees in line with market practices, and the compromise text for the financial instrument provisions in the CPR regulations makes further clarifications in this regard (EC 2012a, 2012c).

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- JESSICA Evaluation Study - Implementation of JESSICA instruments in the Brussels-Capital Region

Bulgaria

- JESSICA Preliminary Study for Bulgaria

Cyprus

- JESSICA Evaluation Study for Cyprus
- Supplementary JESSICA Legal Study for Cyprus

Czech Republic

- Implementation of the JESSICA financial instrument in Moravia-Silesia
- Implementation of the JESSICA financial instrument in Moravia-Silesia – A supplementary Study
- Implementing JESSICA in the South-East Cohesion Region, Czech Republic
- Implementing JESSICA in the North-East Cohesion Region, Czech Republic

- Implementing JESSICA in the Central Moravia Cohesion Region

Finland
- JESSICA in Western Finland

Germany
- Evaluation study for Hamburg
- Evaluation study for Berlin
- JESSICA Evaluation study for Nordrhein-Westfalen, Germany
- JESSICA Evaluation study for Saarland
- JESSICA Legal study for Germany

Greece
- JESSICA Evaluation Study for Greece
- JESSICA instruments for energy efficiency in Greece
- JESSICA instruments for solid waste management in Greece

Hungary
- JESSICA Evaluation Study for Hungary

Italy
- Implementing JESSICA in Italy
- Evaluation Study on the application of JESSICA in Puglia, Italy
- JESSICA Evaluation Study for Abruzzo region
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- JESSICA Evaluation Study – Implementing a pilot fund in Marche, Italy
- Incorporating JESSICA Instruments into the Operation Programme for the Marche Region
- Sustainable urban development in the Marche Region
- JESSICA Evaluation Study for Sardinia
- Preparatory Study of Jessica in Tuscany
- Implementation of JESSICA in the Liguria Region
- JESSICA Evaluation Study for Sicily

Latvia
- JESSICA Evaluation Study

Lithuania
- JESSICA Evaluation Study

Luxembourg
- Evaluation study for Luxembourg

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- JESSICA Architecture in the west Netherlands region

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Sweden

- Evaluation Study for Sweden

UK

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- JESSICA Preliminary Study for Wales
- North East JESSICA Evaluation Studies
- JESSICA Evaluation Study for the North West Region

ANNEX 4: OVERVIEW OF OTHER REVOLVING INSTRUMENTS & THEIR THEMATIC ORIENTATION

The figure in the 'TO' (Thematic Objective) column relates to the European Commission's eleven proposed thematic priorities for Cohesion policy in the period 2014-2020.The 'Score' column provides a rating based on evaluation evidence, where available.

Table 18 – Overview of Other Revolving Instruments (i.e. funds of similar focus for urban, SMEs and energy efficiency , and may use SFs, but not established under Article 44)

FI	Funding	Objectives	Lessons	Score	TO	Link
Finnish Innovation Fund (Sitra)	Donations (1967 FIM 100m from the bank of Finland) and investment revenues	A public fund whose activities promote new operating models and stimulate business that aims at sustainable well-being. Six programmes cover: Business, Countryside, Energy, Future, Leadership and Municipalities. In future it will concentrate on two themes; 1) sustainable lifestyles and smart use of natural resources and 2) empowered individual and social structures. Sitra invests Venture Capital alone and as a co-investor.	• Independent status is Sitra's most important competitive advantage and it has succeeded being a change agent by creating new ideas. It has managed to pick projects that later have become mainstream e.g. clean tech • It has succeeded in its programmes when it has boldly ventured into areas where there are no other key actors or where it's operations have unique content • Added value has been created by building networks, promoting public debate, and carrying out actual investment activities in the areas where there is a market need, even in areas where one has not been fully identified • Energy, Leadership, Future and Municipalities programmes have been evaluated as successful i.e.it has influenced the position of energy efficiency in decision-making, questioning the operating models of the public sector, and the systematic testing and introduction of social innovations. • Lack of foreign Co-investments and only limited	High	1	http://www.sitra.fi/en Evaluation of Sitra 2002-2011 (English summary) http://www.sitra.fi/julkaisut/muut/Sitran_arviointi_2002_2011.pdf

