STUDY
requested by the BUDG Committee

European Parliament

Financial Instruments: defining the rationale for triggering their use

Budgetary Affairs

Policy Department D for Budgetary Affairs

Directorate General for Internal Policies of the Union
PE 603.787 - October 2017

EN

European Parliament

DIRECTORATE GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT D: BUDGETARY AFFAIRS

Financial instruments: defining the rationale for triggering their use

STUDY

Abstract

The use of financial instruments within the EU budget is becoming more and more common. The present study first revises key concepts in determining the use of those instruments, before providing an analysis of the functioning and consistency of the ex-ante assessments, which are required by regulation to help identify the rationale and scope for financial instruments. It offers recommendations to improve the ex-ante assessment process and on the use of these instruments across the EU.

IP/D/ALL/FWC/2015-001/LOT4/C6/SC2 26/10/2017

PE 603.787 EN

This document was requested by the European Parliament's Committee on Budgets. It designated Ms Eider Gardiazabal Rubial, MEP, to follow the study.

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LINGUISTIC VERSIONS

Original: EN
Translation of the Executive Summary: DE, FR

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Manuscript completed in October 2017.

This document is available on the Internet at:
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LIST OF ABBREVIATIONS

CF	Cohesion Fund
CoR	European Committee of the Regions
CPR	Common Provision Regulation
ECA	European Court of Auditors
EAFRD	European Agricultural Fund for Rural Development
EASME	European Agency for Small and Medium-sized Enterprises
EIB	European Investment Bank
EIF	European Investment Fund
EFSI	European Fund for Strategic Investments
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	European Structural and Investment
ESIF	European Structural and Investment Funds
EC	European Commission
EU	European Union
FIs	Financial instruments
FLP	First Loss Piece
FR	Financial Regulation
MA	Managing Authority
MFF	Multiannual Financial Framework
NCFF	Natural Capital Financing Facility
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
PF4EE	Private Finance for Energy Efficiency instruments
SME	Small and medium-sized enterprises

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EXECUTIVE SUMMARY

Financial instruments can play an important role in the delivery of EU policy objectives. According to the Financial Regulation (No 966/2012), financial instruments are defined as "*measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk sharing instruments, and may, where appropriate, be combined with grants*."

This is a formal definition, but what is the purpose and benefit of using these instruments, and how far can they go? Financial instruments are not an innovation, but not because they have appeared for several years now in the EU budget, but rather because these are well-established practices by governments and international financial institutions that use debt and equity instruments to promote high public-good value investments. These ***instruments support bankable investments that address public objectives in cases where there are returns from the market, but those returns are not sufficient to attract private investors***. This happens mainly when either the risks are high, the timeframe is too long until the return on investment is realised, or the project creates benefits that are not private and thus are not susceptible to monetisation within the project. These gaps may be caused by market failures, where good and de facto viable projects are not financed by the private sector. ***The gulf between the investments that the private sector should be financing in a market without imperfections and the reality is called a "market gap" or "financing gap". Financial instruments are targeted at closing that market gap.***

The public goods which cannot be charged for, may need to be covered fully or partially by taxpayers through subsidies, which may take the form of grants, guarantees, or equity or debt on favourable terms, to ensure that those projects are undertaken in the first place. This may be the case, for example, in health or environmental infrastructures, which may improve citizens' health and thus the productivity of society, as reflected in an increase in GDP or tax income that is superior to the cost of the subsidies.

However, the unwillingness of the private sector to finance a project may well be unrelated to the project itself. A good project may fail to attract investments when confidence in the overall performance of the economy is low, which may change the demand risk perception of investors. Demand risk is the reason for the existence of public private partnerships (PPPs) for infrastructures using concessions, where demand risks are covered by the state (e.g. lower usage rate of a motorway and lower revenues from tolls). Banks may also be unwilling to lend to SMEs with very good projects, because the economy is sluggish or the project may be too small for the bank to take an interest in monitoring it. *This means that the 'market failure' targeted by the financial instrument is not always evident or present at all times; the same project may or may not need support depending on the specific circumstances at a given time*.

Therefore, the recurrent statement that the purpose of financial instruments is to finance risky projects is partial and misleading. Financial instruments are created to leverage investment in worthwhile projects in which the private sector is unwilling to invest by itself; risk may or may not be a key factor. Another case often ignored is the fact that even if an investment has a sound profile, it may not attract financing because it competes with others that offer quicker or higher rewards. Projects that are profitable may not attract funding because there are greener pastures available elsewhere. This is important to keep in mind, ***because even in times of economic boom with high-return options, financial instruments may still be required to support important but less profitable investments***, which in other circumstances would be financed privately. ***The areas in which financial instruments are required need to be reviewed over time.***

Financial instruments are also often misunderstood as public funds for investment in public goods, without an understanding that the risk-return trade-off needs to be correct. ***The level of risk needs to be proportional to the design of the instrument; and the return must be sufficient to cover the debt***.

The risk also needs to be proportional to the risk-bearing capacity of the financial institution, such as the European Investment Bank (EIB), the European Investment Fund (EIF) or any bank. The EIB, for example, raises cheap capital in the capital markets to finance its operations. The capital is cheap, because the EIB benefits from a considerable capital backing by EU member states and the guarantees by the EU budget, as well as the quality of its project selection capacity. ***If the operations of the EIB become excessively risky in proportion to its capital base and guarantees, the financial markets will not offer the EIB the same low rates, defeating the purpose of the EIB as an investment bank***.

One can summarise simply the financial instruments supported by the public sector as a means to mobilise private finance for projects with high public good value added, whenever the private sector seems unwilling to finance them without support.

One note of warning, however, is that ***financial instruments are no substitute for good governance and structural reforms***. When the private sector does not invest because the economy is sluggish due to the lack of proper governance and structural reforms, financial instruments are no solution. Attempting to fight policy distortions with other distortions is a risky strategy. It is also risky and counterproductive to use financial instruments to avoid or postpone reforms, as sound policies are central for ***any*** investment to contribute to economic growth.

Characteristics of the EU financial instruments

Financial instruments (FIs) have four appealing characteristics for policy-makers. First, they increase the ***sustainability of public investment*** in the sense that they can re-cycle capital for future use (as opposed to the one-off nature of non-repayable grants)[1]. Second, they have ***a leverage effect*** that enables them to unlock greater levels of public- and private-sector resources, thereby increasing the capital available for policy purposes. Third, they ***incorporate private-sector participation*** (i.e. skills and expertise) in areas such as project selection, decision-making, management of commercial operations and the ability to achieve commercial returns. Fourth, they ***can ensure greater commitment by project promoters*** to the quality and credibility of investment plans, by sharing the risks involved.

Financial instruments can be used in different parts of the EU budget. For example, shared management FIs in the area of cohesion are set up mainly under the European Regional Development Fund (ERDF), and to a lesser extent under the European Social Fund (ESF). Since the 2014-2020 programme period, however, FIs can also be used for the Cohesion Fund (CF). ***Each instrument has to be implemented within the framework of an operational programme (OP),*** which is decided by the managing authorities responsible for that programme, together with its size and design. Furthermore, FIs are now also used under the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

Preliminary results from the years 2014 and 2015 demonstrate that, despite the early stage of the implementation of programmes under shared management, managing authorities across 21 member states record progress on financial instruments. ***Some of these financial instruments are already demonstrating concrete results in terms of leverage or resources returned for further investments.*** However, the results also underline the heterogeneity and significant differences across Member States regarding the roll-out of FIs, as some Member States have not yet completed ex-ante assessments, whilst in others FIs are already on a second round of investments.

Centrally managed financial instruments focus on various key objectives of the EU such as research, enterprise and industry, education and culture. The Commission, together with its partners, is directly involved in designing these instruments and developing their investment strategy and endowment.

[1] One of the main characteristics that makes FIs particularly valuable under conditions of economic uncertainty, fiscal deficits and bank-lending constraints is their self-sustaining (evergreen) nature.

The decision to set up these instruments is taken by the budgetary authorities – the European Parliament and the Council – on the basis of a Commission proposal.

With the financial crisis and the consequent need to expand the reach of the limited funds of the EU budget in relation to its objectives, the number of financial instruments has multiplied. With the appearance of the European Fund for Strategic Investments (EFSI), the dimensions of debt and equity operations supported by the EU budget have reached considerable proportions. EFSI is a trust fund but closely resembles another form of centrally managed financial instrument, and is considered a centrally managed fund in the document for simplicity. Due to the financial crisis, there is an argument for such intervention to dampen the drop in investment in the EU.

The expansion of financial instruments has to be accompanied by procedures to ensure that those instruments are not crowding out private finance, but rather are complementing it. Nevertheless, their expansion has occurred in a relatively short period of time with several instruments created under central management and numerous smaller ones set up under shared management. Ultimately, *we are seeing the emergence of similar instruments addressed towards the same beneficiaries through central or shared management, to the potential for duplication and inconsistencies that arises from this situation may need to be addressed*.

Setting up such instruments is a complex task, requiring adherence to strict principles to avoid crowding out the private sector or breaking state aid rules. As a consequence, the managing authorities are obliged to perform ex-ante assessments demonstrating the need for any instrument they wish to set up.

Managing authorities also have the possibility to allocate European Regional Development Fund (ERDF) or European Agricultural Rural Development Fund (EAFRD) *funding for financial instruments in support of SMEs to centrally planned instruments*. In this case, no ex-ante assessment by the managing authorities is necessary, because centrally planned instruments are already set up based on an ex-ante assessment at EU level by the European Commission supported by the European Investment Bank and the European Investment Fund.

Ex-ante assessments

The setting up of financial instruments has to be preceded by an ex-ante evaluation at the operational programme level and by a subsequent ex-ante assessment. Ex-ante evaluations should clarify the overall strategy and rationale for the use of a financial instrument. Together with ex-ante assessments, they help ensure that the creation of the financial instruments contributes to the achievement of EU goals and that their governance structure is in line with EU rules.

Ex-ante assessments are required by the relevant regulations to:

a) Identify the market failure to be addressed and the market or financing gap it generates
b) Describe the added value of the financial instruments, including their consistency with other forms of public intervention
c) Spell out the implications for state aid
d) Estimate the leverage expected to be achieved by the financial instrument
e) Define an investment strategy
f) Identify the expected results
g) Specify the lessons learned
h) Make provisions for review

This report is based on the review of 40 ex-ante assessments, but due to the lack of full access to many assessments, only executive summaries were analysed in a number of cases. *There is in fact no complete central repository for ex-ante assessments*. Also in some national languages, such as French, no distinction is or can be made between "assessment" and "evaluation" so that some confusion may arise concerning what the documents actually address. Interviews with specialists have also been undertaken.

The ex-ante assessments vary in quality and content, and in many we noticed a recurrent weakness: ***a lack of clear quantification of results in terms of concrete economic, social or environmental impact***. ***Many limit their analysis of results to operational milestones and do not include the impacts expected from their achievement***. For instance, some of the reports list data such as "number of businesses supported, number of unemployed trained", which may be easy to measure but do not capture the ultimate objective. The ***investment strategies are also often wanting in quality***, while monitoring and review provisions are weak, also because they monitor the achievement of the operational milestones rather than impacts. This depends on the nature of the financial instruments; when the impact is a reduction in CO_2 emissions from energy efficiency investments, for example, then the indicators are clearer.

But the fundamental weaknesses of the ex-ante assessments is the absence of a real logic in the requirements and an understanding of their utility. The first major inconsistency is that while FIs set up by MAs at local level have to take great pains to demonstrate their need, the centrally planned ex-ante assessments are much less detailed in their national analysis, and provide little or no regional analysis. Nevertheless, the EU allows in the case of SME financing the transfer of funding from national and regional programmes to the centrally planned financial instruments run by the EIB and EIF. The centrally planned instruments' ex-ante assessments only have short and broad country analyses highlighting the need for financial instruments. If the brief EU-level analysis is sufficient as an analytical basis for a national or regional level contribution to the FI, why is there a requirement to demonstrate its rationale in more detail at the local level for setting up an equivalent instrument?

One of the weaknesses detected in the assessments is that ***market failures are common in all markets***. Many failures listed, such as asymmetric information, can be found in all well-functioning markets. Thus many ex-ante assessments are rather generic and do not provide a compelling market failure argument. ***The most important question is whether there is a financing gap, i.e. an excess of demand for credit that is not covered and that is not proportional to the quality of projects***. In a period of financial crisis, such a result is easy to show and rather uncontroversial. When the analysed economies are in better shape, the cause of the financing gap may be that projects with significant (but insufficiently rewarded) public-good components (e.g. positive externalities) are simply not attractive enough.

In fact, the main conclusion of this report is that ***ex-ante assessments should use the EU level market failure analysis when provided by centrally managed instruments and be more precise where it matters***, namely:

- ***a) Provide a good analysis of the demand-for-credit market or financing gap***
- ***b) Focus on the investment strategy with clear plans to target the right beneficiaries***
- ***c) Focus on the results of the investments, and not only the number of beneficiaries or their leverage. A large number of investments with a lot of leverage are not a final 'result', what matters is the subsequent impact of the projects that are financed on the delivery of public policy objectives***
- ***d) Make better provisions for monitoring and review, taking into account the ultimate objective of the instruments***

We recommend that ex-ante assessments are collected and made available for downloading in their entirety, this could be in the fi-compass website. There is no legal obligation for Managing Authorities (MA) do so, but this should be a requirement for reasons of transparency, as well as helping the exchange of best practices. As stated earlier, this evaluation was hampered by only being able to review a few full-length ex-ante assessments, necessitating a resort to executive summaries in some cases. Neither the Commission nor the EIB collects the full-length assessments, which brings us to the final and most important question: "What is their purpose?" It seems that they are primarily exercises in reflection for MAs to think through the setting up of the instruments. In this case, patchy assessments will not lead to better financial instruments. ***It has also not been possible***, due to the number of instruments, for the authors ***to determine if the assessments have had any bearing in the decisions in setting up the financial instrument***.

We also see significant ***room for improvement and alignment of financial instruments under centrally and shared management***, to facilitate their set-up, reduce costs and improve efficiency. Concerning risk-spread and efficiency, it is ***recommendable to use only an EU-wide capital endowment for all instruments***, even if shared management financial instruments are retained and funding is transferred from national/regional endowments of ESI Funds to the EU level. The use of funds with a higher capital endowment, larger portfolio and larger geographical spread to support FIs reduces costs and risks. Isolated funds for individual instruments at national and regional levels are not appropriately sized for efficient operation, and they increase the risk to allocated equity and debt funds.

ZUSAMENFASSUNG

Finanzierungsinstrumente können ein wichtiger Faktor für die Verwirklichung der politischen Ziele der EU sein. Gemäß der Definition in der Haushaltsordnung (Nr. 966/2012) sind Finanzierungsinstrumente „Maßnahmen der Union zur finanziellen Unterstützung eines oder mehrerer konkreter politischer Ziele der Union, die als Komplementärfinanzierung aus dem Haushalt bereitgestellt werden. Solche Instrumente können die Form von Beteiligungsinvestitionen und beteiligungsähnlichen Investitionen, Darlehen, Bürgschaften oder anderen Risikoteilungsinstrumenten einnehmen und gegebenenfalls mit Finanzhilfen kombiniert werden."

Hierbei handelt es sich um eine formale Definition, aber zu welchem Zweck und zu welchem Nutzen werden diese Instrumente eingesetzt? Und wie weitreichend können sie sein? Finanzierungsinstrumente sind keine Neuheit. Das liegt jedoch nicht daran, dass sie nun seit mehreren Jahren im EU-Haushaltsplan erscheinen, sondern vielmehr daran, dass es sich bei all diesen Instrumenten um bewährte Verfahren von Regierungen und internationalen Finanzinstitutionen handelt, die Schuld- und Eigenkapitaltitel nutzen, um Investitionen zu fördern, die in Bezug auf den Gemeinnutzen von hohem Wert sind. **Mit diesen Instrumenten werden bankfähige Investitionen gefördert, die der Umsetzung öffentlicher Ziele dienen und deren an den Märkten erzielte Renditen nicht dafür ausreichen, private Investoren zu mobilisieren.** Das ist hauptsächlich dann der Fall, wenn entweder die Risiken zu hoch sind, der Zeitrahmen bis zur tatsächlichen Erzielung der Rendite von Investitionen zu groß ist oder durch das Vorhaben Gewinne geschaffen werden, die nicht privat sind und bei denen daher eine Monetarisierung innerhalb des Vorhabens unwahrscheinlich ist. Dabei handelt es sich um durch Marktversagen verursachte Lücken, bei denen gute und praktisch tragfähige Vorhaben nicht durch die Privatwirtschaft finanziert werden. ***Die Kluft zwischen den Investitionen, die durch die Privatwirtschaft auf einem vollkommenen Markt finanziert werden sollten, und der Wirklichkeit wird „Marktlücke" bzw. „Finanzierungslücke" genannt. Finanzierungsinstrumente sind darauf ausgerichtet, diese Marktlücke zu schließen.***

Die öffentlichen Güter, für die keine Gebühren erhoben werden können, werden gegebenenfalls vollständig oder teilweise durch die Steuerzahler gedeckt, durch Zuschüsse, die in Form von Subventionen, Bürgschaften, Eigenkapital oder Darlehen zu Vorzugsbedingungen gegeben werden. Damit soll sichergestellt werden, dass diese Vorhaben überhaupt durchgeführt werden. Dies kann zum Beispiel bei Infrastrukturen in den Bereichen Gesundheit oder Umwelt der Fall sein, mit denen die Gesundheit der Bürger und damit die Produktivität der Gesellschaft verbessert werden können, wobei sich letzteres an einem Anstieg des BIP zeigt oder an einem Steueraufkommen, das höher ist als die Kosten für die Zuschüsse.

Es ist jedoch durchaus möglich, dass die fehlende Bereitschaft der Privatwirtschaft, ein Vorhaben zu finanzieren, gegebenenfalls nicht auf das Vorhaben selbst zurückzuführen ist. So können für ein gutes Vorhaben möglicherweise keine Investitionen gewonnen werden, wenn das Vertrauen in die gesamtwirtschaftliche Entwicklung gering ist und dadurch die Investoren das Nachfragerisiko anders wahrnehmen. Das Nachfragerisiko ist der Grund dafür, dass öffentlich-private Partnerschaften für Infrastrukturen entstehen, bei denen Konzessionen genutzt und die Nachfragerisiken staatlich gedeckt werden (z. B. geringere Nutzung von Autobahnen oder geringere Einnahmen im Rahmen von Straßenbenutzungsgebühren). Die fehlende Bereitschaft der Banken, Kredite an KMU mit sehr guten Vorhaben zu vergeben, kann auch darauf zurückzuführen sein, dass die Wirtschaft stagniert oder das Vorhaben zu klein ist, als dass die Bank ein Interesse daran hätte, es zu überwachen. *Das bedeutet, dass das „Marktversagen", auf dessen Ausgleich die Finanzierungsinstrumente ausgerichtet sind, nicht immer evident und präsent ist;* für dasselbe Vorhaben kann je nach den speziellen Bedingungen zu einer bestimmten Zeit Unterstützung notwendig sein oder auch nicht.