FI	Funding	Objectives	Lessons	Score	TO	Link
			international cooperation and a need to improve network management and utilise external expertise. New operating methods such as dialogue and coaching processes could be used • Sitra should enter new thematic areas such as social responsibility and discuss work distribution issues more intensively with other actors			
Innovation Norway	Public and partly revenues from the purchase of services and net interest income.	A state owned company supporting companies in developing their competitive advantage and to enhance innovation. It provides competence, advisory, promotional and network services. The marketing of Norway as a tourist destination is also one of the important tasks. Compared with other business and industry policy agencies, Innovation Norway has a very wide area of responsibility. It provides Loans, Guarantees and Grants for many sectors. Innovation Loan funds 50% of the project cost and offers favourable interest rates. The repayment period is adjusted for the Loan purpose.	• It has contributed to value creation in Norway and half of the enterprises supported believe that the aid triggers new activity to a great extent. • It has a wide area of responsibility and brings together most of the policy instruments aimed at business (single entry point organisation). This form has a lot of potential, which has not yet been realised completely. • Resources should be reserved to a greater extent in the projects that are nationally and internationally innovative. Sector programmes should focus on areas where funds can best contribute to increased value creation. • Fewer geographical and sector limitations on the available policy instruments would make it easier to promote the most innovative projects. • Instruments should be directly linked to the goal structure (one-to-one connection) and the number of the instruments should be reduced. • It has not developed sufficiently as a knowledge-based organisation and agenda setter for Norway's	OK	1	http://www.innovasjonnorge.no/ Evaluation of Innovasjon Norge http://www.damvad.com/media/10862/summary_of_evaluation_findings.pdf

FI	Funding	Objectives	Lessons	Score	TO	Link
			business and industry policy. To do this its autonomy should be increased and dialogue fostered.			
Innovation Fund Ireland **(IFI)**	Public (€250 m) Initiated by Enterprise Ireland and managed by private sector.	Launched in 2008, designed to attract leading international Venture Capital Fund Managers to establish their European headquarters in Ireland and to leverage and develop entrepreneurial talent and innovative companies. It has an objective of increasing the availability of risk capital for early-stage and high-growth companies. It's funding runs along two parallel tracks. The first comprises €125 m of funds provided by the Exchequer and managed by Enterprise Ireland. The second one is for a similar amount and is designed to allow Ireland's National Pension Reserve Fund to make commercial investments.	• It is a key pillar of support for dynamic new industries and investments through the Fund facilitate job creation in innovative export focused sectors. • Central to the Irish Government's strategy for economic recovery. • There has been a large interest from a sectorally and geographically diverse group of companies. • In June 2012, the Fund announced a collaborative relationship with Silicon Valley Bank aimed at supporting the technology innovation sector in Ireland. The NPRF has committed to invest in technology funds managed by SVB Capital, while Silicon Valley Bank will establish a presence in Ireland and expects to lend US$100 million to fast growing Irish technology, life sciences and Venture Capital businesses over five years.		1	http://www.enterprise-ireland.com/en/Invest-in-Emerging-Companies/Investors/Innovation-Fund-Ireland/Innovation-Fund-Ireland.html
ERP Technology programme	ERP-funds in 1948 as a "Marshall Plan" for the reconstruction of the economy	Supports RDI projects, special focus on biotechnology, environment and energy, and especially on those aimed at moving research from the pre-competition phase of development into practical applications. Open for enterprises with projects in industrial research or experimental development. Enterprises supported by means of a	• The programme has been successful in promoting firm performance and been one of the successful AWS programmes this far. There has been demand for programme financing. • Clear division between the responsibilities between the different actors was seen important (defining clear funding priorities, competence allocation).	OK	1	http://www.awsg.at/Content.Node/48412.php Die Fördertätigkeit des ERP-Fonds (The activity of ERP Fund) 1999 http://www.fteval.at/upload/ERP-Fonds.pdf

FI	Funding	Objectives	Lessons	Score	TO	Link
		Loan with favourable terms between € 100,000 and € 7.5 million. In addition, aim is to promote the establishment of competence research centres of international corporations in Austria.				
Tekes innovation support		Tekes, the Finnish Funding agency for Technology and Innovation development of innovations that aim at growth and new business operations. Tekes promotes a broad-based view on innovation: besides funding technological breakthroughs, Tekes emphasises the significance of service-related, design, business, and social innovations. Tekes offers Grants, Loans and business support.	• Tekes has an international reputation as a leading technology and innovation agency and many studies show its impacts, input Additionality and R&D spending associated with increased employment, patenting, innovations and productivity. Loans are perceived as offering some of the right incentives to stimulate business and Introducing Shocks (competence centres) has been important development. Tekes could strengthen its linkages to VC, while not taking VC role. • Tekes has rather low management costs which are because of fairly standardised process for all applications, a good proportion of proposals of fairly size, internal evaluation of project applications, electronic application procedures and paperless ICT support systems. Efficiency is enhanced by Tekes' strong brand name and a limited target group. The evaluation and monitoring of business projects is seen as an area of improvement • More attention to the renewal of the industrial base, focusing on internationalising companies. Emphasis should be placed on new thematic areas, service and work place innovations. • Increased focus on start-ups and small scale	Good	1	http://www.tekes.fi/en/community/Home/351/Home/473 Evaluation of Tekes, Final report 2012 http://www.tem.fi/files/33176/TEMjul_22_2012_web.pdf

FI	Funding	Objectives	Lessons	Score	TO	Link
			entrepreneurship is a useful complement to Tekes traditional role but it would be mistake to abandon Tekes core function in technology. • Positioning and relations to other agencies in Finland should be improved			
ERP Fund for Innovation	ERP-funds in 1948 as a "Marshall Plan" for the reconstruction of the economy	ERP innovation program (part I and II) provides long term financing for market orientated R&D of new products, processes and services (support during the R&D process - part I) as for their introduction on the market (part II). The fund offers integrated financing packages which are composed of classical Loans and subordinated Loans.	• Both 2001 and 2011 evaluations stated that all ERP programmes have been successful in terms of meeting their goals and 2011 evaluation came to a positive conclusion regarding the efficiency and implementation of the innovation programme. On average, the firm created 18 new jobs and secured 75 existing jobs between 2005 and 2009 with the funding.	High	1	http://www.kfw.de/kfw/de/Inlandsfoerderung/Programmuebersicht/ERP-Innovationsprogramm_II/index.jsp http://www.ramboll-management.de/news/~/media/FA190CB3FA87456B9FD0B84AD553567E.ashx
Innovation Investment Fund (UKIIF)	£150m Government funding and £175m leveraged private co-investment.	Announced in 2009 to invest in technology based businesses with high growth potential. Focus on investing in growing small businesses, start-ups and spin outs, in digital and life sciences, clean technology and advanced manufacturing. Two strands cover: 1) The EIF UK Future Technologies Fund, which has £200 million to invest at first closing. The fund will invest in a range of technologies such	• UKIIF is seen as strongly addressing the gap in the supply of Equity finance. Throughout a fund of funds model, it has successfully encouraged additional private investment leverage. Leverage has been achieved through the use of professional fund of Fund Managers, private sector VC fund experts, with access to funding and strategic performance oversight. • Speed at which UKIIF was set up may not have allowed as much private investment as a longer time period would have been allowed	OK	1	http://www.bis.gov.uk/policies/innovation/business-support/ukiif Early assessment of the UK innovation investment fund (2012) http://www.bis.gov.uk/assets/biscore/enterprise/docs/e/12-815-early-

FI	Funding	Objectives	Lessons	Score	TO	Link
		as: life sciences, digital technology and advanced manufacturing; 2) The Hermes Environmental Innovation Fund has £125m to invest at first closing. This fund is aimed at increasing the efficient use of resources and is a major boost in the transition to a low-carbon economy. Hermes is investing £75m alongside £50m from UKIIF.	• Investment into early stage R&D, above the current EU State Aid limit, of between £2-5 million has been particularly beneficial and UKIIF's hands on approach to management has been appreciated. • The UKIIF supported underlying funds had invested a substantial amount of funding into innovative technology businesses, which has leveraged additional funding. However, The UKIIF's Additionality is only partial • There may be displacement effect from using EIF as a fund of funds manager, given that these matched funds would have existed in the UK anyway. The limited promotion of the UKIIF underlying Fund Managers makes it difficult for businesses with inexperienced managers to find these funds, without assistance. • Surprise was expressed at the extent to which UKIIF allowed European investment, with its position perceived as more liberal than some other EU states (e.g. Germany).			assessment-uk-innovation-investment-fund
High-tech Gründerfonds	Total amount €563m. Funded by a PPP (Federal government, KfW banking group and German industry)	High tech seed fund aiming to enable start-ups to take their R&D plans through to the preparation of a prototype, a 'proof of concept' or to market launch. On a first round the fund generally invests in a combination of nominal capital and Loans. The fund also provides additional assistance in the form of	• The fund has successfully contributed to reducing financing gap for high tech enterprises and it is a single most important seed investor in its market segment. It has succeeded attracting private capital and increased inflow of capital to start-ups and the economic development of the supported companies was better than companies receiving other kind of support • All actors positively assess the goals and the activities	Excellent	2	http://www.en.high-tech-gruenderfonds.de/ Technopolis group (2010) Evaluierung des High-Tech Gründerfonds http://www.bmwi.de/B