Daher ist die häufig wiederholte Behauptung, dass Finanzierungsinstrumente dazu dienen, riskante Vorhaben zu finanzieren, einseitig und irreführend. Finanzierungsinstrumente werden dafür geschaffen, Investitionen in sinnvolle Vorhaben anzukurbeln, bei denen die Privatwirtschaft nicht von sich aus bereit ist zu investieren; **das Risiko kann dabei ein zentraler Faktor sein oder auch nicht.** Ein weiterer Fall, der oft unbeachtet bleibt, bezieht sich auf die Tatsache, dass für eine Investition, selbst wenn sie ein fundiertes Profil aufweist, keine Finanzierung gewonnen werden kann, weil sie in Konkurrenz zu anderen Vorhaben steht, die schnellere und höhere Gewinne bieten. Bei Vorhaben kann es auch deshalb an Finanzierung fehlen, weil es woanders bessere Möglichkeiten gibt. Das darf nicht vergessen werden, **da selbst in Zeiten wirtschaftlichen Aufschwungs mit hohen Renditeoptionen Finanzierungsinstrumente notwendig sein können, damit wichtige, aber weniger rentable Investitionen gefördert werden**, die unter anderen Umständen privat finanziert würden. ***Die Bereiche, in denen Finanzierungsinstrumente erforderlich sind, müssen im Laufe der Zeit überprüft werden.***

Finanzierungsinstrumente werden oft auch irrtümlich als staatliche Mittel für Investitionen in öffentliche Güter betrachtet, ohne ein Verständnis dafür, dass das Risiko-Rendite-Verhältnis korrekt sein muss. **Das Risikoniveau muss im Verhältnis zur Struktur des Instruments stehen, und die Rendite muss für die Deckung der Schuld ausreichen.** Das Risiko muss ferner im Verhältnis zur Risikotragfähigkeit der Finanzinstitution stehen, etwa der Europäischen Investitionsbank (EIB), des Europäischen Investitionsfonds (EIF) oder von Banken. Die EIB zum Beispiel beschafft günstiges Kapital an den Kapitalmärkten, um ihre Operationen zu finanzieren. Das Kapital ist günstig, da der EIB eine erhebliche Kapitalausstattung durch die EU-Mitgliedstaaten und EU-Haushaltsgarantien zugutekommen, ebenso wie die Qualität ihrer Auswahlkapazitäten hinsichtlich der Vorhaben. **Werden die Operationen der EIB im Verhältnis zu ihrer Kapitalausstattung und den Garantien übermäßig riskant, bieten die Finanzmärkte der EIB nicht die gleichen niedrigen Raten an, wodurch der Zweck der EIB als Investitionsbank verfehlt wird.**

Die Finanzierungsinstrumente, die durch die öffentliche Hand gefördert werden, lassen sich einfach zusammenfassen als Mittel, die dafür genutzt werden, private Finanzierung für Vorhaben zu mobilisieren, die in Bezug auf den Gemeinnutzen einen hohen Mehrwert bieten, wenn die Privatwirtschaft keine Bereitschaft zeigt, diese ohne Unterstützung zu finanzieren.

Es muss jedoch warnend darauf hingewiesen werden, dass **Finanzierungsinstrumente ein verantwortungsvolles Regieren und Strukturreformen nicht ersetzen können**. Investiert die Privatwirtschaft nicht, weil die Wirtschaft aufgrund schlechter Staatsführung und fehlender Strukturreformen stagniert, können Finanzierungsinstrumente keine Lösung bringen. Es wäre eine riskante Strategie zu versuchen, politische Verzerrungen mit Verzerrungen anderer Natur zu bekämpfen. Riskant und kontraproduktiv wäre auch, Finanzierungsinstrumente dafür zu nutzen, Reformen zu umgehen oder zu vertagen, da fundierte politische Strategien für **jede Art von** Investition zentral sind, die zum Wirtschaftswachstum beitragen soll.

Merkmale der Finanzierungsinstrumente der EU

Finanzierungsinstrumente haben vier Merkmale, die für politische Entscheidungsträger attraktiv sind. Erstens kann mittels Finanzierungsinstrumenten die **Nachhaltigkeit öffentlicher Investitionen** insoweit verbessert werden, als dass über sie Kapital für eine weitere spätere Nutzung „rückgewonnen" werden kann (im Gegensatz zur Einmaligkeit nicht rückzahlungspflichtiger Finanzhilfen).[2] Zweitens haben sie eine **Hebelwirkung**, durch die höhere Anteile von Ressourcen des öffentlichen Sektors und

[2] Eines der wesentlichen Merkmale, die Finanzierungsinstrumente in Situationen von wirtschaftlicher Unsicherheit, Haushaltsdefiziten und Einschränkungen bei der Kreditvergabe durch Banken besonders wertvoll macht, ist ihre selbsttragende (langlebige) Beschaffenheit.

der Privatwirtschaft freigesetzt werden können, und so das Kapital, das für die Verwirklichung politischer Ziele zur Verfügung steht, erhöht werden kann. Drittens umfassen sie die **Beteiligung der Privatwirtschaft** (d. h. Kompetenzen und Fachwissen) in Bereichen wie Projektauswahl, Entscheidungsfindung und Geschäftsmanagement sowie die Möglichkeit, wirtschaftliche Gewinne zu erzielen. Viertens schließlich **können sie sicherstellen, dass sich die Unterstützer des Projekts in höherem Maße der Qualität und Glaubwürdigkeit der Investitionsvorhaben verpflichten, indem sie die damit verbundenen Risiken teilen.**.

Finanzierungsinstrumente können in verschiedenen Teilen des EU-Haushaltsplans zum Einsatz kommen. Beispielsweise gibt es Finanzierungsinstrumente unter geteilter Mittelverwaltung im Politikbereich „Kohäsion" vor allem im Rahmen des Europäischen Fonds für regionale Entwicklung (EFRE) und – in einem geringeren Ausmaß – im Rahmen des Europäischen Sozialfonds (ESF). Seit dem Programmplanungszeitraum 2014–2020 können Finanzierungsinstrumente jedoch auch beim Kohäsionsfonds (KF) verwendet werden. **Jedes Instrument muss im Rahmen eines operationellen Programms (OP) eingesetzt werden.** Die für das Programm zuständigen Verwaltungsbehörden entscheiden über die Durchführungsoption sowie über den Umfang und die Gestaltung des Instruments. Darüber hinaus werden Finanzierungsinstrumente auch im Rahmen des Europäischen Landwirtschaftsfonds für die Entwicklung des ländlichen Raums (ELER) und des Europäischen Meeres- und Fischereifonds (EMFF) eingesetzt.

An vorläufigen Ergebnissen aus den Jahren 2014 und 2015 wird deutlich, dass Verwaltungsbehörden in 21 Mitgliedstaaten trotz der noch frühen Umsetzungsphase des Programms Fortschritte in Bezug auf Finanzierungsinstrumente verzeichnen. ***Bei einigen dieser Finanzierungsinstrumente wurden in Bezug auf die Hebelwirkung und den Ressourcenrückfluss für weitere Investitionen bereits konkrete Ergebnisse erzielt.*** Aus den Ergebnissen geht jedoch auch hervor, dass zwischen den Mitgliedstaaten Diskrepanzen und erhebliche Unterschiede hinsichtlich der Einführung von Finanzierungsinstrumenten bestehen, da einige Mitgliedstaaten Ex-ante-Bewertungen noch nicht abgeschlossen haben, während Finanzierungsinstrumente in anderen Mitgliedstaaten bereits in einer zweiten Investitionsrunde angewandt werden.

Bei zentral verwalteten Finanzierungsinstrumenten wird der Schwerpunkt auf verschiedene Kernziele der EU etwa in den Bereichen Forschung, Unternehmen und Industrie, Bildung und Kultur usw. gelegt. Die Kommission ist gemeinsam mit ihren Partnern unmittelbar an der Gestaltung sowie an der Ausarbeitung der Investitionsstrategie und der Kapitalausstattung dieser Instrumente beteiligt. Die Entscheidung, diese Instrumente einzurichten, trifft die Haushaltsbehörde (d. h. das Europäische Parlament und der Rat) auf der Grundlage eines Vorschlags der Kommission.

Durch die Finanzkrise und die sich daraus ergebende Notwendigkeit, die Reichweite der begrenzten Mittel des EU-Haushalts mit Blick auf dessen Ziele auszubauen, hat sich die Zahl der Finanzierungsinstrumente vervielfacht. Mit der Schaffung des Europäischen Fonds für strategische Investitionen (EFSI) haben die durch den EU-Haushalt unterstützten Kredit- und Beteiligungsfinanzierungen einen beträchtlichen Umfang erreicht. EFSI ist zwar ein Treuhandfonds, ähnelt aber sehr anderen Arten zentral verwalteter Finanzierungsinstrumente und wird daher in dieser Studie aus Vereinfachungsgründen als zentral verwalteter Fonds angesehen. Bedingt durch die Finanzkrise bedarf es solcher Maßnahmen, damit der Rückgang der Investitionen in der EU abgedämpft werden kann.

Die Ausweitung von Finanzierungsinstrumenten muss von entsprechenden Verfahren begleitet werden, durch die sichergestellt wird, dass private Finanzierung mit diesen Instrumenten nicht verdrängt, sondern vielmehr ergänzt wird. Dennoch vollzog sich die Ausweitung in relativ kurzer Zeit, wobei mehrere Instrumente im Rahmen der zentralen Mittelverwaltung und zahlreiche kleinere unter geteilter Mittelverwaltung eingerichtet wurden. Schließlich lässt sich beobachten, dass durch zentrale und geteilte Mittelverwaltung sich ähnelnde Instrumente geschaffen werden, die sich zudem an die gleichen Begünstigten richten. Dadurch entsteht eine Situation, der gegebenenfalls Abhilfe geschaffen werden muss, damit doppelte Förderungen und Inkonsistenzen verhindert werden.

Die Einrichtung dieser Instrumente ist eine komplexe Aufgabe, bei der strikte Grundsätze eingehalten werden müssen, damit verhindert wird, dass die Privatwirtschaft verdrängt oder gegen Vorschriften über staatliche Beihilfen verstoßen wird. In diesem Zusammenhang sind die Verwaltungsbehörden verpflichtet, Ex-ante-Bewertungen durchzuführen, und zu verdeutlichen, dass die Instrumente, die sie einrichten wollen, notwendig sind.

Verwaltungsbehörden haben ferner die Möglichkeit, Mittel für Finanzierungsinstrumente zur Unterstützung von KMU aus dem Europäischen Fonds für regionale Entwicklung (EFRE) oder dem Europäischen Landwirtschaftsfonds für die Entwicklung des ländlichen Raums (ELER) für zentral geplante Instrumente bereitzustellen. Dabei müssen die Verwaltungsbehörden keine Ex-ante-Bewertungen vornehmen, da zentral geplante Instrumente bereits auf der Basis einer Ex-ante-Bewertung auf EU-Ebene eingerichtet wurden, die von der Kommission mit Unterstützung der Europäischen Investitionsbank und des Europäischen Investitionsfonds durchgeführt wurde.

Ex-ante-Bewertungen

Vor der Einrichtung von Finanzierungsinstrumenten muss eine Ex-ante-Evaluierung auf der Ebene des operationellen Programms sowie eine darauffolgende Ex-ante-Bewertung durchgeführt werden. Im Rahmen der Ex-ante-Evaluierungen sollten die allgemeine Strategie und die Gründe des Einsatzes eines Finanzierungsinstruments deutlich werden. Zusammen mit Ex-ante-Bewertungen tragen sie dazu bei sicherzustellen, dass die Schaffung der Finanzierungsinstrumente einen Beitrag dazu leistet, die Ziele der EU zu erreichen, und dass ihre Verwaltungsstruktur im Einklang mit den Bestimmungen der EU steht.

Ex-ante-Bewertungen müssen nach den einschlägigen Vorschriften folgende Aspekte umfassen:

a) Ermittlung des Marktversagens, dem begegnet werden muss, sowie der dadurch entstehenden Markt- bzw. Finanzierungslücke
b) Beschreibung des Mehrwerts der Finanzierungsinstrumente einschließlich ihrer Vereinbarkeit mit anderen Formen staatlicher Eingriffe
c) Erläuterung der Auswirkungen für staatliche Beihilfen
d) Einschätzung der erwarteten Hebelwirkung, die durch das Finanzierungsinstrument erreicht werden soll
e) Bestimmung einer Investitionsstrategie
f) Bestimmung der erwarteten Ergebnisse
g) Beschreibung der gewonnenen Erkenntnisse
h) Bestimmung zukünftiger Prüfungen

Dieser Bericht basiert auf einer Überprüfung von 40 Ex-ante-Bewertungen; da aber der Zugang zu vielen Bewertungen fehlte, wurden in einigen Fällen ausschließlich Zusammenfassungen analysiert. *Tatsächlich gibt es keine umfassende zentrale Datenbank für Ex-ante-Bewertungen.* Hinzu kommt, dass in manchen Sprachen, zum Beispiel im Französischen, kein Unterschied zwischen „Bewertung“ und „Evaluierung“ besteht bzw. diese Unterscheidung nicht gemacht werden kann, sodass möglicherweise eine gewisse Verwirrung darüber aufkommt, was in diesen Dokumenten tatsächlich betrachtet werden soll. Ferner wurden Gespräche mit Spezialisten geführt.

Die Ex-ante-Bewertungen unterscheiden sich in Qualität und Inhalten, und es ist aufgefallen, dass eine häufige Schwäche darin besteht, **dass in vielen dieser Bewertungen eine klare Quantifizierung der Ergebnisse im Sinne tatsächlicher wirtschaftlicher, gesellschaftlicher und ökologischer Auswirkungen fehlt**. **In vielen der Bewertungen sind die Ergebnisse auf operationelle Etappenziele begrenzt, ohne dass dabei die Ergebnisse thematisiert werden**, die durch die

Verwirklichung dieser Etappenziele erreicht wurden, d. h. dass in den Berichten die Zahl der geförderten Unternehmen oder der Erwerbslosen, die geschult wurden, aufgelistet werden, die zwar einfach zu registrieren sein mag, mit der aber nicht das letztendliche Ziel erfasst werden kann. Dazu kommt, dass es den **Investitionsstrategien oft an Qualität mangelt**; die Bestimmungen hinsichtlich der Überwachung und Überprüfung sind schwach, auch weil viel mehr die Verwirklichung der operationellen Etappenziele überwacht wird, als die tatsächlichen Auswirkungen davon. Dies ist abhängig von der grundlegenden Gestaltung des Finanzierungsinstruments; wenn zum Beispiel das Ergebnis von Investitionen im Bereich Energieeffizienz eine Reduzierung von CO_2-Emissionen ist, sind die Indikatoren klarer.

Die wesentlichen Schwächen der Ex-ante-Bewertungen liegen jedoch in der Tatsache begründet, dass eine wirkliche Logik in Bezug auf die Anforderungen und ein Verständnis für ihren Nutzen fehlen. Der erste große Widerspruch ist darin zu sehen, dass bei den auf lokaler Ebene von Verwaltungsbehörden eingerichteten Finanzierungsinstrumenten große Mühen dafür aufgebracht werden müssen, zu belegen, dass sie notwendig sind, wohingegen bei zentral geplanten Ex-ante-Bewertungen die Analysen in Bezug auf die nationale Ebene weit weniger ausführlich ausfallen (und wenig oder gar keine regionale Bewertungen beisteuern). Dennoch erlaubt die EU bei der Finanzierung für KMU den Transfer der Mittel von den nationalen und regionalen Programmen in die zentral geplanten Finanzierungsinstrumente, die von der EIB und dem EIF verwaltet werden. Bei den Ex-ante-Bewertungen der zentral geplanten Instrumente werden nur kurze und eher allgemein gefasste Länderanalysen angesetzt, bei denen aufgezeigt wird, dass Finanzierungsinstrumente notwendig sind. Wenn die kurze Analyse auf EU-Ebene als analytische Grundlage für den Beitrag der nationalen oder regionalen Ebene zu den Finanzierungsinstrumenten ausreichend ist, warum müssen dann auf lokaler Ebene die Gründe für die Einrichtung eines vergleichbaren Instruments ausführlicher belegt werden?

Eine der Schwächen, die in Bezug auf die Bewertungen festgestellt wurden, ist, **dass Fälle von Marktversagen allen Märkten gemein sind**. Einige der aufgeführten Schwächen, etwa eine asymmetrische Information, können auch in gut funktionierenden Märkten ausgemacht werden. Daher sind viele Ex-ante-Bewertungen eher allgemein und enthalten keine triftigen Argumente, die auf Marktversagen hinweisen. **Die wichtigste Frage ist die, ob eine Finanzierungslücke besteht, d. h. ein übermäßiger Bedarf an Krediten, der nicht gedeckt wird und nicht im Verhältnis zur Qualität der Vorhaben steht.** In Zeiten einer Finanzkrise ist dieser Befund recht unumstritten und einfach aufzuzeigen. Befinden sich die untersuchten Volkswirtschaften in einem besseren Zustand, kann die Ursache für eine Finanzierungslücke darin bestehen, dass Vorhaben mit einem bedeutsamen, aber unzureichend honorierten Anteil eines öffentlichen Gutes schlicht nicht attraktiv genug sind.

Tatsächlich ist die wesentliche Schlussfolgerung dieses Berichts, **dass bei Ex-ante-Bewertungen das auf EU-Ebene angewandte Analyseverfahren für Marktversagen genutzt werden sollte, wenn die jeweiligen Finanzierungsinstrumente zentral verwaltet werden, und dass dort, wo es erforderlich ist, genauere Informationen gegeben werden sollten**, das heißt:

a) Durchführung einer fundierten Analyse der Finanzierungslücke bzw. des Marktes, auf dem ein Bedarf an Krediten besteht

b) Fokussierung auf die Investitionsstrategie in Verbindung mit klaren Plänen dahingehend, die richtigen Begünstigten zu erreichen

c) Fokussierung auf die Ergebnisse der Investitionen, und nicht nur auf die Zahl der Begünstigten oder auf ihre Hebelwirkung; viele Investitionen mit einer großen Hebelwirkung sind noch keine endgültigen Ergebnisse an sich – worauf es ankommt, sind die aus den finanzierten Vorhaben folgenden Auswirkungen auf die Zielsetzung der Schaffung öffentlicher Güter

d) Schaffung besserer Bestimmungen in Bezug auf die Überwachung und Überprüfung, wobei das letztendliche Ziel des Instruments in Betracht gezogen werden sollte.

Wir empfehlen Ex-ante-Bewertungen zu sammeln und in ihrer Gesamtheit zum Herunterladen verfügbar zu stellen. Das könnte über die fi-compass-Website erfolgen. Auch wenn hierfür keine rechtliche Verpflichtung der Verwaltungsbehörde besteht, sollte dies aus Gründen der Transparenz sowie zur Förderung des Austauschs bewährter Praktiken verlangt werden. Wie bereits erwähnt, wurde die Einschätzung der Thematik dadurch erschwert, dass nur in wenigen Fällen die gesamten Berichte überprüft werden konnten, und in diesem Zusammenhang in einigen Fällen auf Zusammenfassungen zurückgegriffen werden musste. Weder die Kommission noch die EIB sammeln die vollständigen Bewertungen, was zu der letzten und wichtigsten Frage führt, was ihr Zweck ist. Es scheint bei den Bewertungen hauptsächlich darum zu gehen, dass Verwaltungsbehörden gedanklich durchspielen, wie die Einrichtung der Instrumente gestaltet werden könnte. Dabei werden lückenhafte Bewertungen nicht zu besseren Finanzierungsinstrumenten führen. **Ferner war es den Autoren** aufgrund der Zahl der Instrumente **nicht möglich festzustellen, ob die Entscheidungen über die Einrichtung der Finanzierungsinstrumente in irgendeiner Form durch die Bewertungen beeinflusst wurden**.

Wir sehen zudem erheblichen **Spielraum für eine Verbesserung und Anpassung der Finanzierungsinstrumente im Rahmen einer zentralisierten und geteilten Mittelverwaltung**, um ihre Erstellung zu ermöglichen, Kosten zu senken und die Effizienz zu verbessern. Was die Risikostreuung und die Effizienz betrifft, **wird in Bezug auf alle Instrumente empfohlen, nur auf eine EU-weite Finanzierungsquelle zurückzugreifen**, und zwar selbst dann, wenn Finanzinstrumente unter geteilter Mittelverwaltung zum Einsatz kommen und die Finanzierung von nationalen oder regionalen Finanzierungsquellen für die ESI-Fonds auf die EU-Ebene übertragen werden. Durch die Nutzung von Fonds mit einer höheren Kapitalausstattung, einem breiteren Portfolio und einer breiteren geografischen Streuung zur Unterstützung von Finanzinstrumenten werden Kosten und Risiken verringert. Gesonderte Fonds für einzelne Instrumente auf nationaler und regionaler Ebene sind nicht groß genug für eine effiziente Nutzung, und sie erhöhen das Risiko für die zugewiesenen Eigen- und Fremdkapitalmittel.

SYNTHÈSE

Les instruments financiers peuvent jouer un rôle important dans la réalisation des objectifs stratégiques de l'Union. Conformément au règlement financier (nº 966/2012), on entend par «instruments financiers» les «mesures de soutien financier prises par l'Union et financées à titre complémentaire sur le budget pour réaliser un ou plusieurs objectifs précis de l'Union. Ces instruments peuvent prendre la forme de participations, de quasi-participations, de prêts ou de garanties, ou d'autres instruments de partage des risques, et peuvent, le cas échéant, être associés à des subventions».

Il s'agit là de la définition officielle, mais quelle est la finalité et quel est l'avantage d'utiliser ces instruments, et jusqu'où peuvent-ils aller? Les instruments financiers ne sont pas une innovation, non pas parce qu'ils figurent au budget de l'Union depuis plusieurs années, mais parce que ce sont des pratiques bien établies chez les gouvernements et les institutions financières internationales qui utilisent des instruments de dette et d'actions pour favoriser des investissements à forte valeur dans des infrastructures publiques. ***Ces instruments soutiennent des investissements qui répondent à des objectifs publics et dont les rendements sur le marché ne sont pas suffisants pour attirer les investisseurs privés***. Cela se produit principalement lorsque les risques sont élevés, si le délai avant qu'il n'y ait retour sur investissement est trop long ou si le projet génère des avantages qui ne sont pas privés et, partant, ne sont pas susceptibles d'être monétisés dans le cadre du projet. De telles situations découlent de défaillances du marché, lorsque des bons projets viables ne sont pas financés par le secteur privé. ***La différence entre les investissements que le secteur privé devrait financer dans un marché sans imperfections et la réalité est appelée «déficit du marché» ou «déficit de financement». Les instruments financiers visent à combler ce déficit du marché.***

Les biens publics qui ne peuvent être facturés doivent parfois être pris en charge entièrement ou partiellement par les contribuables au moyen de contributions, qui peuvent prendre la forme de subventions, de garanties, de participations ou de dettes à des conditions favorables, de façon à ce que ces projets puissent voir le jour. Cela peut être le cas, par exemple, pour les infrastructures environnementales ou du secteur de la santé, qui peuvent améliorer la santé des citoyens et donc la productivité de la société, ce que dénotent une hausse du PIB ou des rentrées fiscales supérieures au coût des subventions.

Cela étant, la réticence du secteur privé à financer un projet peut tout à fait être sans lien avec le projet lui-même. Un bon projet peut avoir du mal à attirer les investissements lorsque la confiance dans les performances globales de l'économie est faible, ce qui peut modifier la perception des investisseurs du risque lié à la demande. Le risque lié à la demande est la raison de l'existence de partenariats public-privé (PPP) pour les infrastructures recourant à des concessions, où le risque lié à la demande est assumé par les autorités publiques (par exemple, faible taux d'utilisation d'une autoroute entraînant une baisse des recettes provenant des péages). Les banques peuvent également hésiter à accorder un prêt à des PME ayant de très bons projets en raison de la morosité économique ou parce qu'un projet est trop petit pour que la banque concernée tire un intérêt suffisant de son suivi. *Autrement dit, la «défaillance du marché» à laquelle un instrument financier donné tente de remédier n'est pas toujours manifeste ou présente à tout moment; un même projet peut ou non avoir besoin d'un soutien selon les circonstances spécifiques à un moment donné.*

Par conséquent, l'affirmation récurrente selon laquelle la finalité des instruments financiers est de financer des projets risqués est incomplète et trompeuse. Les instruments financiers sont créés pour attirer des investissements pour des projets utiles dans lesquels le secteur privé est peu enclin à investir; le risque peut ou non être un facteur essentiel. Un autre cas de figure souvent ignoré est celui dans lequel un investissement présente un bon profil mais n'attire pas les financements parce qu'il est en concurrence avec d'autres qui offrent des gains plus rapides ou plus élevés. Il arrive que des projets rentables n'attirent pas de financements parce que d'autres projets offrent des perspectives encore meilleures. Il est essentiel de garder cela à l'esprit car, même en période de forte croissance économique où des possibilités de rendements élevés existent, les instruments financiers peuvent toujours être nécessaires pour soutenir des investissements importants mais moins rentables, qui, dans d'autres circonstances, seraient financés par le secteur privé. ***Il est nécessaire de réexaminer en permanence les secteurs ayant besoin d'instruments financiers.***

D'aucuns estiment souvent, à tort, que les instruments financiers sont des fonds publics investis dans des biens publics sans que le rapport risque-rendement ne soit pris en compte. Le niveau de risque doit cependant être proportionnel à la nature de l'instrument et le rendement doit être suffisant pour couvrir la dette. Le risque doit également être proportionnel à la capacité de prise de risques de l'institution financière, par exemple la Banque européenne d'investissement (BEI), le Fonds européen d'investissement (FEI) ou toute autre banque. La BEI, par exemple, lève des fonds bon marché sur les marchés de capitaux pour financer ses opérations. Ces fonds sont bon marché parce que la BEI bénéficie d'un soutien en capitaux considérable de la part des États membres de l'Union et des garanties du budget de l'Union, ainsi que de capacités optimales en matière de sélection de projets. ***Si les opérations de la BEI deviennent trop risquées par rapport à ses fonds propres et à ses garanties, les marchés financiers ne lui offriront plus des taux d'intérêt aussi bas et remettront en cause l'utilité de la BEI en tant que banque d'investissement.***

En résumé, les instruments financiers soutenus par le secteur public sont un moyen de mobiliser des financements privés en faveur de projets à forte valeur ajoutée de bien public lorsque le secteur privé ne semble pas disposé à les financer sans aide.

Il convient toutefois d'insister sur le fait que ***les instruments financiers ne se substituent en aucun cas à la bonne gouvernance et aux réformes structurelles.*** Si le secteur privé n'investit pas parce que l'économie est atone en raison de l'absence d'une bonne gouvernance et de réformes structurelles, les instruments financiers ne sont pas la solution. Combattre les distorsions politiques par d'autres distorsions est une stratégie risquée. Il est aussi risqué et contre-productif de recourir à des instruments financiers pour éviter ou repousser des réformes, car des politiques saines sont essentielles à ***tout*** investissement visant à contribuer à la croissance économique.

Caractéristiques des instruments financiers de l'Union

Les instruments financiers présentent quatre caractéristiques attrayantes pour les décideurs politiques. Tout d'abord, ils augmentent la ***durabilité des investissements publics*** en ce sens qu'ils peuvent recycler les capitaux pour une utilisation future[3] (par opposition à la nature ponctuelle des subventions non remboursables). Deuxièmement, ils entraînent un ***effet de levier*** permettant de libérer des ressources à un niveau supérieur des secteurs public et privé et d'accroître ainsi le capital disponible à des fins stratégiques. Troisièmement, ils ***intègrent la participation du secteur privé*** (c'est-à-dire les compétences et l'expertise) dans des domaines tels que la sélection des projets, la prise de décisions, la gestion des opérations commerciales et l'aptitude à atteindre la rentabilité commerciale. Quatrièmement, ils peuvent assurer un plus grand engagement des promoteurs des projets, envers la qualité et la crédibilité des plans d'investissements en partageant les risques.

Les instruments financiers peuvent être utilisés dans différentes parties du budget de l'Union. Par exemple, les instruments financiers en gestion partagée dans le domaine de la cohésion sont établis principalement dans le cadre du Fonds européen de développement régional (FEDER) et, dans une moindre mesure, du Fonds social européen (FSE). Depuis la période de programmation 2014-2020, toutefois, ils peuvent également être utilisés pour le Fonds de cohésion. ***Chaque instrument doit être***

[3] L'une des principales caractéristiques rendant les instruments financiers particulièrement précieux dans des conditions d'incertitude économique, de déficits budgétaires et de contraintes en matière de prêts bancaires est leur caractère autonome (durée indéterminée).

mis en œuvre dans le cadre d'un programme opérationnel, où les décisions – y compris sur la taille et la conception du programme – sont prises par les autorités de gestion du programme. En outre, les instruments financiers sont également utilisés au titre du Fonds européen agricole pour le développement rural (Feader) et du Fonds européen pour les affaires maritimes et la pêche (FEAMP).

Des résultats préliminaires pour les années 2014 et 2015 montrent que, malgré le stade précoce de la mise en œuvre du programme, les autorités de gestion de 21 États membres enregistrent des progrès dans le domaine des instruments financiers. ***Certains de ces instruments financiers affichent déjà des résultats concrets en matière d'effet de levier ou de ressources reversées pour de nouveaux investissements.*** Cependant, les résultats dénotent aussi une hétérogénéité et des différences importantes entre les États membres pour ce qui est du déploiement des instruments financiers, certains États n'ayant pas encore achevé les évaluations ex ante, alors que, dans d'autres, les instruments financiers en sont déjà à un deuxième cycle d'investissements.

D'autre part, les instruments financiers gérés de manière centralisée sont axés sur plusieurs grands objectifs de l'Union, comme la recherche, l'entrepreneuriat et l'industrie, l'éducation et la culture. La Commission, en collaboration avec ses partenaires, participe directement à la conception de ces instruments et à l'élaboration de la stratégie d'investissement et de la dotation. La décision de créer ces instruments est prise par les autorités budgétaires – le Parlement européen et le Conseil – sur la base d'une proposition de la Commission.

En raison de la crise financière et de la nécessité qui en découle d'étendre la portée des fonds limités du budget de l'Union par rapport à ses objectifs, les instruments financiers se sont multipliés. Avec la création du Fonds européen pour les investissements stratégiques (FEIS), les opérations de dette et de capital-investissement soutenues par le budget de l'Union ont atteint des dimensions considérables. Le Fond européen pour les investissements stratégiques est un fond fiduciaire mais ressemble étroitement à d'autres instruments financiers gérés de manière centralisée, et il est considéré ici comme un fond géré de manière centralisée par simplicité. La crise financière offre une raison d'intervenir pour combler le déficit d'investissement dans l'Union.

L'expansion des instruments financiers doit s'accompagner de procédures visant à garantir que ces instruments ne supplantent pas les financements privés mais les complètent. Cependant, cette expansion s'est produite dans un laps de temps relativement court, plusieurs instruments ayant été créés en gestion centralisée, et nombre d'autres instruments plus petits en gestion partagée. En fin de compte, *nous assistons à l'émergence d'instruments similaires couvrant les mêmes bénéficiaires en gestion centralisée ou partagée, ce qui donne lieu à une situation qui pourrait nécessiter une intervention afin d'éviter les doubles emplois et les incohérences*.

La mise en place de tels instruments est une tâche complexe, qui requiert le respect de principes rigoureux pour éviter l'éviction du secteur privé ou la violation des règles en matière d'aides d'État. Dès lors, les autorités de gestion sont tenues de procéder à des évaluations ex ante afin de démontrer la nécessité de tout instrument qu'elles souhaitent mettre en place.

Les autorités de gestion ont aussi la possibilité d'affecter des fonds du Fonds européen de développement régional (FEDER) ou du Fonds européen agricole pour le développement rural (Feader) destinés au *financement d'instruments financiers en faveur des PME à des instruments en planification centralisée*. Dans ce cas, les autorités de gestion ne doivent pas réaliser d'évaluation ex ante, car les instruments en planification centralisée sont déjà mis en place sur la base d'une évaluation ex ante au niveau de l'Union menée par la Commission européenne, avec l'appui de la Banque européenne d'investissement (BEI) et du Fonds européen d'investissement (FEI).

Évaluations ex ante

La mise en place d'un instrument financier suppose une évaluation ex ante au niveau du programme opérationnel ainsi qu'une évaluation ex ante ultérieure. Les évaluations ex ante doivent préciser la stratégie globale et motiver la création de l'instrument. Elles permettent d'assurer que les instruments financiers créés contribuent à la réalisation des objectifs de l'Union et que leur structure de gouvernance est conforme à la réglementation de l'Union.

Selon la réglementation, les évaluations ex ante doivent:

a) relever les défaillances du marché auxquelles il faut remédier ainsi que les déficits du marché ou de financement qu'elles génèrent;
b) décrire la valeur ajoutée des instruments financiers; incluant leur consistance avec d'autres formes d'interventions publique ;
c) préciser les implications en matière d'aides d'État;
d) évaluer l'effet de levier; espéré être atteint par l'instrument financier;
e) définir une stratégie d'investissement;
f) décrire les résultats attendus;
g) énoncer les enseignements tirés;
h) prévoir les dispositions en matière de réexamen.

Ce rapport se fonde sur l'examen de 40 évaluations ex ante, mais, dans un certain nombre de cas, en raison d'un accès incomplet aux évaluations, seules les synthèses ont été analysées. *Il n'existe en réalité aucun registre central complet des évaluations ex ante.* En outre, dans certaines langues nationales, comme en français, aucune distinction n'est ou ne peut être faite entre les termes «assessment» et «evaluation» (évaluation), de sorte que le contenu des différents documents peut entraîner une certaine confusion. Des entretiens ont également été menés avec des spécialistes.

Les évaluations ex ante sont inégales du point de vue de la qualité et du contenu, et nous avons relevé chez nombre d'entre elles une faiblesse récurrente: ***un manque de quantification précise des résultats sur les plans économique, social ou environnemental***. ***Nombreuses sont celles qui limitent leurs résultats aux étapes opérationnelles et non aux résultats obtenus grâce au franchissement de ces étapes***; ainsi, certains rapports énumèrent le «nombre d'entreprises soutenues» ou le «nombre de chômeurs ayant suivi une formation», indicateurs pouvant être faciles à mesurer mais qui ne donnent pas une vue d'ensemble de l'objectif final. La ***qualité des stratégies d'investissement laisse aussi souvent à désirer*** et les dispositions de suivi et de réexamen sont faibles, notamment parce qu'elles visent à contrôler la réalisation des étapes opérationnelles plutôt que les effets produits. Cela dépend de la nature des instruments financiers; par exemple, lorsque l'impact produit est une diminution des émissions de CO_2 grâce à des investissements en faveur de l'efficacité énergétique, les indicateurs sont plus clairs.

Les faiblesses fondamentales des évaluations ex ante sont toutefois l'absence d'une véritable logique dans les exigences et un manque de compréhension de leur utilité. La première incohérence majeure est que, alors qu'il faut prendre le plus grand soin pour démontrer l'utilité des instruments financiers créés par les autorités de gestion au niveau local, les évaluations ex ante planifiées de manière centralisée sont beaucoup moins détaillées au niveau de l'analyse nationale (et non régionale). Néanmoins, l'Union permet, dans le cas du financement des PME, le transfert du financement des programmes nationaux ou régionaux aux instruments financiers à planification centralisée gérés par la BEI et le FEI. Les évaluations ex ante des instruments planifiés de manière centralisée ne comportent que des analyses par pays brèves et larges justifiant le besoin d'instruments financiers. Si une brève analyse au niveau de l'Union suffit comme base analytique pour la mise en place d'un instrument financier au niveau national ou régional, pourquoi y-a-t-il une obligation de justifier de manière plus détaillée la création d'un instrument équivalent au niveau local?

L'un des points faibles décelés dans les évaluations est que des ***défaillances présentées sont courantes dans tous les marchés***. De nombreuses défaillances recensées, comme l'asymétrie des informations, peuvent se retrouver dans tous les marchés fonctionnant correctement. Beaucoup d'évaluations ex ante sont ainsi plutôt générales et ne démontrent pas de défaillance du marché de manière convaincante. ***La question la plus importante est de savoir s'il y a un déficit de financement, c'est-à-dire un excès de demande de crédit qui n'est pas couverte et qui n'est pas proportionnel à la qualité des projets***. En période de crise financière, un tel résultat est facile à démontrer et ne prête pas vraiment à controverse. Lorsque les économies sont en meilleure santé, un déficit de financement peut être simplement dû au fait que les projets ayant une importante (mais pas suffisamment rémunérée) composante de bien public (externalité positive) ne sont pas suffisamment attrayants.

En fait, la principale conclusion de ce rapport est que les évaluations ex ante devraient recourir à l'analyse des défaillances du marché au niveau de l'Union lorsqu'elle est fournie par les instruments gérés de manière centralisée et être plus précises pour les points les plus importants, et notamment:

a) fournir une bonne analyse du marché de la demande de crédit ou du déficit de financement;

b) mettre l'accent sur une stratégie d'investissement dotée de plans clairs pour cibler les bons bénéficiaires;

c) être axées sur les résultats des investissements, et pas uniquement sur le nombre de bénéficiaires ou leur effet de levier. Un grand nombre d'investissements avec un effet de levier important ne constituent pas un «résultat final»; ce qui importe, c'est l'incidence ultérieure pour les projets financés sur la délivrance des objectifs de politique publique ;

d) formuler de meilleures dispositions en matière de suivi et de réexamen, en tenant compte de l'objectif ultime des instruments.

Nous recommandons que les évaluations ex ante soient collectées et puissent être téléchargées dans leur intégralité, par exemple sur le site internet fi-compass. Les autorités de gestion ne sont pas juridiquement tenues de le faire, mais cela devrait être une obligation pour des raisons de transparence, et pour contribuer au partage des bonnes pratiques. Comme indiqué précédemment, la présente évaluation a été entravée par le fait que seules quelques évaluations ex ante aient pu être consultées dans leur intégralité et qu'il ait fallu recourir aux synthèses dans certains cas. Ni la Commission ni la BEI ne collectent les évaluations dans leur intégralité, ce qui nous amène à la dernière et plus importante question: «à quoi servent-elles?». Il s'avère qu'elles sont avant tout des exercices de réflexion pour les autorités de gestion avant la mise en place des instruments. Dans ce cas, des évaluations incomplètes ne permettront pas d'améliorer les instruments financiers. Par ailleurs, **il n'a pas été possible** pour les auteurs, en raison du nombre d'instruments, de ***déterminer si les évaluations ont eu une incidence quelconque sur les décisions relatives à la mise en place des instruments financiers***.

Nous estimons qu'il est possible ***d'améliorer considérablement les instruments financiers ainsi que leur harmonisation, dans le cadre d'une gestion centralisée et partagée***, de sorte à simplifier leur structure, à réduire les coûts et à améliorer leur efficacité. En ce qui concerne la répartition des risques et l'efficacité, il est ***recommandé de recourir uniquement à une dotation en capital à l'échelle de l'Union pour tous les instruments***, même si des instruments de financement en gestion partagée interviennent et que des financements sont transférés depuis des sources de financement nationales ou régionales relevant des Fonds structurels et d'investissement européens vers le niveau européen. Le recours à des financements adossés à une dotation en capital plus importante, à un portefeuille plus vaste et à un champ d'application géographique plus étendu en soutien aux instruments financiers permet de réduire les coûts et les risques. Les financements isolés destinés à des instruments particuliers au niveau national et régional n'ont pas une taille suffisante pour fonctionner de manière efficace, et font s'accroître le risque qui frappe les fonds de capital-investissement ou de créances qui leur sont affectés.

1 INTRODUCTION

1.1 Background

Financial instruments[4] were first introduced in the early 1990s for investments in SMEs, but have seen a marked expansion since in the last three Multiannual Financial Frameworks. This movement has been partly driven by the lack of financial resources of the European Union to address the increasing number of objectives and competencies of the EU, and partly by the need to better distinguish between projects requiring grants and subsidies, and those that suffer from a market failure or suboptimal investment situation, but are bankable (at least partially, as grants and Financial Instruments can be combined).

However, with the drop in private and public investment in Europe and a lingering economic crisis, there has been a renewed call to expand the role of financial instruments to leverage investment. The most important new 'instrument' is the European Fund for Strategic Investment (EFSI). This non-reallocated de-facto European wide financial instrument has catapulted the European Investment Bank and European Investment Fund activities to the forefront of the European financial interventions.

The move toward financial instruments however has not limited itself to the creation of EFSI. The role of financial instruments in centrally managed programmes (e.g. Horizon 2020, Connection Europe Facility as well as external programmes) as well as shared management funds (ESI-Funds) has expanded. For instance, in the MFF 2014-2020, the InnovFin programme, jointly supported by the EC and the EIB, doubled its budget compared to the predecessor, the Risk-Sharing Finance Facility (2007-2013), while member states have been granted considerably increased freedom in creating financial instruments under ESIF programmes.