FI	Funding	Objectives	Lessons	Score	TO	Link
		access to coaching.	of the fund. Two factors were identified which are responsible of the success: the independence of the fund that it can act entrepreneurially and the significant volume of the fund. • The public-private funding model was positively assessed. Private sector know-how can be utilised and participating offers industry investors both interesting investment opportunities and other forms of cooperation such as joint development projects and technology transfer • The flexibility and scope of the fund in subsequent financing should be increased: 1) The target sectoral structure has not been fully achieved. Because of the funding criteria it seems that the companies funded are more likely to be in software sector rather than other high technology sectors such as energy and environmental technology. Thus, it is recommend to raise the current follow on investments limit from 1 million to 2-3 million; 2) more flexible funding criteria i.e. companies age criteria (1 year) should be applied with flexibility that e.g. spin-offs of existing companies could be funded. • More attention should be paid on the development of the coaching concept because there is a lot of untapped potential in the field of non-financial support.			MWi/Redaktion/PDF/Publikationen/Studien/evalueirung-des-high-tech-gruenderfonds-endbericht,property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf
Low Carbon Innovation	ERDF £12.5m, private £17m Managed by Turquoise	The fund makes early-stage Equity investments into SMEs within the East of England that are developing new and innovative products or	Evaluation forthcoming (initial results 2012)		4	https://www.lowcarbonfund.co.uk/LCIF/

FI	Funding	Objectives	Lessons	Score	TO	Link
Fund	international	processes in a low carbon, environmentally sensitive manner.				
PURE Community Energy Fund	Charity (donations; low interest Loans from financial institutions such as Big Society Capital	PURE funds community renewable energy projects across the UK and in the developing world. Fund provides low interest Loans to help community organisations afford the cost of installing renewable energy. Pure makes Loans up to £50 000 or 50% or project cost with interest rate 4-6%. Loan terms are for 5-7 years.	• To date, PURE has offset about 150,000 tonnes of emissions through international projects and supported 40 UK projects. PURE has financed some UK's first community owned renewable energy projects. • Initially PURE was offering Grants but has shifted from grant giving to the issuance of low interest Loans. • BRE launched the UK carbon Reporting Framework in August 2011 which will enable PURE to meet best practice in the way it reports carbon reductions achieved by the projects it supports. All projects that are supported through the Fund will be registered on the UK Carbon Reporting Framework (CRF).	Good	4	http://www.puretrust.org.uk/communityenergyfundeoi.jsp
Green Savings programme	Sale of emission credits under Kyoto Protocol on greenhouse gas emissions. Total CZK25 billion	The programme focus on supporting renewable energy technologies in heating installations, as well as on investments in energy saving measures in reconstruction of existing building and in new buildings. The programme subsidises energy savings in heating, construction in the passive energy standard and use of renewable energy sources for heating and hot water preparation. There is a sub programme, an information	The audit revealed many weaknesses in relation to demand, efficiency, effectiveness, management and monitoring of the programme. Indeed, the systemic shortcomings of administration lead to an absence of complete and reliable information about its substantive and financial development. The weaknesses included: • Progress towards the goal was meant to be monitored via the GIS IS, but that did not make it possible. There were delays in the registration of applications in the GIS IS, and thus there was no reliable and timely information about the substantive and financial development	Low	6	Audit conclusions from Audit10/31 http://www.nku.cz/assets/media/k10031_en.pdf

FI	Funding	Objectives	Lessons	Score	TO	Link
		campaign promoting energy efficient appliances.	• Target values were not defined categorically and progress towards them was not monitored. • Maximum efficiency in pursuing objectives was not achieved because the criteria for assessing the efficiency of applications in terms of the size of the appropriation / the expected CO_2 emissions reduction was not defined • The process of administering applications was not continually monitored and assessed and spending of management was not always economical			