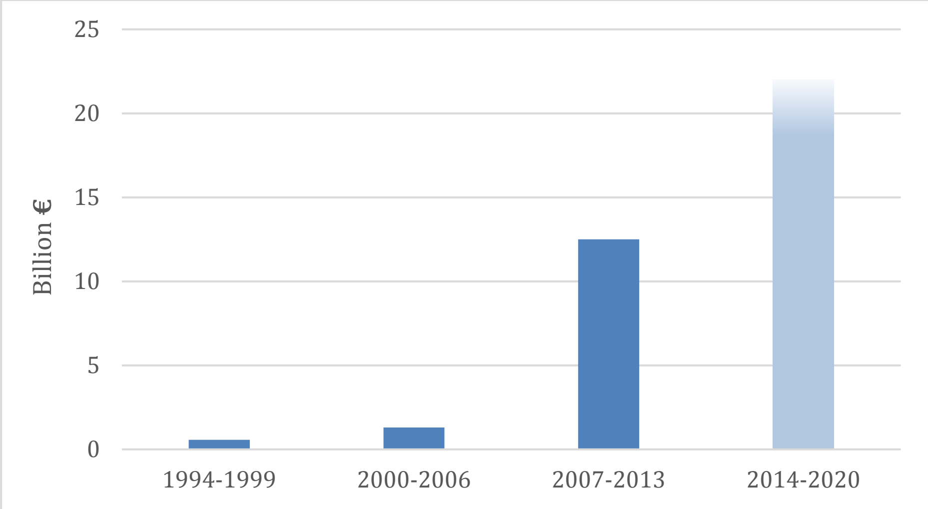
These financial instruments are no longer a marginal part of the EU financing arm but rather a significant new complementary tool. EFSI's overall mobilised investments alone (aiming at a total of EUR 315 billion) rivals the size of cohesion policy (EUR 351.8 billion); and the sum of all funds mobilised for investments by EU financial instruments and EFSI managed by the EC, EIB and EIF could rival the whole EU budget by 2020[5].

Fi-Compass (the financial instruments advisory hub) reports that the amounts invested via financial instruments under the ERDF (European Regional Development Fund) and the ESF (European Social Fund) programmes have grown significantly over the years: from EUR 0.57 billion in the programming period 1994-1999 to EUR 12.5 billion in the 2007-2013 MFF (Figure 1).

[4] We will be using the term "Financial Instruments" in the sense it is used by the Commission; that is, the use of loans, equity investments, and guarantees, rather than traditional grant funding.

[5] See Núñez Ferrer et al. (2016), Study on the Potential and Limitations of Reforming the Financing of the EU Budget, Background Study for the High Level Group on Own Resources, European Commission, p. 35.

Figure 1. Financial Instruments under European Regional Development Fund (ERDF) and European Social Fund (ESF), EUR billion



Source: Fi-compass (2015) (reviewed).

The rapid expansion and multiplication of instruments has led to teething problems in the ability for member states to set them up and use them, as well as some lack of consistency in the regulations.

Today, the European institutions are reflecting on fine-tuning the legislation for the Mid Term Review of the EU budget[6] and even beyond, to have better functioning instruments to make them effective, and better aligned to EU objectives and principles, such as additionality or proportionality.

For the present Financial Framework there has been a new and rather radical reform of the way financial instruments are set up. While in the past FIs were restricted to specific areas (such as urban funds, energy efficiency or SMEs), the present regulations allow the setting up of instruments in any policy area by Managing Authorities (MAs). The increasing number of EU objectives and the need to address heterogeneous demands across EU regions led to this decision. Complex pan-European needs also led to the creation of European Fund for Strategic Investment (EFSI). A number of questions have emerged on the rationale for similar objectives and structures for EFSI and central and shared managed instruments. There are, in fact, some areas of overlap, and also confusion owing to the rapid expansion of the instruments, as some (e.g. EFSI) were a response to the financial crisis. This leads to a need to review the creation of the different structures.

The Common Provisions Regulation requires the preparation of two ex-ante analysis for setting up Financial Instruments (FIs). First, an ex-ante evaluation is – as in previous programming periods - required at operational programme level to identify the needs for EU support based on an analysis of the strengths and weaknesses in the territory and sector covered. In this ex-ante evaluation, the potential for FIs can be justified. However, before the establishment of any individual FI by a managing authority, there is a requirement for a specific ex-ante assessment to ensure that the instrument is in line with the Operational programme and targets needs in line EU objectives and budgetary principles, such as the need to ensure additionality, i.e. avoiding the substitution of other sources of funding. Article 37 of the Common Provision Regulation for ESI Funds lists the requirements of ex-ante assessments. Ex-ante assessments are only required for those FIs set up by managing authorities, and not those delegated to the EIB and EIF in a union wide instrument, even if the funds are transferred from the regional ESIF allocation in the case of SME support.

[6] European Commission (2016), 'Mid-term review/revision of the multiannual financial framework 2014-2020', An EU budget focused on results, Brussels 14/9/2016.

The ex-ante assessments are complex, as proving a market failure or sub-optimal investment situation is difficult and requires very precise studies. This may be an issue if the country does not have sufficient capacity to properly undertake such analysis for all programmes in the same time period. While the fi-compass platform does provide some assistance, authorities in member states have had difficulties preparing these assessments, and in most cases have contracted the work out to consultancies.

Furthermore, the Court of Auditors (2016) has expressed concerns on the performance of financial instruments in the past; while it acknowledges that improvements have been introduced for the present multiannual financial framework it raises a number of remaining concerns.

1.2 Scope of the Analysis

This analysis seeks to identify how the relevant authorities of member states have prepared their ex-ante assessments, and if the latter fulfil the requirements of the regulations and address the concerns of the Court of Auditors. It also reviews ex-ante evaluations for EU-level Financial Instruments (FIs) (SME Initiative and Natural Capital Financing Facility (NCFF)).

Ultimately, the study should assess if the ex-ante assessments are correctly justifying the use of the instrument, as well as effectively and efficiently targeting objectives with a value added in line with EU objectives. It will also identify areas where improvements are required, and discuss to what extent the ex-ante assessments can support the European Parliament in its budgetary control role.

With the overarching aim of casting light on the approach used for selecting FIs and the motives for differentiating projects that can be financed using innovative FIs, three lines of reflection are developed:

- An evaluation of the extent to which compulsory impact assessment fulfils all the requirements stated in the Regulations, and an assessment of the extent to which impact assessments follow good practice methodology. This analysis is carried out with particular reference to the identification of market failures or sub-optimal investment situations.
- An overview of the consistency and transparency in the selection of FIs, their regulation and together with the objectives and priorities of programmes.
- An understanding of the situations in which FIs and their requirements are particularly able to bring value and attain high performances meeting expected results.

1.3 Methods

To accrue a set of knowledge sufficient to answer to the aims of the studies outlined in the previous paragraph, the research team employed different methodologies: desk and documentary research, semi-structured interviews and an online survey. Predominantly, the study is based on extensive desk and documentary research on ex-ante assessments for FIs and other relevant documents describing the regulations and methodologies, which defines the framework for the ex-ante assessments. Naturally, the study takes account of the literature on financial instruments and the reports which describe and analyse their functioning and employment in the EU. The core documentary research is carried out around 40 ex-ante assessments, mostly collected online by the authors. A description of the sample is presented in Chapter 5, whilst the list of 40 ex-ante assessment is in Annex 2.

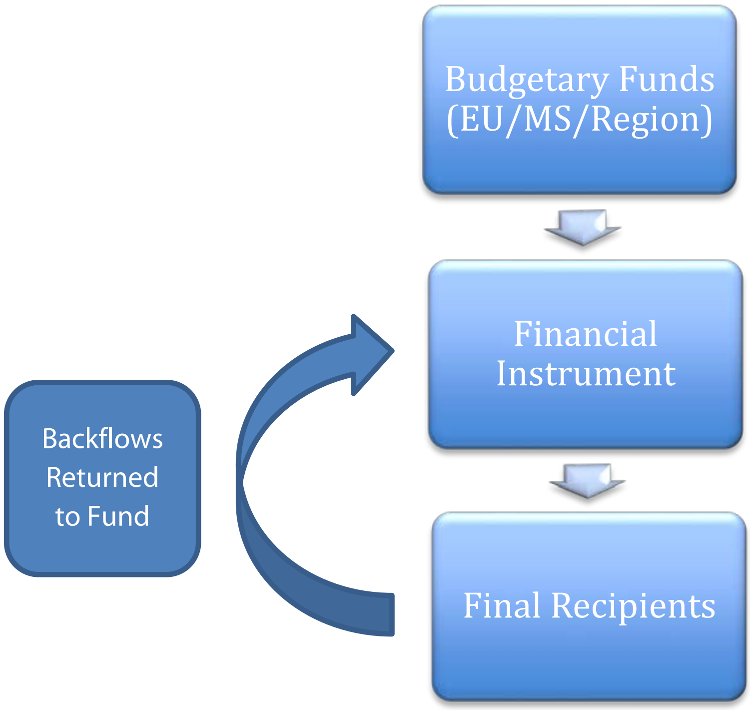
Semi-structured interviews carried out with experts at national and EU level remain an important basis for this study. In order to gather first-hand information from experts, this study is based on both semi-structured interviews and an on-line survey, for those cases when it was not possible to collect information in person. Overall, the expertise gathered consists of 24 experts. More details on the characteristics of the experts are to be found in Chapter 5. The questionnaire used for the online survey and as basis for the semi-structured interviews is presented in Annex 1.

2 RATIONALE FOR THE USE OF FINANCIAL INSTRUMENTS

Financial instruments (FIs) can play an important role in the delivery and achievement of ESIF policy objectives. According to the Financial Regulation (Regulation No 966/2012), FIs are defined as "*measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk sharing instruments, and may, where appropriate, be combined with grants*"[7]. Their purpose is twofold: first, to enable the use of public sector capital – through funds of funds (or holding funds), venture capital funds, loan funds and guarantee fund mechanisms; and second, to stimulate the participation of private sector capital in order to increase the scale, effectiveness and efficiency of policy measures.

In particular, FIs have four appealing characteristics for policymakers. First, they increase the **sustainability of public investment** in the sense that they can recycle capital for future use (opposite to the one-off nature of non-repayable grants)[8]. Second, they have **a leverage effect** that enables them to unlock public and private sector resources, thereby increasing the capital available for policy purposes. Third, they **incorporate private sector participation** (i.e. skills and expertise) in areas such as project selection, decision-making, management of commercial operations and the ability to achieve commercial returns. Fourth, they **can ensure greater commitment by project promoters** to the quality and credibility of investment plans, by sharing the risks involved.

Figure 2. Financial Instruments' backflows



Source: INTERACT.

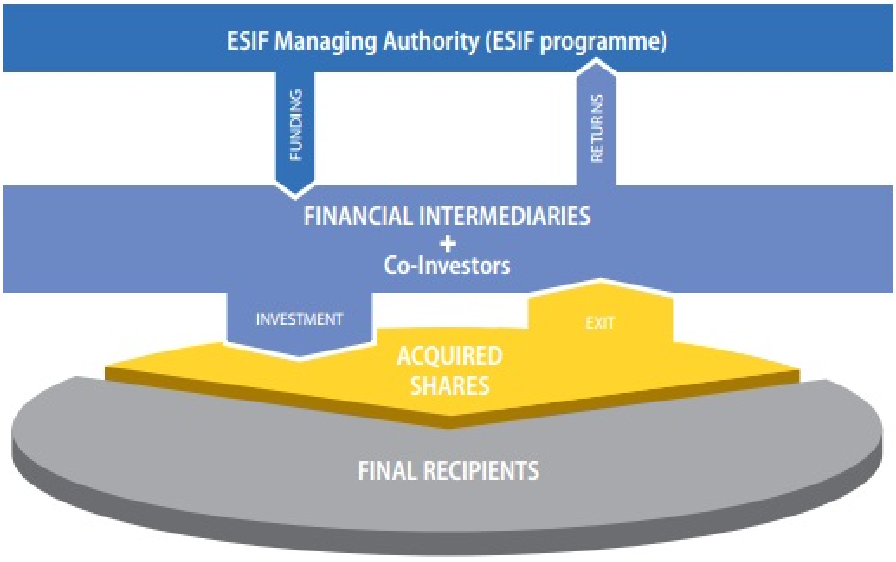
[7] See http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0966&from=EN.
[8] One of the main characteristics that makes FIs particularly valuable under conditions of economic uncertainty, fiscal deficits and bank-lending constraints, is their self-sustaining (evergreen) nature.

Based on these features, FIs can lead to greater value-added for policy interventions, as well as greater effectiveness and efficiency in terms of the use of public sector resources. Moreover, they can make significant long-term contributions to market development through supply-side development and support[9], and to open up new market opportunities to the private sector.

2.1 Main types of Financial instruments (FIs)

FIs are operated through a number of fund structures relative to specific needs and objectives, such as holding funds (or fund-of-funds), including support for SMEs and/or urban development funds, while venture capital funds provide equity capital (directly and indirectly) on a full risk and reward basis[10]. On the other hand, loan funds provide debt capital (securitised lending) over an agreed period and at an agreed rate of return[11], while guarantee funds provide debt finance to firms (especially new businesses and SMEs) unable to obtain finance due to lack of collateral[12]. Finally, FIs can also be set up by Managing Authorities (MAs) directly according to Article 38(4)(c) of the Common Provision Regulation (CPR).

Figure 3. Equity



Source: Fi-compass (2015)

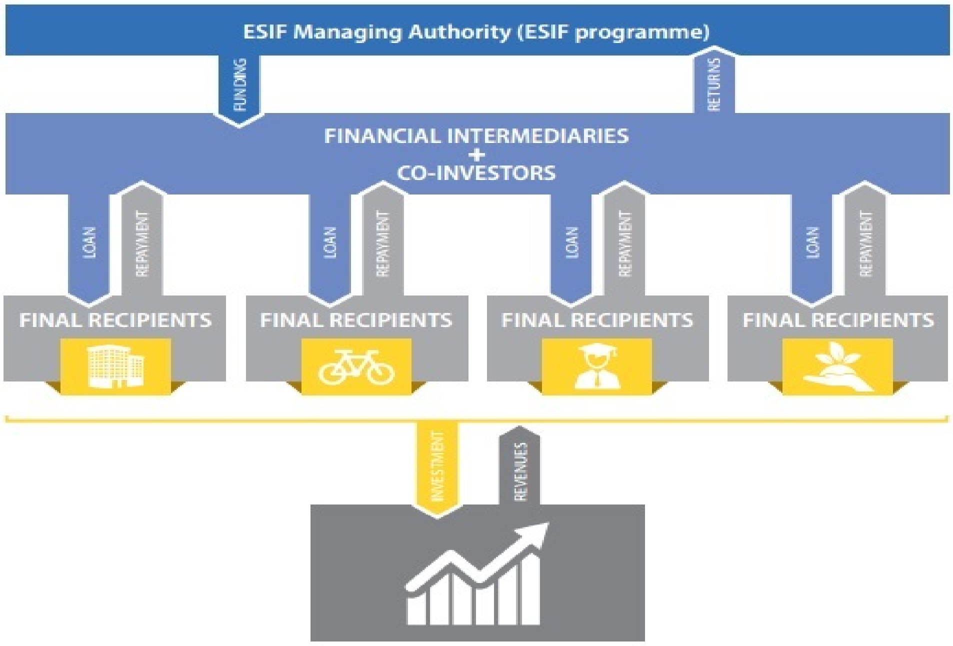
Equity: Selling a partial interest in the company to investors to obtain capital. In other words, it involves direct investment in the share capital of an undertaking. The equity, or ownership position, that investors receive in exchange for their funds usually takes the form of stock in the company. Equity financing does not involve a direct obligation to repay the funds (although all or part of the investment may be sold at a later date to release funds); instead, equity investors become part-owners and partners in the business, and thus are able to exercise some degree of control and influence governance of the firm. Moreover, since creditors are usually paid before owners in the event of business failure, equity investors accept more risk (depending on security) than debt financiers, and as a result, they usually expect to earn higher return (depending on performance)[13]. Equity instruments may cover high risk

[9] Particularly in terms of the use of public sector capital and non-capital mechanisms.
[10] In line with an assessment of the prospectus and future enterprise value of the investee companies.
[11] Typically, this is done on the basis of the quality of the cashflow and the strength of the underlying assets.
[12] For example, the European Investment Fund (EIF) operates a series of credit enhancement and guarantee funds (loan guarantees, microcredit guarantees, equity guarantees and securitization guarantees) in order to improve access to finance for the start-ups and growth of SMEs.
[13] As equity investors recover their investment by selling their stock at a higher value, they are usually committed to furthering the long-term success and profitability of the company, and thus their engagement in start-up and very young companies could also include managerial assistance to the entrepreneurs.

seed investments, start-ups and SMEs that have reached a stage on their development where substantial additional funding is required but is unavailable in the form of debt.

Loan: Purchasing the present use of money (debt financing/borrowing) to finance businesses or projects with the promise to repay it in the future according to a pre-arranged schedule and at a specified rate of interest. The interest rate charged on the borrowed funds usually reflects the level of risk the lender takes on by providing the money and it is based on the quality of cash flow and strength of the underlying assets[14]. The fact that loans provide a defined and pre-specified repayment schedule, implies that money can be predictably reinvested in other projects (during the repayment life of the loan). Its limited management costs, and the fact that it has a well understood mechanism, add to its popularity. However, the low expected returns (compared to equity), the high level of initial resources required (compared to guarantees), and the difficulty of estimating the probability of default (when credit information history of recipient is limited) also need to be considered.

Figure 4. Loan

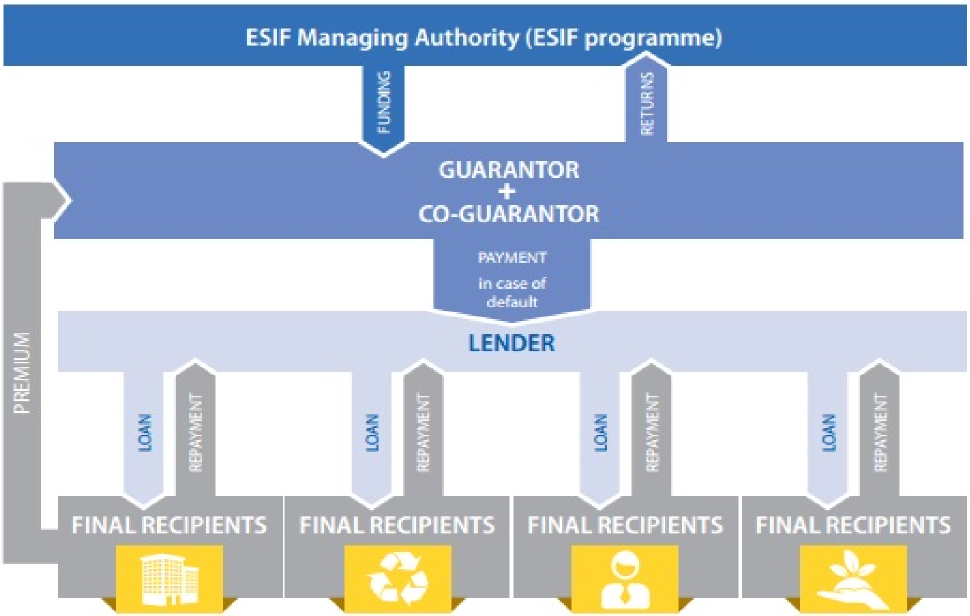


Source: Fi-compass (2015)

Guarantee: Underwriting funds to provide security (by risk pooling) for firms that are unable to obtain financing otherwise. In their most usual form, guarantees are associated with a loan or other financial obligation to be contracted by a borrower with a lender; they may be granted as individual guarantees or within a guarantee scheme (to increase lending to risky projects). They may take the form of guarantees on bank loans, micro-credit or equity, and may involve a fee or higher interest rate for the borrower. As an unfunded product it requires less initial resources than a funded product, such as a loan, which brings management costs down. However, a guarantee does not provide liquidity (it rather represents a risk reserve), its revolving effect is slow (money set aside cannot be reused until repayment is ensured) and the administration complexity can be cumbersome.

[14] Loans can be classified as long-term (with maturity longer than one year), short-term (with maturity shorter than one year), or a credit line (for more immediate borrowing needs).

Figure 5. Guarantee



Source: Fi-compass (2015)

Quasi-Equity: A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi-equity can be structured as debt, typically unsecured and subordinated and in some cases convertible into equity, or as preferred equity. The fact that quasi-equity addresses specific liquidity and risk constraints in a given market segment, makes its level of return much higher compared to normal laons. Moreover, its flexibility to encourage and stimultate investment by local private equity industry in riskier areas not previously serviced, may require changes in the regulatory framework. However, certain drawbacks (e.g. time-consuming and cost-intensive process, insolvency risk, high set-up and operational costs), makes it less attractive than other debt instruments (i.e. loans and guarantees).

2.2 On market failure and suboptimal investment

The main objective of the requirement for ex-ante assessment is to promote the use of sound, evidence-based decision making by Managing Authorities (MAs) when designing and implementing Financial Instruments (FIs). For this reason, the ex-ante assessment requires MAs to provide evidence of the adequacy of the envisaged FI against an identified market failure or suboptimal investment situation and to ensure that the FI will contribute to the achievement of the programme and the ESIF objectives. A successfully completed ex-ante assessment should allow MAs to tackle high-priority market gaps and to define the priorities for the allocation of public resources in accordance with programmes and priority axis. In particular, the assessment should help to identify the main reasons for, and the type and size of market failures and suboptimal investment situations, in order to make sure that FI resources are used where they make a difference. Furthermore, the assessment should evaluate the FI's contribution to the strategy and to the expected results of the relevant programme, by bridging the viability gap or the financing gap.

However, before proceeding with the identification of market failure and suboptimal investment situations, a clear distinction between the two should be drawn. The concept of market failure refers to non-functioning aspects of the market which result in an inefficient allocation of resources and entail the underproduction or overproduction of certain goods and services. On the other hand, suboptimal investment situations concern the underperformance of investment activities. In both cases, it is key to assess the need for a support scheme compared to other means of achieving the same objectives (e.g. a change in a national regulation).

The notion of market failure is relatively broad and its use in the context of justifying the use of FIs can lead to misinterpretations. Economic theory describes market failure as a situation where the market is not capable of allocating resources efficiently or optimally due to the presence of inherent impediments or defects of market exchange forces resulting from resource allocation inefficiencies (Pareto inefficient). However, market failure can also be explained by transaction costs theories and attributed to private rather than public goods or property.

Two complementary and partially overlapping methodologies are recommended by the EIF and EIB to analyse relevant market failures. The EIF methodology mostly focuses on analysis of the supply side (finance providers) and the demand side (SMEs). On the other hand, the methodology proposed by the Commission/EIB advocates a deeper analysis of the business environment, based on causes and effects, and a more detailed examination and segmentation of the demand in order to support the identification of future trends in supply and demand. In theory, both methodologies should lead to the same identification of the main reasons for, and type and size of market failures and suboptimal investment situations. However, conflicting results should also be expected.

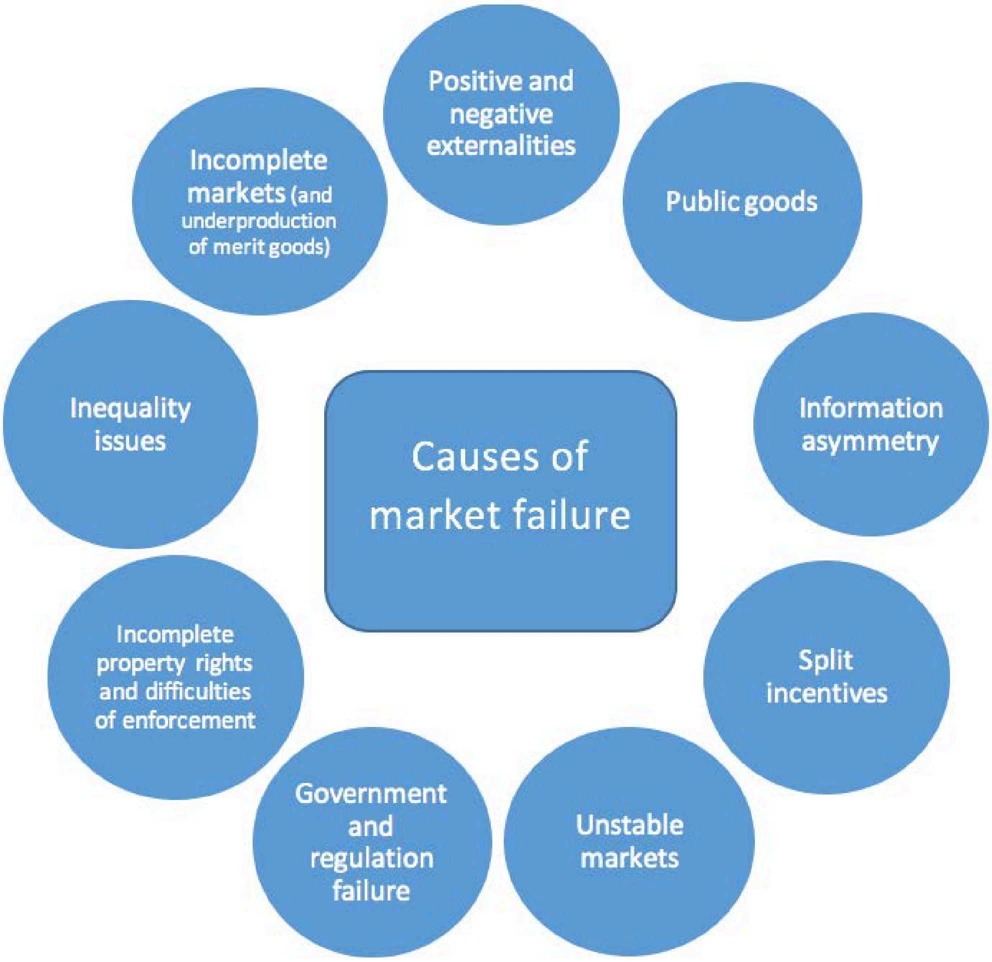
On the supply side, market failure can be caused by a high concentration of banking operations among a limited number of institutions or their risk aversion due to: general economic outlook and uncertainty of future performance by enterprises, high levels of defaulted loan portfolio, insufficient information provided by investors (especially with regard to innovative investment and technology transfer), highly leveraged balance sheets of businesses (leading to insufficient availability of assets for collateralising the anticipated additional external finance), high administrative costs for processing funding applications and loan pricing policies, underdeveloped capital markets, low levels of business opportunities or alternative investment opportunities outside private sector. On the demand side, market failure can be triggered by lack of business confidence leading to zero or very low risk tolerance and a further decline in propensity to invest that only deepens the suboptimal investment situation.

The most common sources of market failure can be summarised into nine categories:

1. *positive or negative externalities* that arise where market players do not internalise the whole benefit or cost of their actions;
2. *public goods* that could result in free rider problems since, even if a person does not contribute to the production of a public good, the cost of preventing him from benefiting from the good are prohibitive;
3. *imperfect and asymmetric information* that arise when two parties wishing to enter a contract or an agreement have different levels of information;
4. *split incentives* that arise when two parties wishing to enter a contract or an agreement have different goals and incentives;
5. *unstable markets* due to non-rational behaviour;
6. *government and regulation failure* that arises when policy decisions fail to recognise markets' self-correction property;
7. *incomplete property rights and difficulties of enforcement* due to difficulties to establish or enforce existing property rights on a resource or a project;
8. *inequality issues* due to income gap, gender, education and healthcare;
9. *incomplete markets and underproduction of merit goods*[15] that arises when markets produce a certain amount of merit goods but total supply is below the socially optimum level.

[15] Merit goods are characterised by the fact that the net private benefits of consuming them are not known at the time of consumption and that their consumption generates benefits for the society as a whole.

Figure 6. Underlying causes of market failure



Source: Authors' elaboration

Looking at some concrete examples of market failure analysis, the ex-ante assessment for Croatia reveals the two main market failures are information asymmetry and market powers[16]. In particular, uncertainty related to economic outlook and financial forecasts, lack of business confidence in economy, lack of credit history or limited business track record and lack of knowledge on start-up loans, are the causes of information asymmetry. On the other hand, highly leveraged companies, low profitability, insufficient collateralisation, payment backlogs, high levels of Non-Performing Loans (NPLs) and underdeveloped capital markets are the most common market imperfections.

Importantly, market failures do vary in their nature between different financing segments and Thematic Objectives (TOs). In Latvia for example, in the microfinance segment, the ex-ante assessment identifies high handling costs for credit institutions, lack of sufficient collateral from micro-enterprises, high risk and insufficient awareness of micro financing opportunities. In the bank lending segment, high credit risk and low profitability of companies (especially small and start-up companies) are the biggest concerns. On the other hand, the venture capital market is underdeveloped and unattractive to investors as the legislation provides excessive barriers to set up and run venture capital funds.

[16] Ex-Ante Assessment Report, (2015), Financial Instruments, Business Competitiveness, Employment and Social Enterprise. ESIF 2014-2020.

Furthermore, the lack of networks uniting business angels, as well as the lack of experience and the limited options to exit investments, make the gap for the business angel financing segment wider.

Looking from a Thematic Objective perspective, specific market failures can be identified. For example, for TO1, 'Strengthening research, technological development and innovation', the limited link between RDI and the real economy leads to low commercialisation of RDI results and, therefore, low private investments in RDI. Moreover, the insufficient protection of innovation and intellectual rights, the scarcity of skilled workforce, and the fragmentation of the value and supply chain, are some of the market problems. Regarding the promotion of employment and labour mobility (TO8), the ageing of population in relation to the lack of specialised workforce but also an unbalanced distribution among regions, hinder market growth. Furthermore, a low level of active population (particularly youth, over-65, disabled, persons from underdeveloped rural areas), underdeveloped vocational education, limited incentives for job creation among disadvantaged categories of the population, and an insufficiently developed entrepreneurial culture, can make the promotion of social inclusion and combating poverty (TO9) very difficult.

What truly matters for the purpose of giving legitimacy to the use of FIs is rather the failure of the market to provide access to finance for the areas/industries/beneficiaries which represents instead a public interest. Sub-optimal investment situations represent a specific type of market failure for which FIs are particularly suitable and have been applied in the past. This issue is directly linked to the evidence of an investment gap. The gap has to be identified between the existing level of investment and a quantitative EU, national or regional objective. In most of the cases, the reference should be an analysis of current investment trends, which shows the extent to which the policy objective could be attained without additional support schemes. Sub-optimal investment situations may be found in conjunction with a longstanding experience of market underperformance. This refers to a situation where the existing investment activity is insufficient to achieve a policy objective.

The analysis of the existence of market failure and/or suboptimal investment conditions and, to the extent possible, their quantification, permits a calculation of the size of the investment gap to be filled by the FI. The likely main reason for such investment gap would be:

i) **a viability gap**: the inability to achieve the financial performance required to attract the necessary funding at market terms (e.g. the business plan of a project or of a group of projects demonstrates returns below market level). The viability gap is a cross-cutting issue which tends to be independent from the financial structuring of the project. Indeed, it can occur in sectors where project finance is the most common financial structure (e.g. energy, transport, urban development) but also where equity investments prevail (e.g. investment in SMEs and start-ups).

ii) **a financing gap**: the limited access to finance (e.g. a certain sector or the economy as a whole shows evidence of unmet financing demand). The financing gap occurs especially for SME and mid-cap finance and in crises situations. Looking closer into the financing gap, it may be a gap for a certain financial product group like an equity gap for risk finance or a general lack of access to finance.

iii) **a combination** of viability and financing gaps.

Preliminary results from the years 2014 and 2015, demonstrate that, despite the early stage of the implementation of programmes, MAs across 21 Member States recorded progress on FIs. Some of these FIs were already demonstrating concrete results in terms of leverage or resources returned for further investments. However, the results recorded also suggest significant differences across Member States regarding the roll out of FIs, as some Member States have not yet completed any ex-ante assessments, whilst in others FIs are already on a second round of investments.

3 OVERVIEW OF FINANCIAL INSTRUMENTS WITHIN THE EU BUDGET

The political emphasis on the use of financial instruments as a means of maximising the effectiveness of EU expenditure finds expression in both the funds directly managed by the Commission, and in expenditure under shared management (typically, programmes managed by Member State authorities).

According to Article 58 of the Regulation on the financial rules applicable to the general budget of the Union[17], the EU budget can be implemented through shared management (i.e. in cooperation with Member States such as in cohesion policy), through direct management (i.e. by its departments or through executive agencies) or through indirect management (i.e. by entrusting budget implementation tasks to third countries or to different entities). The latter two are collectively referred to as centralised management.

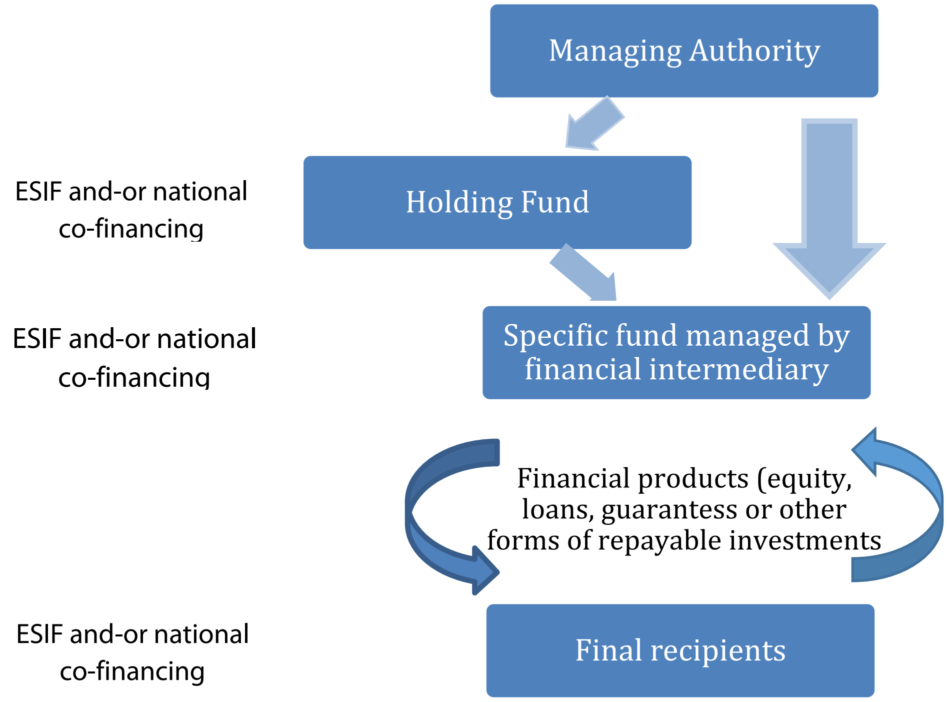
FIs can be used in different parts of the EU budget. For example, shared management FIs in the area of cohesion are set up mainly under the European Regional Development Fund (ERDF), and to a lesser extent under the European Social Fund (ESF). However, since the 2014-2020 programme period, FIs can also be used for the Cohesion Fund (CF). Each instrument has to be implemented within the framework of an operational programme (OP), which is decided by the managing authorities responsible for that programme, together with its size and design (EP, 2013). Furthermore, FIs are now also used under the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

On the other hand, centrally managed FIs are financed from various budgetary areas such as research, enterprise and industry, education and culture. For these instruments the Commission, together with its partners, is directly involved in their design and in developing their investment strategy and endowment. The decision to set up these instruments is taken by the legislative authorities – the European Parliament and the Council – on the basis of a Commission proposal.

Under the shared management structure, FIs can be set up as standalone funds or as sub-funds of a holding fund, later referred to as specific funds (Figure 5). A holding fund, sometimes also referred to as a 'fund of funds', is a fund set up with the objective of managing different types of instruments. It also allows making contributions from one or more OPs to one or several financial instruments.

[17] See Regulation No 966-2012 at http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0966&from=EN.

Figure 7. Models of implementation of Financial Instruments (FIs) in the programming period 2007-2013



Source: EC (2014a)

Financial Instruments (FIs) are generally managed by private - or public-sector banks or other financial intermediaries rather than public administrations. For ERDF and ESF instruments, the selection of a fund manager has to comply with EU and national public procurement rules if the management of the fund is tendered out. However, in situations where public procurement rules do not apply[18] the managing authority can designate the fund manager, subject to complying with the relevant State aid rules.

The regulation offers managing authorities a choice of a number of implementation options (Figure 7). The managing authority (MA) must assess whether it wants to implement the FI operations through a fund of funds or through a direct contribution from the programmes to a specific fund. When an FI is implemented through a fund of funds, the MA contributes programme funding (derived from ESIF with national public co-financing) to a fund of funds which in turn transmits these resources to specific funds managed by the selected financial intermediaries.

If the implementation of an FI is organised outside a fund of funds, then the programme contributes directly to the specific funds managed by selected financial intermediaries.

3.1 Overview of FI performance in the 2007-2013 MFF

During the 2007-2013 programming period, new and significant emphasis was placed on the use of FIs as measures to implement Cohesion policy. This was based on the belief that FIs would generate better quality projects, and would use public funds more efficiently. Therefore, the main rationale for the use of FIs in the context of Cohesion policy is that facilitating access to finance through the use of repayable instruments contributes more effectively to sustainable regional economic growth and employment[19].

[18] For example, in cases where the fund management contract is not a public service contract.
[19] See EC (2012).

The purposes for which FIs could be used within cohesion policy for the programming period 2007-2013 were threefold: SME development, urban development and energy efficiency. In particular, as part of an Operational Programme (OP), the Structural Funds could finance expenditure in respect of an operation comprising contributions to support: i) FIs for enterprises, primarily SMEs, such as venture capital funds, guarantee funds and loan funds, ii) urban development funds, that is, funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development, and iii) 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[20]. The rules setting out the requirements for financial instruments were laid down in article 44 of the Structural Funds Regulation (Regulation 1083/2006).

During the 2007-2013 programme period financial instruments were used in 25 out of 28 EU Member States[21] and a total of 942 co-financed FIs were operating by end 2013. Out of these, 872 were specific funds (out of which 390 were implemented directly – without a holding fund – and 482 indirectly) and 70 were holding funds. Of these 942 FIs, 91% (854) were aimed at business development (i.e. SMEs), 6% (56) at urban development projects, and 3% (32) at energy efficiency and renewables. However, in terms of the sums reaching final recipients the proportion is even higher with 94% of funding accounted for by support of SMEs.

Table 1. Sum disbursed to final recipients by type of Financial Instruments (FIs) and target, by end 2013

	No. of FIs	OP contribution paid to FIs (EUR million)	Type of support	No. of products offered	Amount disbursed to final recipient (EUR million)	% of total OP disbursed to final recipient
Support to SMEs	854	12,150.3	Loans	54,562	3,136.4	47
			Guarantees	97,086	1,437.9	21
			Equity	2,742	1,161.9	17
			Other	9,384	516.1	8
Total				***163,774***	***6,260.4***	
Urban development	56	1,536.3	Loans	2,067	133.4	2
			Guarantees	0	0.0	-
			Equity	3	37.5	1
			Other	0	0.0	-
Total				***2,070***	***170.9***	
Energy efficiency and renewable energy	32	591.83	Loans	38,221	145.0	2
			Guarantees	0	0.0	-
			Equity	14	5.8	0
			Other	0	104.5	2
Total				***38,235***	***254.9***	
Total	***942***	***14,278.4***		***204,079***	***6,686.2***	

Source: Author's calculations based on EC (2014e).

[20] Article 44 of Council Regulation (EC) No 1083/2006 and amending Council Regulation (EC) No 539/2010.
[21] Only Croatia, Ireland and Luxemburg did not use this funding mechanisms.

Generally speaking, FIs in the period took the form of loans and guarantees with a small portion of equity finance. In particular, in terms of number of products (transactions) around 48% take the form of guarantees, but in terms of amounts disbursed to final recipients, over 51% take the form of loans and just 21% the form of guarantees. Moreover, at the end of 2013 the total value of commitments from the OP to FIs was EUR 17.1 billion, with the contribution paid by managing authorities to FIs (either to the holding funds or directly to the specific funds) amounted to EUR 14.3 billion. Importantly, less than EUR 6.7 billion had actually reached final recipients, meaning that only just over one-third of the sums committed had actually reached their intended target by the end of the reporting period (31/12/2013).