Table 19 - International Examples of Other Revolving Instruments

FI	Funding	Objectives	Lessons	Score	TO	Link
Ontario Emerging Technologies Fund	$250 fund	OETF co-invests with qualified Venture Capital funds and other private investors directly into companies working within clean technologies; life sciences and advanced health technologies; and digital media and information and communication technologies.	• Rather slow start • The public record suggests that OETF has not yet succeeded in attracting new foreign investors to Ontario		1	http://www.mri.gov.on.ca/english/programs/oetf/program.asp
US Department of Energy Loan Programme		LPO has three Loan programmes: Advanced technology vehicles (for automotive manufacturers and manufacturers of qualifying components), Manufacturing Loan Program and the Loan Guarantee program (clean energy technologies and	• Several opportunities to strengthen the management of the programme (long term funding for management should be assured and authorities and accountabilities of management should be clarified), give more definition to program goals (explicit objectives and standards of performance should be should be developed	Low	4	http://www.whitehouse.gov/sites/default/files/docs/report_on_doe_Loan_and_Guarantee_portfolio.pdf

FI	Funding	Objectives	Lessons	Score	TO	Link
		certain renewable energy systems)	and balance between financial and policy goals should be defined) and create independent risk management (risk management unit should be created), refine oversight boards, protect tax payers interest proactively and implement a comprehensive communication plan			
Toronto Atmospheric Fund (TAF)	$ 23 million endowment from the sale of Langstaff Jail Farm	Toronto atmospheric fund focuses on reducing local greenhouse gas and air pollution emissions. The fund helps the city to achieve the targets set out in the Council approved Climate plan. TAF deploys three programs — Incubating Climate Solutions, Mobilizing Financial Capital, and Mobilizing Social Capital. TAF makes market-rate Loans to commercial enterprises, institutions and non-profit organizations	• The TAF is the only municipal agency of its kind in the world dedicated to finding local solutions to the global problem of climate change. • The results to date are good. Revenue from TAF's endowment has financed greenhouse gas reductions totalling upwards of 225,000 tonnes. • TAF-supported projects such as a street lighting retrofit, traffic light LED conversion, and building retrofits have generated $55 million in savings for the city to date. In addition it addresses the city's major emission sources – buildings and transportation. Based on a careful study of Toronto's emissions profile, TAF has a strong interest in energy efficiency retrofits in buildings, electric vehicles for fleets, efficient transportation of goods, natural gas alternatives like geothermal, and social innovation to support emission reduction strategies • Internal management systems are seen as an area of improvement.	High	5	http://www.toronto.ca/taf/index.htm http://www.toronto.ca/taf/pdf/taf10th_anniversary_report.pdf
US SBA 7(a) Loan programme		Includes financial help for business with special requirements. The Loan programme includes products such as export Loans, rural business Loans and	• The Loans are used in a manner that is consistent with SBAs objective of making credit available to firms that face capital opportunity gap. 68% of Loan borrowers rated their overall satisfaction with the	OK	3	http://www.sba.gov/category/navigation-structure/Loans-Grants/small-business-

FI	Funding	Objectives	Lessons	Score	TO	Link
		other special purposes. The programme offers Loan Guarantees.	Loans as either excellent or good and 90% reported that Loan was very important or somewhat important. • Deficiencies in the SBAs administration of Loan Guarantee programs including: 1)Oversight of 7(a) lenders should be strengthened to establish more robust controls to prevent waste, fraud, abuse and indifferences; 2)SBAs program's performance measures (e.g., number of Loans approved, funded, and firms assisted) provide limited information about the impact of the Loans and lack outcome based performance measures • 7(a) programme has the greatest amount of potential duplication at all levels and some duplication exists between 7(a) and CDC/504 programmes • The Loans did not give firms a boost in terms of sales and employment			Loans/sba-Loan-programs/7a-Loan-program http://www.sba.gov/content/cdc504-Loan-program http://www.urban.org/UploadedPDF/411602_executive_summary.pdf
US SBA CDC/504 Loan programme		CDC/504 programme differs from the 7(a) programme in two significant ways: (1) the 504 Loans can only be used for fixed assets (i.e., land and buildings) and (2) have fixed interest rates	•	OK	3	
Seed Co-investment fund	$40 million of matched investment alongside selected Seed Co-investment	The Seed Co-investment Fund is an early stage direct investment fund aimed at early stage businesses with strong potential for high growth. The key objectives of the Fund are to enhance the development of angel investors and angel networks, stimulate investment	• The fund is a cornerstone in developing New Zealand's angel investor markets • Some objectives are insufficiently defined and over ambitious. To clarify programme objectives performance measures should be set up. Networking would be helpful to develop some programme	Novel	3	http://www.nzvif.co.nz/seed-Co-investment-overview.html http://www.med.govt.nz/about-