By the end of 2014, 972 ERDF FIs and 53 ESF instruments had been set up across the EU. Out of these, 903 are specific ERDF funds (31 managed by the EIB group), 49 are specific ESF funds, while 14 instruments are funded through the EAFRD and 6 instruments funded by the EFF. Given that for the 2007-2013 programme period, the last two funds (EAFRD and EFF) did not require Member States to report on financial instruments, no official data are available.

Table 2. European Regional Development Fund (ERDF) and European Social Fund (ESF) Financial Instruments (FIs) per type of specific fund (2007-2013), as of end 2014

	ERDF		ESF	
	No. of funds	Endowment (EUR million)	No. of funds	Endowment (EUR million)
Specific funds, out of which:				
• Loan instruments	371	5,637	31	417
• Guarantee instruments	171	2,215	7	196
• Equity instruments	162	2,006	1	70
• Mixed instruments	110	2,496	5	59
• Other instruments	6	65	0	0
• Type not reported	83	770	5	74
Total	903	13,189	49	816

Source: ECA (2016).

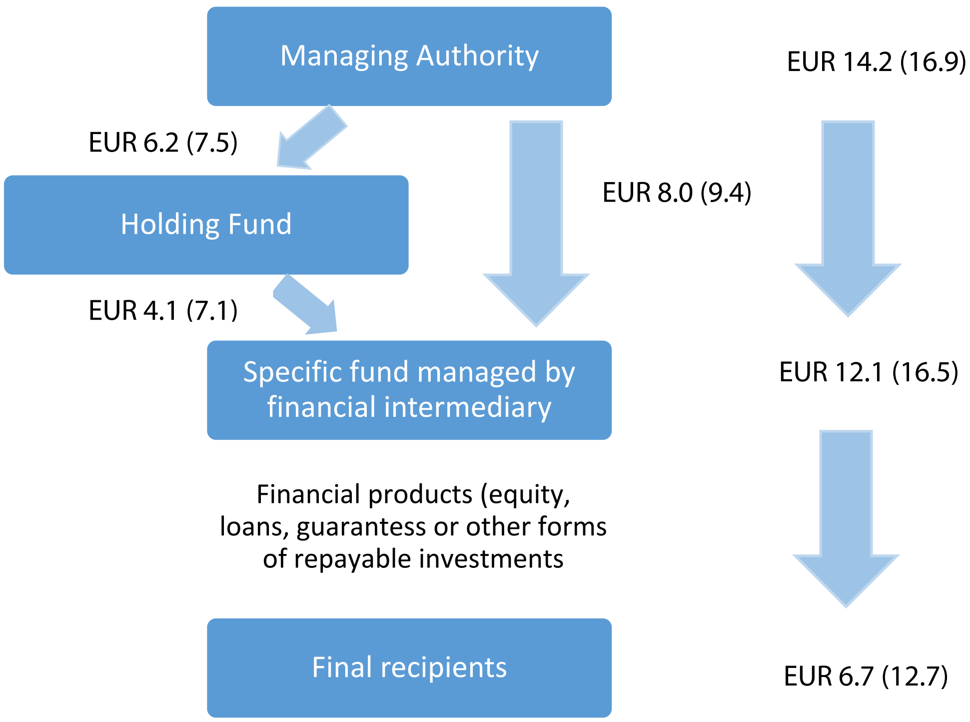
At the end of 2015 a total of 975 specific loan, guarantee, equity/venture capital and other funds had been set up, out of which: 887 for enterprises, 51 for urban development and 37 for energy efficiency and renewable energies. These numbers represent an increase of around 12% for number of funds reported compared to 2013. This is partly due to the establishment of the new funds in 2015, but partly due to the improvement of the quality of reporting. Regarding the type of intervention, 89% of funds targeted enterprises, 7% targeted urban development and 4% targeted energy efficiency and renewable energies. Out of all specific funds, 462 were implemented directly (without a holding fund) and 513 were implemented through 77 holding funds.

Table 3. Sum disbursed to final recipients by type of Financial Instruments (FIs) and target, by end 2015

	No. of FIs	OP contribution paid to FIs (EUR Million)	Type of support	No. of products offered	Amount disbursed to final recipient (EUR Million)	% of total OP disbursed to final recipient
Support to SMEs			Loans	104,203	5,666.4	45
	940	14,543.1	Guarantees	156,195	2,962.0	23
			Equity	5,505	2,371.9	19
			Other	10,140	181.06	1
Total				***276,043***	***11,181.4***	
Urban development			Loans	1,536	1,100.7	9
	70	1,657.9	Guarantees	0	0.0	-
			Equity	13	37.8	0
			Other	0	0.0	-
Total				***1,549***	***1,138.5***	
Energy efficiency and renewable energy			Loans	49,176	294.19	2
	45	703.26	Guarantees	3	0.0	-
			Equity	18	13.92	0
			Other	0	46.85	0
Total				***49,197***	***354.9***	
Total	***1,055***	***16,904.3***		***204,079***	***12,674.8***	

Source: Author's calculations based on EC (2016c)

Figure 8. Operational programmes' contributions used in the financing of Financial Instruments (FIs) and investments made by the Financial Instruments (FIs) in EUR billion, as of end 2013 (2015 target)



Source: EC (2014a).

According to a report by the European Court of Auditors (ECA, 2016), a number of significant issues undermine the efficiency of FIs as a mechanism to implement the EU budget.

First, a significant number of ERDF and ESF FIs were oversized resulting in problems and delays in disbursing their capital endowments. In particular, on average only 47% of all capital endowment paid from the OPs to the FIs had reached the final recipients in 2013 (EUR 6.7 billion of the targeted EUR 12.7 billion).

Second, the Court considers that FIs in both shared and central management were not as successful as originally hoped in attracting private capital (not included in the figure above and not reported by the ECA or by the Commission, as there was no compulsory reporting of attracted private resources for the 2007-2013 period).

Third, the ECA concludes that only a limited number of ERDF and ESF FIs have been successful in providing revolving financial support.

Fourth, the ECA raised concerns about ERDF and ESF FIs regarding their high levels of management costs and fees compared to the actual financial support for final recipients. These costs seem to be falling as experience accrues.

3.2 Financial Instruments (FIs) in the 2014-2020 MFF

The lessons learnt from the implementation of FIs in the previous programming period (2007-2013), and growing familiarity with their operation, led to several regulatory changes for the 2014-2020 programming period. These changes included the extension of FI support to all thematic objectives (TOs) and all ESI funds. In the previous period FIs were available only for support for enterprises, urban development, energy efficiency and renewable energies in the building sector. However, one of the key innovations in respect of implementation is the compulsory ex-ante assessment before the adoption of instruments (as opposed to the voluntary 'gap analysis' in the previous period).

Moreover, new types of financial instruments have been introduced covering a wider range of implementation options. Other changes included the introduction of phased payments linked to disbursements to final recipients (as opposed to the previous period, where 100% of the amount paid to the fund had to be declared). Furthermore, the legal basis has been significantly extended to include detailed provisions on management costs and fees, interest, resources returned, legacy and many other aspects. Lastly, reporting is now compulsory from the outset (in the previous period it was from 2011 onwards only), with the use of a range of indicators.

In general terms, the current legislative framework aims to balance flexibility with innovation and sound financial management of FIs, by taking into account Member States and sector specificities. The main target is to improve the coherence and consistency between instruments, raise visibility and transparency, and to reduce the number of FIs to ensure a sufficient critical mass.

Table 4. Main changes relating to Financial Instruments (FIs) across the programming periods, European Regional Development Fund (ERDF) & European Social Fund (ESF)

	2007-2013	2014-2020
Scope	Support for SMEs, urban development, energy efficiency and renewable energies in building society.	Support for all thematic objectives covered under a programme.
Set-up	Voluntary gap analysis for SMEs and at the level of holding fund.	Compulsory ex-ante assessment.
Implementation options	FIs at national or regional level (tailor made only).	FIs at national, regional, transnational or cross-border level (tailor made, off-the-self, or MA loans/guarantees). Contribution to EU level).
Payments	Possibility to declare to the Commission 100% of the amount paid to fund – not linked to disbursements to final recipients.	Phased payments linked to disbursements to final recipients National co-financing which is expected to be paid can be included in the request for the interim payment.
Management costs and fees, interest, resources returned, legacy	Legal basis set out in successive amendments of the regulations and recommendations/interpretations set out in three COCOF notes.	Full provisions set out from outset in basic, delegated and implementing acts.
Reporting	Compulsory reporting only from 2011 onwards, on a limited range of indicators.	Compulsory reporting from the outset, on a range of indicators linked to the financial regulation.

Source: EC (2014c)

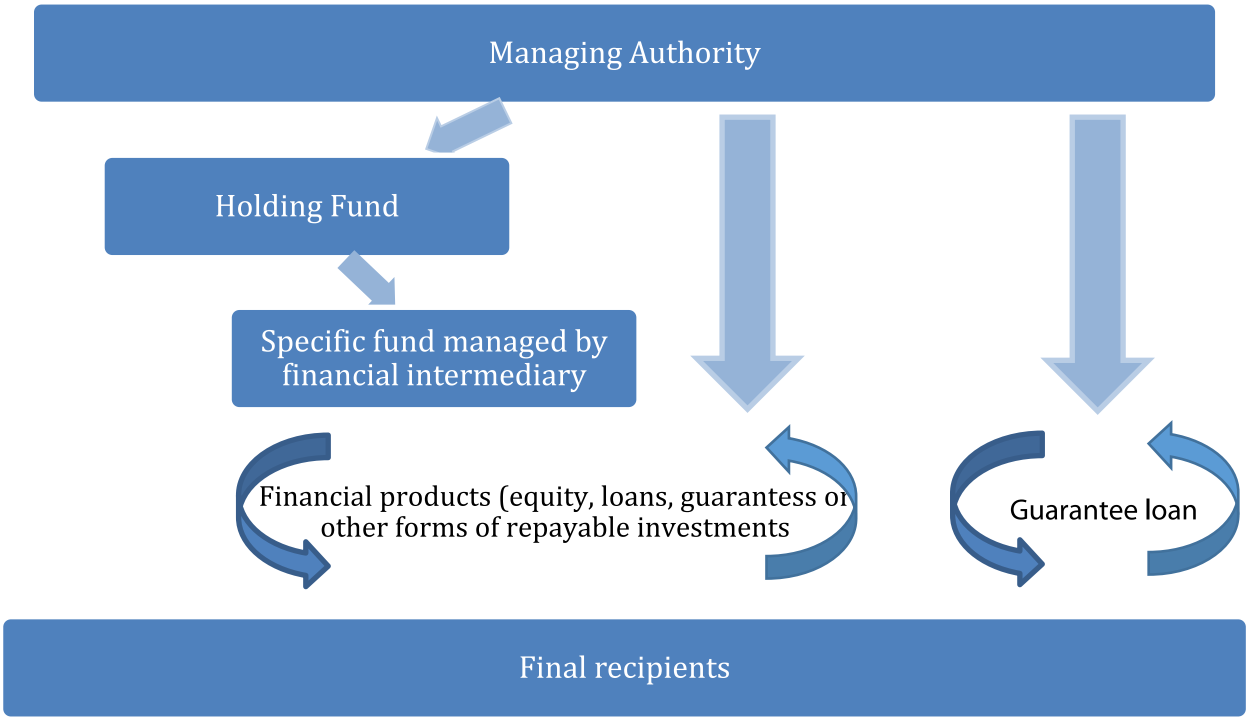
Table 5. Main changes relating to Financial Instruments (FIs) across the programming periods, European Agricultural Fund for Rural Development (EAFRD)

	2007-2013	2014-2020
Scope	Support for all revenue generating investments under the RDP.	Support for all revenue generating investments under the RDP.
Set-up	Ex-ante assessment only for guarantee funds.	Compulsory ex-ante assessment for any FI.
Implementation options	FIs at national or regional level (tailor made only). Only loans, guarantees and venture capital.	FIs at national, regional, transnational or cross-border level (tailor made, off-the-self, or MA loans/guarantees). Contribution to EU level.
Final recipients	Indirect access to the FI - access only for those with grant applications under a RDP measure selected by Paying Agencies.	Direct access to the FI - any final recipient that fulfils the eligibility and selection criteria without the need to submit an application to the Paying Agency.
Payments	Possibility to declare to the Commission 100% of the amount paid to fund – not linked to disbursements to final recipients.	Phased payments linked to disbursements to final recipients.
Management costs and fees, interest, resources returned, legacy	General legal basis set in the implementing rules.	Full provisions set out from outset in basic, delegated and implementing acts.
Reporting	No compulsory reporting – part of the general annual reporting on the programme's implementation.	Compulsory reporting from the outset, on a range of indicators linked to the financial regulation.

Source: EC (2014c)

The legislative framework of 2014-2020, in addition of the two implementation options available at the 2007-2013 programming period, offers a possibility for the MA to implement the FIs directly in the case of loans and guarantees (not applicable to equity). In that case, the bodies providing loans backed by ESIF guarantees are not considered financial intermediaries implementing FIs. However, the value of loans paid to final recipients in relation to the guarantee contracts signed should be reported[22].

Figure 9. Models of implementation of Financial Instruments (FIs) in the programming period 2014-2020



Source: EC (2016d)

3.2.1 Financial Instruments (FIs) under central management

Implementation of FIs in areas of the budget under the Commission's direct management may be delegated to bodies such as the European Investment Bank (indirect management). In practice, while other options are theoretically possible, all of the financial instruments currently in operation are managed by the EIB or the EIF; in many cases using intermediaries, particularly the national promotional banks.

In both cases, ex-ante evaluation of the financial instrument is required. The Common Provisions Regulation[23], which governs expenditure under the European Structural and Investment Funds, lays down detailed requirements for the content of ex-ante assessments, which in turn is supplemented by guidance from the Commission, and by information provided to Member States and managing authorities through the FI-Compass website. For directly managed areas of the budget, the Financial Regulation[24] lays down a general requirement (article 139.1) that financial instruments should be

[22] See field 26 of the Model for reporting on FIs in Annex I to the Commission Implementing Regulation (EU) No 821/2014.

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

[24] 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.

established by means of a basic act – creating a clear role for the co-legislators in determining the advisability of using a financial instrument in each case. The ex-ante requirements in the Financial Regulations are, partly in consequence, less prescriptive than for FIs under shared management: article 140.2 simply requires that FIs should be established on the basis of an ex-ante evaluation, the only specific requirement for which is that it should address the re-use of funds eventually returned to the FI. The Commission is given the power to adopt delegated acts which specify detailed rules on the content of ex-ante evaluations; and has set out in the delegated regulation setting out the rules of application of the Financial Regulation[25] a range of more detailed requirements, in particular that the ex-ante evaluation must demonstrate a market failure; must demonstrate the EU added value of the proposed FI; and that it should determine the most efficient mode of delivery.

The Commission is required under the Financial Regulation (article 140.8) to report annually on the use of financial instruments, covering a detailed range of information. The latest such report was published in October 2016[26], outlining information on the 12 financial instruments for which the Commission is responsible. It provides information against each of the categories required under the Financial Regulation, for each of the FIs; and also presents some overview data on leverage. The data presented at this stage of the implementation of the MFF, however, is necessarily limited in terms of results. While overview information on the budget envelopes for the period, financing targets, and investment targets are presented, information on actual leverage achieved is not yet available, and cannot be calculated from the detailed information provided for each FI in the annex to the Commission's report.

Table 6. Overview of expected leverage from different categories of Financial Instruments (FIs) under direct/indirect management, 2014/2020 (EUR billion)

Instrument type (number analysed)	Budget envelope	Financing target	Investment target
Debt instruments (9)	7.4	82.7	123.5
Equity instruments (4)	1.1	5.5	13.7
Mixed (debt/equity) (1)	0.06	0.18	0.36
TOTAL	8.4	87.8	137.6

Source: data extracted from COM (2016) 675 final.

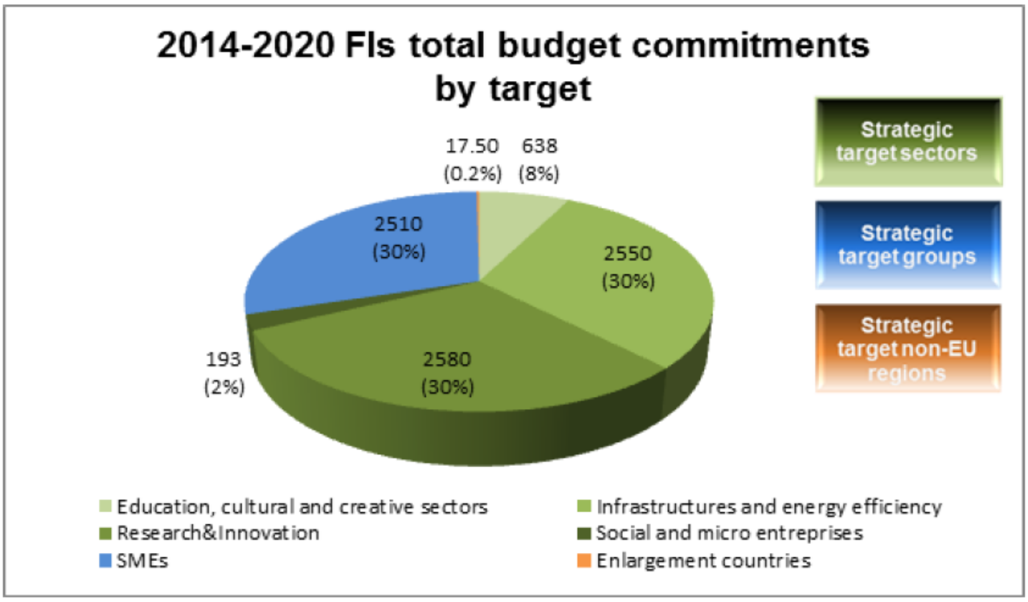
The Financial Regulation's stipulations for the content of the Commission's annual report do not include a requirement to present summary information on the ex-ante evaluations carried out; and, in contrast to the requirement for publication of executive summaries of ex-ante assessments under shared management, there is no requirement for them to be published in full. The staff working document[27] accompanying the report makes reference – sometimes, but not always, accompanied by a footnote reference to the relevant document – to ex-ante evaluations in relation to individual FIs, but not in a systematic way for all of them.

[25] Commission Regulation 1268/2012, article 224

[26] COM (2016) 675 final – Report from the Commission to the European Parliament and the Council on financial instruments supported by the general budget

[27] SWD(2016) 335 final - Commission staff working document: activities relating to financial instruments accompanying the document Report from the Commission to the European Parliament and the Council on financial instruments supported by the general budget according to Art. 140.8 of the Financial Regulation as at 31 December 2015

Figure 10. 2014-2020 Financial Instruments (FIs) - Total budget commitments by target as of 31 December 2015 (EUR million)



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

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

Strategic target non-EU regions: EDIF GF2

Source: COM (2016) 675 final

Similarly, the Commission report and the accompanying staff working document do not provide systematic information on the geographical spread of investments under the financial instruments; although such information is provided for a number of individual FIs.

In terms of target coverage, the Commission provides overview information addressing both target sectors, and target groups (see Figure 10), in relation to budget commitments. There is a degree of overlap in practice between these categories – for example, an SME providing innovative solutions in the energy efficiency sector could potentially benefit under any of a range of the FIs.

3.2.2 Financial Instruments (FIs) under shared management

A similar obligation to report on the use of FIs is placed on Member States by Article 46 of the Common Provisions Regulation in respect of FIs under shared management (under the ERDF, CF, ESF, EARDF and EMFF); and the Commission is obliged to provide summaries of data to Parliament and Council within six months of the deadline of the receipt of the reports from Member States. The latest such report[28] dates from November 2016, and covers the situation up to December 2015. It focuses primarily on FIs under the ERDF and CF, with only a limited amount of progress available to report under the ESF and EARDF (where experience before the current MFF was much less developed, and where a greater delay is likely while programme authorities prepare FIs).

In relation to ERDF and CF Operational Programmes (OP), a total of EUR 5,571 million of the Operational Programmes (OP) resources had been committed to FIs (mainly from the ESIF, with a small proportion of member state co-financing); given the early stage of implementation, however, only EUR 1,169 million had been paid to the FIs; and only EUR 98 million had been paid to final recipients. These figures are based on activity in 19 Member States, and include some high figures (for example,

[28] "Financial instruments under the European Structural and Investment Funds: situation as at 31 December 2015", European Commission, November 2016.

just under half of the total EU-wide commitment is based on one Hungarian FI, which has not yet received any payments); it is therefore difficult to draw any general conclusions.

Information from operational programmes on intended commitments to FIs suggests that there is a wide range of enthusiasm, varying from the UK (which plans to allocate around 20% of the total under ERDF and CF OPs through FIs), to several Member States which had not identified any plans for allocating expenditure to FIs (Ireland, Luxembourg, Denmark).

Table 7. State of play of implementation by Member State, as of end of 2015 (ERDF and CF)

MS	Ex-ante assessment completed	Funding agreements signed	Commitments to FI (ERDF &CF)	Payments to FI (ERDF & CF)	Payments to FI as share of commitments paid	Commitments to final recipients (ERDF & CF)	Payments to final recipients (ERDF & CF)	Disbursement rate of ERDF & CF contribution 4
AT	1	1	3.00	3.00	100%	0.15	0.15	5%
BE	9	0	0.00	0.00	0%	0.00	0.00	0%
BG	1	0	0.00	0.00	0%	0.00	0.00	0%
CZ1	14	0	431.00	0.00	0%	0.00	0.00	0%
DE3	24	18	392.00	76.35	19%	40.04	14.59	19%
EE	2	2	85.00	0.00	0%	2.39	2.39	0%
ES	3	1	800.04	800.04	100%	525.85	0.00	0%
FR2	13	10	98.50	17.07	17%	0.00	0.00	0%
HR	7	0	0.00	0.00	0%	0.00	0.00	0%
HU	1	1	2,381.36	0.00	0%	146.12	0.00	0%
IT	9	5	96.23	15.00	16%	72.75	1.52	10%
LT	3	3	303.65	152.51	50%	139.43	72.56	48%
LV	2	0	0.00	0.00	0%	0.00	0.00	0%
PT	2	0	0.00	0.00	0%	0.00	0.00	0%
RO	2	0	0.00	0.00	0%	0.00	0.00	0%
SE	10	8	72.11	8.46	12%	0.00	0.00	0%
SI	1	0	0.00	0.00	0%	0.00	0.00	0%
SK	1	1	329.52	29.75	9%	0.00	0.00	0%
UK	6	6	12.84	0.00	0%	12.84	0.00	0%
Total	**111**	**56**	**5,005.25**	**1,102.17**	**22%**	**939.58**	**91.21**	**8%**

1) No funding agreement reported yet but amount of commitment was provided

2) For one FI with contribution of EUR 54 million, no ERDF share of the commitment was reported

3) Numbers for Germany contain instrument implemented directly by the MA: commitment to final recipients of EUR 2.31 million OP resources and EUR 1.85 million ERDF

4) The disbursement rate is calculated on ERDF and CF contributions only in comparison to the annual summaries in 2007-2013. National co-financing to the OP can come in at the level of FoF, specific fund under FoF, specific fund without FoF and final recipient, therefore, calculating disbursement rate against payment from MA to FI would be incorrect.

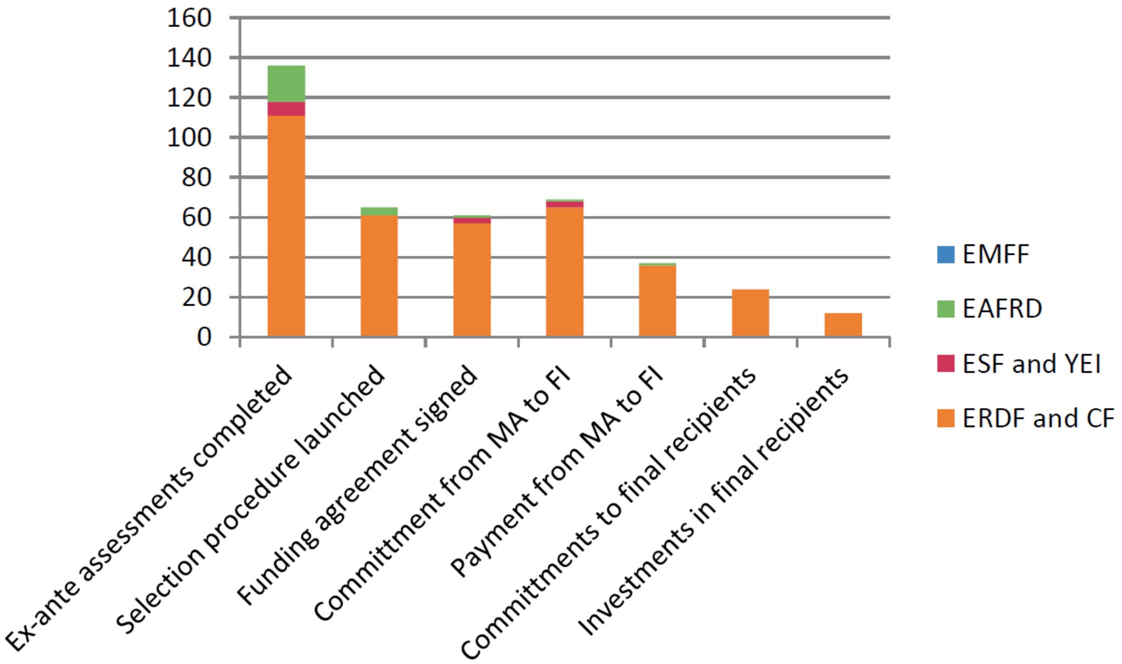
Source: European Commission

Perhaps the most valuable information currently available, therefore, is that shown in Table 7 on ex-ante assessments completed; which should be a leading indicator of the use of FIs – although the number of assessments will be in part influenced by the management structure for expenditure (with, for example, a heavily regionalised structure in Germany and France).

The detailed analysis of a selection of ex-ante assessments carried out in the next phase of the project will need to take into account this relatively early stage of maturity of the FIs concerned. In principle, a system based on a genuinely open and effective process of ex-ante assessment should generate a number of cases where the assessment was not favourable to setting up an FI, and further action was therefore not taken. It will therefore be important to establish if this is, indeed the case, as this will be a valuable indicator of the value added of the ex-ante process.

Regulatory changes between programming periods, affecting both shared management as a whole and financial instruments specifically, had a clear impact on implementation. According to latest official data made available by the Commission in November 2016, as many as 136 ex-ante assessments were completed by December 2015 under shared management, of which 111 linked to the ERDF and Cohesion Fund. (EC, 2016d)

Figure 11. Progress in setting up financial instruments, ESI Funds, by December 2015



Source: EC (2016d), Summary of Data for programming period 2014-2020, November 2016)

3.3 Policy areas best suited to the use of Financial Instruments

A recurrent question is to which sectors are FIs most suited. There is not a fixed rule, as FIs are indicated for any bankable investments with high social value that are not undertaken due to a market gap, i.e. lack of private investment availability. There are, however, some areas where there is a recurrent market gap. As has been pointed out in sections 3.1 and 3.2, FIs have been mostly used for SME support, energy efficiency projects and urban investment. These are, indeed, some of the most appropriate areas for the use of FIs within the framework of the EU budget; although their prevalence is also due to the fact that the use of FIs in these areas was permissible during the 2007-2013 programming period. The present section, which concludes this chapter, will shed some light over the reasons behind the selection of certain areas of intervention and their particular suitability.

Credit institutions consider and analyse a number of factors when asked to finance an investment project. Important elements to be assessed are the overall risk of default of the project, the cash-flow and the level of return that the project might generate, the maturity of the investment, the amount of collaterals made available by the debtor[29], the break-even point[30], as well as the Net Present Value (NPV) of the investment[31]. Taking stock of this information, credit institutions decide whether to fund or not the project.

However, projects presenting viable investment opportunities, but whose characteristics do not fulfil the minimum requirements of the credit institutions accessible by the entrepreneur, can be supported by EU funding programs (as long as the objectives are aligned with those of the EU). As already mentioned in chapter 2, **EU funding aims at complementing private funding opportunities to fill the gap between credit supply and funding demand for viable investment projects which would contribute to the delivery of public policy outcomes.**

[29] A collateral is an asset given as a security (guarantee) for the repayment of the loan.

[30] The break-even identifies the point in time when revenues produced by the project equal the cost of funding it. This defines the moment when a project turns to be profitable.

[31] The net present value is the value of the present investment in the future. It defines the cost-opportunity of the investment.

Indeed, as the financial crisis pushed credit institutions to reduce their financial leverage in order to consolidate their balance sheets, banks were less inclined to fund projects with a relatively higher level of risks or with a considerably longer duration. This led to the **emergence of areas which are structurally underfinanced.**

In this regard, projects with relatively high risks are, inter alia, often those concerning innovations which are close to market penetration, or small businesses investments. Risk is inherent in innovative projects, while SME investments may encounter other kind of issues, namely mismanagement or financial fragility of the SME, market volatility, technical or production problem, low marketability, liquidity issues. For these reasons, credit institution are more reluctant to fund forward-looking projects and small business plans, without the support of significant guarantees.

At present, long-term projects are considered by the market to be those investments whose repayment is expected after more than 10 years. In this context, **investments with a long maturity period, such as projects for infrastructure or energy efficiency technology, face a risk of being underfinanced by credit institutions.** In addition, restrictions imposed with Basel II have reduced lending in such projects.

Urban investment projects in principle have a high public good content and create several positive externalities which are hard to monetise. However, and partly linked to those non-monetised externalities, investors are often not interested in such projects since, despite creating high social value, returns can be low.

In all of the above mentioned areas, EU complementary funding is important. While grants have been use to cover a large majority of the EU budget investments, for efficiency reasons grants should not be used to finance viable investment projects. Financial instruments should be seen primarily as a tool efficiently allocate public funds and thus expand the reach of the budget, based on the mandate of the EU.

4 RULES ON SETTING UP FINANCIAL INSTRUMENTS

Title VIII of the Financial Regulation sets the rules for the use of the Financial Instruments (FIs), which since the reform of the Financial Regulation in 2012 permits the use of FIs in centrally managed as well as all shared management/ESIF budgets. This means that managing authorities can themselves develop financial instruments.

The Commission remains responsible for ensuring sound financial management of EU-level FIs, while the selection of intermediaries implementing the financial instruments needs to follow specific selection criteria.

Articles 139 and 140 for the financial regulation lists the principles and condition applicable to the financial instruments with more detailed provision in the rules of application, these form the basis for the ex-ante assessment requirements.

4.1 Regulation for Financial Instruments (FIs) under shared management within ESI Funds

One of the novelties introduced in the 2014-2020 MFF is that financial instruments can be employed in the framework of each of the five ESI Funds under shared management.

While the detail of the operation of each fund is governed by separate legislative acts under the relevant treaty base for each fund, several cross-cutting principles and rules are set out in the Common Provisions Regulation[32]. In addition to establishing systems designed to ensure a closer alignment with the Europe 2020 strategy, including a Common Strategic Framework, and requirements for Member

[32] Regulation (EU) No 1303/2013

States to develop a Partnership Agreement setting out how they intend to use the funds, the Common Provisions Regulation also sets out a number of common financial standards. Among these are rules on the use of financial instruments.

The changes introduced by the Common Provisions Regulation, in comparison to the use of financial instruments under the structural funds in the 2007-2013 MFF, were to extend the scope of the use of financial instruments – which may now be used to address all thematic objectives under a programme; to introduce so-called "off-the-shelf" instruments (Annex 1) which could be used by programme authorities; and the introduction of a compulsory ex-ante assessment for the establishment of financial instruments by managing authorities. In addition, the rules on the EMFF[33] provide that (except in the case of SMEs) support for processing of fishery products may only be provided through financial instruments.

The overall political message set out by the Commission in its guidance to managing authorities on the use of financial instruments[34] is that there should be more ESI funding delivered through FIs, particularly given the context of financial retrenchment; and that the use of FIs should be considered "wherever suitable". However, the Commission also implicitly acknowledges that there are risks of perverse incentives for the use of FIs, by stating that they should not be used "for reasons of absorption"; that is, as a means of ensuring rapid disbursement of funds at the point of establishing an FI, for example in order to avoid automatic decommitment of funds if the programme as a whole is behind in its execution. Equally, the Commission notes that the ambition to spend more through FIs should not lead to a proliferation of instruments, but that (referring to the views of the European Court of Auditors and of the European Parliament) economies of scale should be sought.

4.1.1 The Common Provisions Regulation rules on the use of Financial Instruments (FIs)

The main elements of the Common Provisions Regulation on financial instruments are set out in Title IV (Financial Instruments), although there are other relevant provisions elsewhere. The term "financial instrument" is defined (article 2(11)) by reference to the definition in the Financial Regulation[35].

Title IV begins by setting out, in article 37.1, the purpose of financial instruments, which is "to support investments which are expected to be financially viable", yet which "do not give rise to sufficient funding from market sources".

It then sets out the rules for ex-ante assessment in article 37.2. Support for financial instruments must be "based on" the ex-ante assessment, which itself must be carried out before the managing authority decides to make any programme contributions to a financial instrument, with the summary findings and conclusions of the assessment being published within three months (37.3). The assessment must cover (37.2):

- An analysis of market failures, suboptimal investment situations, and investment needs;
- An assessment of the added value of the financial instruments that are being considered for support, including state aid implications and proportionality and their consistency with other forms of public intervention;
- An estimate of the additional public and private resources potentially raised by the financial instrument (i.e. the expected leverage), together with an assessment of the preferential treatment needed to attract investment and the mechanisms to be used;

[33] Regulation (EU) No 508/2014 on the European Maritime and Fisheries Fund (EMFF), article 69.2

[34] "Financial instruments in ESIF programmes 2014-2020: A short reference guide for managing authorities"

[35] Currently, Regulation 966/2012 on the financial rules applicable to the general budget of the Union. Financial instruments are defined there as: "Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants;"

- An assessment of lessons learnt from similar instruments and ex-ante assessments carried out by the Member State previously;
- A proposed investment strategy, including an examination of options for products to be offered, recipients to be targeted, etc;
- A specification of the expected results;
- Provisions for a review and updating of the ex-ante assessment.

The detail provided on the requirements for an ex-ante assessment goes significantly beyond what was proposed by the Commission when the draft regulation was tabled in 2011[36]; where there was a simple statement that financial instruments "based on an ex-ante assessment" may be used; and a power for the Commission to adopt delegated acts governing inter alia the ex-ante assessment requirement. The further detail in the text of the co-decided regulation results from amendments tabled at first reading by the European Parliament, and accepted by the Council and Commission.

4.1.2 Implementation of Financial Instruments (FIs)

The Common Provisions Regulation goes on to distinguish between two types of contribution to financial instruments available to managing authorities. In the first place, they can contribute to FIs set up at Union level, and managed by the Commission (directly or indirectly, for example through the EIB); and as an alternative, they can make contributions to instruments set up at national, regional or transnational level, which are managed under the responsibility of the managing authority itself. The regulation introduces the innovation of "off-the-shelf" financial instruments, set up by the Commission under implementing acts; and sets out detailed rules for contributions from operational programmes to the SMEs initiative, which provides additional funding from the European Investment Fund and a contribution from the COSME programme and Horizon 2020 (again, in the case of the SME initiative, no separate ex-ante evaluation is required by the managing authorities; and the operational programme contribution can benefit from 100% co-financing).

The legislation governing expenditure under the individual funds provides further incentives towards the use of financial instruments by, inter alia:

- Providing for a 10% increase in the maximum level of co-financing in a variety of cases, for example:
  - Where a whole priority axis under an ERDF, ESF or CF operational programme is delivered through financial instruments;
  - For contributions to financial instruments under EAFRD rural development programmes;
- Providing for 100% co-financing for contributions to EU-level financial instruments, for example:
  - where a whole priority axis in an ERDF, ESF or CF operational programme is delivered through a contribution to an EU-level financial instrument;
  - For EAFRD contributions to EU-level financial instruments.

The only specific reference to financial instruments in the EMFF Regulation is the requirement that they should be used for support to fish processing activities, except in the case of SMEs; and the Commission guidance on the use of financial instruments referred to below notes that the limited take-up of financial instruments in the 2007-2013 programming period, combined with the "often small" size of fisheries administrations, suggest that it would be preferable to use financial instruments either already in existence or planned to be implemented under other funds.

[36] See COM/2011/615/FINAL

Other elements of the Common Provisions Regulation relevant to financial instruments include:

- the inclusion of the design and implementation of financial instruments in the list of managing authority activities which may be eligible for financial assistance from the Structural and Investment Funds;
- the requirement for operational programmes to set out the planned use of financial instruments

However, the Partnership Agreements provided for at Member State level are not required to set out plans for the use of financial instruments (although the Commission guidance to managing authorities referred to below recommends the inclusion of such information as good practice).

4.1.3 Commission guidance for Managing Authorities (MAs)

Commission guidance for Managing Authorities (MAs) on the use of Financial Instruments has been published annually since 2014, and supplemented by guidance on ex-ante assessment[37]. The guidance on the use of financial instruments largely outlines the information set out above. The guidance on ex-ante assessment is itself supplemented by examples and detailed methodologies[38]. These are intended to be a useful tool for managing authorities, but not to act as a restrictive template. In general, the guidance document contains sensible advice on the proper use of ex-ante assessment. However, tellingly, in setting out the value of ex-ante assessment ("The ex-ante assessment will assist MAs in having a sound basis for their decision-making in using FIs and in setting up an effective FI. It will also help to avoid overlaps and inconsistencies between instruments implemented by different actors at different levels and to avoid some of the problems identified in the current period"), it adds:

> "Therefore, the ex-ante assessment requirement in the CPR should not be looked at only as a mere legal obligation but also as a tool to support implementation from a sound financial management perspective."

This hypothesis that the assessment may in some cases be treated largely as a bureaucratic hurdle than as an integral part of the decision-making process is one that our detailed analysis of assessments under shared management programmes will test.

The five volumes of the Fi-compass methodology for ex-ante assessments, which were in large part developed to respond to a demand of managing authorities seeking for guidelines, well indicate the complexity of the topic and the burden it may represent for MAs. To make guidelines more accessible, FI-compass provides also a quick reference guide[39], which summaries the relevant information from the 5 volumes and gives a useful general understanding of the building blocks on which ex-ante assessments should be drown upon.

Another very relevant tool provided by EU institution to support MA in implementing swiftly financial instruments consists in the definition of off-the-shelf, regulation-proof financial instruments. The off-the-shelf financial instruments have a very simple design, with terms and conditions established such that the model is ready-to-use, with state aids pre-cleared. Their main aim is to provide standard terms and conditions for a set of predefined financial instruments that can be set-up and implemented by MAs in order to: i) facilitate the design and the management of the most commonly used financial products within the ESIF programme, in particular for specific sectors where financial instruments are expected to play an important role contributing to the Europe 2020 objectives, and ii) assist MAs in the delivery of financial means to the final recipients. Off-the-shelf instruments are based on the

[37] See European Commission (2014), "Guidance for Member States on Article 37(2) CPR– Ex-ante assessment". Fi-compass provides a list of the most relevant guidelines at www.fi-compass.eu/resources/ex-ante-assessment-summary.

[38] Available at the FI-Compass website www.fi-compass.eu/resources/ex-ante-assessment-summary

[39] See European Commission (2014), "Financial instruments in ESIF programmes 2014-2020: A short reference guide for managing authorities".

implementation experiences and knowhow capitalised during the programming period 2007-2013. Examples of off-the-shelf financial instruments, described in Annex 3, are a risk-sharing loan, a capped portfolio guarantee, a renovation loan, a co-investment facility, an urban development fund.

4.2 Regulation for Financial Instruments (FIs) under central management and EFSI

While the centrally managed FIs have increased considerably in size, particularly with the creation of EFSI, those are considered in the financial regulations as only being created in 'exceptional cases' (Article 220 of the Rules of Application[40]). EFSI is in fact officially not considered a FI of the EU budget, even though it draws is capital from guarantees largely from it and supports areas which also other FIs address, particularly in the area of SMEs.

The main characteristic of centrally managed FIs is that equity and guarantees are pre-allocated by region or country. These are instruments that can be accessed by beneficiaries in all Member States.