FI	Funding	Objectives	Lessons	Score	TO	Link
	Partners on a 1:1 basis	into innovative start-up companies, and to increase capacity in the market for matching experienced angel investors with new, innovative start-up companies. Investments through the Fund are limited to a maximum investment of $250,000 in any one company or group of companies; with the possibility of follow-on capital investments up to $750,000.	objectives. •			[us/publications/publications-by-topic/evaluation-of-government-programmes/archive/report.pdf]()
Community investment corporation (CIC)		CIC provides financing to buy and rehab multifamily apartment buildings in Chicago metropolitan area. In addition to multi-apartment programme it has energy savings programme and contributes to troubled building initiative. CIC also offers property management training to help owners and managers better market, manage, maintain and improve affordable rental property.	• CIC knows its core business well and remains centrally focused on its mission of stabilizing the Chicago area's lower income neighbourhoods by rebuilding the affordable housing stock safely and soundly while generating a fair return for investors • CIC has pooled risk lenders that specialises in rehab-neighbourhood revitalization lending. • Contributes to social inclusion, energy efficiency and revitalising neighbourhoods.	OK	9	http://www.cicchicago.com/

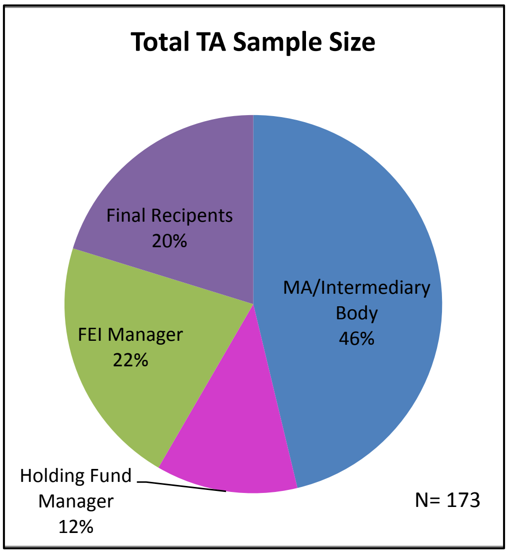
ANNEX 5: TECHNICAL ASSISTANCE METHODOLOGY

Methodology and response for TA results contained in Chapter 9.

For the various data sources:

- Internet Survey: Of the 173 respondents who took the survey, 46 respondents completed the section on TA.
- Case Study Interviews: Of the 156 respondents for the case studies, 84 respondents were MAs or HF Managers, whilst 37 were Fund Managers and 35 respondents were Final Recipients. MAs and HF Managers were asked the same set of TA questions as the Internet Survey. The Country Experts asked whether or not the MA or HF Manager had completed the internet survey at the time of the interview. If yes, then the TA questions were skipped and the interview focused on the qualitative aspects of TA with emphasis on the future need of TA.
- The data from the Internet Survey were then combined with the data from the Case Study Interviews for a total of 75 respondents who completed the TA component of the survey.
- Unless otherwise specified, the research findings contained in this chapter is from the perspective of MAs and HF Managers. It should be noted that the Final Recipients had a separate set of questions relating to TA and these will be analysed separately.
- For Article 44a FEIs – SMEs, there were a total of 51 respondents for the TA section and for Article 44b – Urban Development, there were a total of 24 respondents.

Figure 15 - Sample Size of TA



ANNEX 6: TASKS IN TERMS OF REFERENCE

Tasks in ToR		Data Source
2.1.1	Inventory of studies/reports	Literature review
2.1.2	Review and summarise the findings from existing documents	Literature Review: Commission data and reports Evaluation and other research reports and studies
2.1.3	Describe and analyse the implementation stages	Internet survey Case study interviews
2.1.4	In-depth analysis of a representative sample of FEIs and Other Revolving Instruments	Case study interviews Desktop research
2.2.1	Analyse the TA requirements	Internet survey Case study interviews National level interviews
2.2.2	Analyse the use of EU instruments in provision of TA	Internet survey Case study interviews National level interviews
2.3.1	Describe case studies from Other Revolving Funds	Literature Review Case study interviews National level interviews
2.3.2	Assess MS and MA interest in deployment of FIs in the future	Internet survey Case study interviews National level interviews
2.3.3	Identify sector opportunities for future FI use	Internet survey Case study interviews National level interviews
2.4.2	Provide FI related capacity building actions	Internet survey Case study interviews National level interviews