The rules of for the centrally managed FIs are very similar to those for shared management. Those FIs can be used according to Article 216 of the RAP in the following:

> "(a) dedicated investment vehicle in which the Commission participates together with other public or private investors with a view to increasing the leverage effect of the Union contribution;
>
> (b) loans, guarantees, equity participations and other risk-sharing instruments other than investments in dedicated investment vehicles, provided directly to final recipients or through financial intermediaries. "

As mentioned in section 4.1, the CPR provisions Article 38(1) allows for ERDF Operational Programmes to contribute to centrally managed SME initiatives. The benefit of such a move can be interesting, because:

- The existing ex-ante evaluation and assessment at EU-level for centrally managed FIs allows the member states to skip the preparation of both a programme ex-ante evaluation and the ex-ante assessment for the instrument.
- There will only be a single national programme fund created. This means the fund will not be based on a regional allocation, but this can be negotiated when necessary in the funding agreement.
- No national co-financing is required for contributions to centrally managed FIs, including the SME Initiative.
- The funds for the SME Initiative will be exempt from the performance framework and performance reserve.

The allocation to the SME initiative is not open ended, member states can allocate up to 7% of the ERDF and EAFRD to the SME initiative It should also be noted that a member state can contribute up to 7% of its total ERDF and EAFRD allocation to the SME initiative (within the global ceiling at EU level of EUR 8.5 billion (2011 prices)).

The use of funds with a higher capital endowment is promoted by the ECA, because the overhead costs can be cut, as well as the risk premia, due to the distribution of risk and costs over the EU territory, i.e. a large number of recipients. Individual instruments at national and regional level do not have the size which is appropriate for an efficient operation (ECA, 2016).

[40] Presently, the Financial Regulation is accompanied by the Commission Delegated Regulation (EU) No 1268/2012 which lists detailed rules of application of the Financial Regulation.

There is some confusion prevailing today on the role of EFSI which also has support for SMEs, in comparison to support by other centrally managed funds, such as COSME and InnovFin. The EFSI SME window actually contributes to expand those existing programmes.

5 ANALYSIS OF THE EX-ANTE ASSESSMENTS

The objective of making ex-ante assessments compulsory prior to making programme contributions to a financial instrument is clear: 'to promote the use of sound evidence-based decision making by managing authorities when designing and implementing FIs' (EC, 2014c:11). Even though it is too early to attempt a thorough evaluation of how regulatory changes may have shaped results brought by financial instruments, this study is tasked to provide preliminary evidence regarding how requirements are respected, implemented and perceived.

The analysis below is based on documentary evidence collected online and experts' feedback collected through interviews and a detailed questionnaire, which is available in the appendix.

A first difficulty encountered in the collection of the ex-ante assessments consisted in the absence of a central repository and in the fact that, in line with the regulation, some are only publicly available in the form of executive summaries. The sample of ex-ante assessments collected and reviewed has no ambition to be representative; but it can still provide relevant insights to better understand the functioning and practices of ex-ante assessment and their regulatory requirements. Our sample comprises 40 ex-ante assessments, out of which 38 are from shared management programmes and 2 for centrally managed funds.

According to the latest official data made available by the Commission in November 2016, by the end of 2015, only 136 ex-ante assessments were carried out; of which 111 for the use of ERDF or Cohesion Fund[41] (EC 2016d: 10). In line, the majority of ex-ante-assessments collected also cover instruments that would be financed under the ERDF (or a combination including the ERDF): 23 cases. Also, the ESF, with 11 ex-ante assessments, and the EAFRD, with five, are represented. The ex-ante assessments are not programme specific and often comprise a market analysis and an investment strategy for financial instruments linked to different programmes; in few occasions also solutions from centrally managed funds are included (COSME and InnovFin). Annex 2 reports the full list of ex-ante assessments collected and analysed, with an account of the basic information: issuing authority, year, programmes of reference, thematic objectives involved.

In our mapping, again in line with EC (2016d), the TO3 was predominant with a majority of financial instruments proposed being concerned with SME funding. Interestingly, not all ex-ante assessments were clear about which TO they referred to, most concentrate on few TOs, whilst other insist broadly on a large number of them or most of them; the ex-ante assessments from Poland in particular make references to all TOs. Overall, besides TO3, which is specifically mentioned in 14 cases, our sample concentrates on TO1: Innovation and R&D (6 cases), TO4: Low carbon economy (8 cases) and TO9: social inclusion (10)[42].

It should be noted that in some national languages, such as French and Italian, no distinction is or can be made between "assessment" and "evaluation". Therefore, both ex-ante evaluations that are carried out as part of the programming and ex-ante assessments for setting up financial instruments are referred to as "ex-ante assessments".

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[41] See Table 7 and Regulatory changes between programming periods, affecting both shared management as a whole and financial instruments specifically, had a clear impact on implementation. According to latest official data made available by the Commission in November 2016, as many as 136 ex-ante assessments were completed by December 2015 under shared management, of which 111 linked to the ERDF and Cohesion Fund. (EC, 2016d)
Figure 11. Progress in setting up financial instruments, ESI Funds, by December 2015in chapter 3.

[42] All other TOs are mentioned from 2 to 5 cases in the documents in our sample. See Annex 2.

Nevertheless, as highlighted by Kraemer-Eis and Frank Lang (2014: 202), this distinction is crucial as ex-ante *evaluations* of operational programmes are a part of the programming and look at the overall rationale for introducing financial instruments, whilst ex-ante *assessments* for financial instruments focus on an actual specific instrument that is to be set up. Some ex-ante evaluations in operational programmes also cover the requirements of ex-ante assessments, thus avoiding the requirement for a further document. Nevertheless, there seems to be still some confusion and overlap.

As far as the geographical coverage of our sample is concerned, we found a large number of ex-ante assessments for Germany, where almost every region is using financial instruments, and France, which are among the Top 3 countries who are setting up financial instruments under ERDF or CF or have instruments that are already operating (EC 2016d: 23). For the Czech Republic, which has opted to set up a considerable number of FIs, we only collected and revised one ex-ante-assessment, due to language issues. The BENELUX countries are fairly absent from our mapping. The 2016 EC data summary report confirms that no allocations for financial instruments are being made Luxembourg[43] (EC 2016d: 17).

5.1 Results of the interviews and survey

In view of the specialised and technical nature of the topic, semi-structured interviews and the survey have been designed for specialised respondents, de facto limiting the number of responses. In other words, our methodology preferred targeted expertise to wide consultation. In total, considering both interviews and the respondents to the online survey disseminated through managing authorities and authors of ex-ante assessments, the analysis benefits from the inputs of 24 experts. Over 80% state that they are familiar with the regulatory requirements for establishing a financial instrument, whilst about 20% are partly familiar. Some of the characteristics of the expertise surveyed and interviewed is described in Table 8.

Table 8. The expertise surveyed and interviewed experts

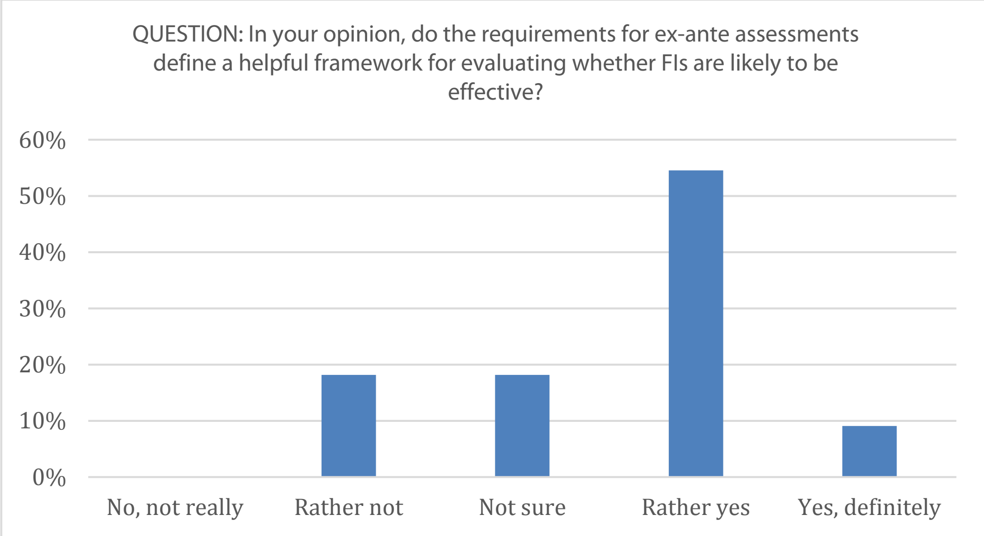
FAMILIAR WITH REGULATION ON FIS	FAMILIAR WITH METHODOLOGICAL GUIDELINES ON FIS	MANAGEMENT TYPE	GOVERNMENT TIER	YEARS OF EXPERIENCE
Yes 81.8%	Yes 45.4%	Shared management 72.7%	Regional level 36.4%	Less than 2 years 36.4%
Partly 18.2%	Partly 27.3%	Centrally managed funds 27.3%	National level 27.3%	Between 2 and 5 years 18.1%
No 0%	No 27.3%		EU level 36.3%	More than 5 years 45.5%

Interestingly, not all experts were equally familiar with the methodological guidelines on ex-ante assessments for FIs edited by the Commission and the EIB Group; less than half of the experts said they were familiar with such guidelines, whilst more than ¼ declared they were not. Thanks to the joint use of interviews and an online survey, the expertise gathered was more or less split equally among the three tier of government, regional, national and European. Table 8 also points out the relevant level of seniority of the experts.

[43] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/summary_data_fi_1420_2015.pdf.

The overall perception about the helpfulness of the rules for ex-ante assessment is presented in Figure 12 is rather positive; however, the experts do not appear overwhelmingly sure that requirements for ex-ante assessments contributes to making financial instruments more effective. About 38% of experts, i.e. 9 respondents, are either unsure or sceptical.

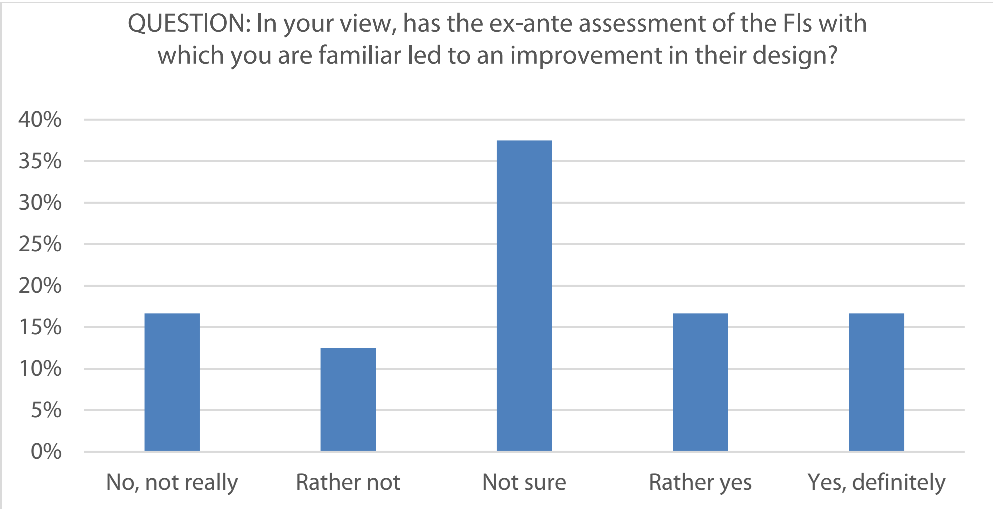
Figure 12. Experts' perceptions over the helpfulness of requirements for ex-ante assessments



Source: Authors' elaboration

The uncertainty about the value of ex-ante assessments for enhancing the design of financial instruments also emerges from the response to Question 6 reported in Figure 13. In this case, nine out of 24 were not sure that the exercise of running ex-ante assessments advances the design of financial instruments. The other experts are more or less equally split between those who see a positive contribution of ex-ante assessment in the design of financial instruments (8 experts out of 24) and those who see no contribution (7 experts out of 24).

Figure 13. Experts' perception over the potential to improve Financial Instruments (FIs) design

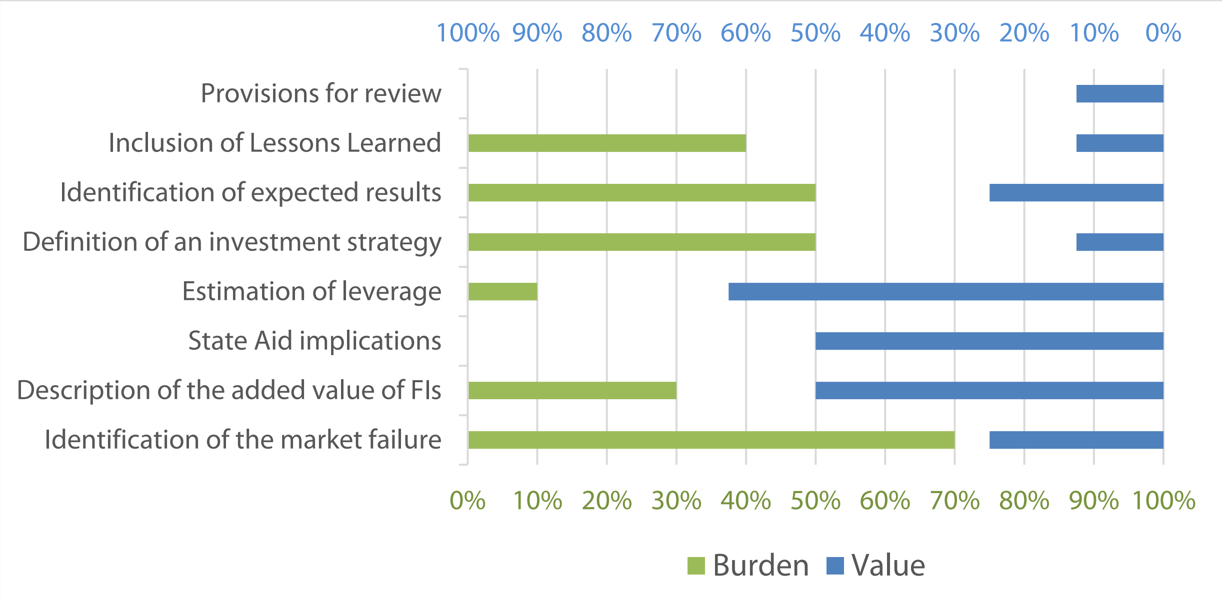


Source: Authors' elaboration

Before analysing our findings with respect to the specific requirements (see section 5.2.2), it is instructive to first have a comprehensive look at the experts' opinion over the requirements set for the ex-ante assessments. Through interviews and the online questionnaire, we have asked experts to identify the three most burdensome-to-meet requirements and the three most valuable in supporting decision-making. Results are presented in Figure 14 helps visualising how experts evaluate the relevance of each single element.

It appears evident that the estimation of leverage is, according to the experts, the most valuable tool within the current requirements. The identification of the added value of financial instruments and the characterisation of state aid implication are also considered important. By contrast, the identification of the market failure, expected results and investment strategy appear to be the most burdensome requirements to meet.

Figure 14. Value and burden of different regulatory requirements for ex-ante assessments



Source: Authors' elaboration. Note: Based on Questions 7 and 8 of the Questionnaire available in Annex 2. It refers to the perceptions of 23 experts.

When asked about the overall level of burden provided by current arrangement to monitor financial instruments and their performance, none of 22 experts who responded thought that they were insufficiently rigorous. Responses are equally split between those who think current arrangement are sufficient, and those who see them as too onerous.

Box 1. On the methods to carry out the ex-ante assessments

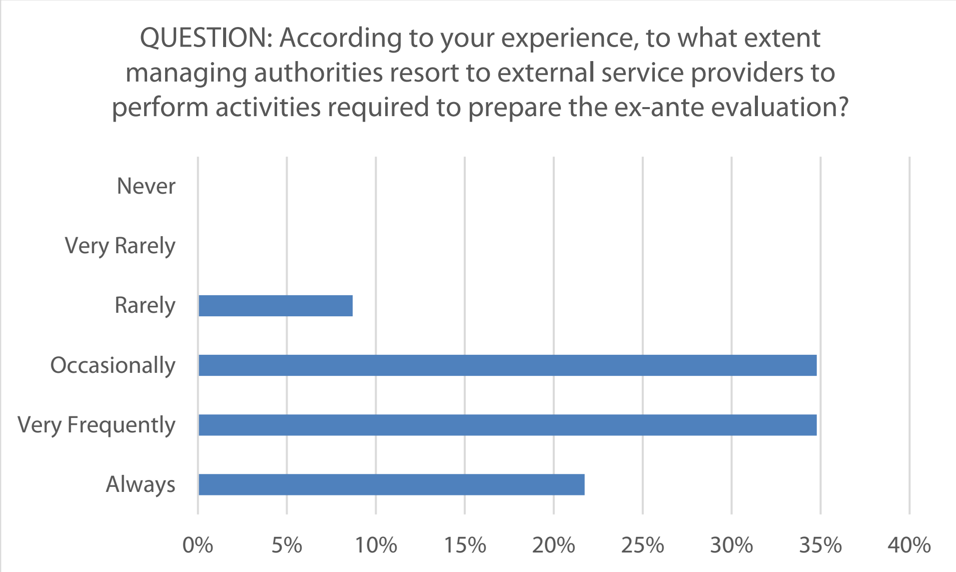
All but two assessments were carried out by external contractors - of these some by the big four consultancies, others by local consultancy firms, one by the EIF (the one for the region Lorraine) and the seemingly internal one by the Latvian Ministry of the Economics. The Region of Tuscany and Cataluña committed the regional public institute for public policy evaluation, a solution that ensures, from the side of the assessor/evaluator, a good knowledge of the regions but perhaps there should be more attention to EU practices, guidelines and financing methods.

A combined method, such as the one used by the Commission for the ex-ante evaluation of the Natural Capital Financing Facility (NCFF) appears better able to bring in specialised knowledge, ad hoc research and the vision of the public sector. The method with which the evaluation was developed involved a consultancy that was commissioned a background study, which served as a basis for the Commission to develop the actual ex-ante assessment.

Responses from the pool of experts also confirm that our sample of ex-ante assessments is in line with their first-hand experience; see Figure 15.

It should be observed that the format of the published documents also varies largely between reports with flow-text and PowerPoint slides.

Figure 15. Frequency of external service providers running ex-ante evaluations



Source: Authors' elaboration. Note: Based on Questions 21 of the Questionnaire available in Annex 2. It refers to the perceptions of 23 experts.

5.2 Quality of the ex-ante assessments, identifying strengths and weaknesses

The methodological guidelines for financial instruments (EC, 2014c) and CPR Article 37(2)(8) and (9) list the requirements for all ex-ante assessments for shared management. Concerning the latter, an additional requirement demands to analyse the state aid implications as defined in CPR Article 37 (8 and 9). Following the CoA (2016) approach, this report delineates a structure with eight blocks to support our evaluation of the ex-ante assessments[44].

This section lists the rationale as expected in the guidelines and our judgement of the assessments in view of the requirements. The assessment by the authors is however affected by a number of constraints. The first is that many assessments are not publicly disseminated; and others are made public only in the form of an executive summary. Many are in the national language, making a wide assessment difficult to perform as the authors are constrained in the number of languages that could be covered. In a number of cases an English translation of the executive summary was available, but executive summaries do not allow a detailed assessment. Nevertheless, we were able to check assessments (or at least their executive summaries) from Bulgaria, Czech Republic, Croatia, France, Germany, Hungary, Italy, Latvia, Lithuania, Slovakia, Spain, Poland and the UK.

Another difficulty with assessments in full, has been their length. Complete ex-ante assessments can easily reach over 150 pages, making them difficult to read, and difficult to compare with other examples. There is no predetermined format to fill.

The review focused on the shared management instruments, which of course are more numerous, because for the centrally managed ones there is a single document covering the EU with some analysis at country level. There is a strange disproportionality between the shared and centrally managed assessments. Apparently, while the financial instruments require a very detailed analysis, the rather superficial EU level assessment is sufficient for the same kind of instruments. From the one hand one can argue that the centrally managed instruments do not require a detailed assessment, because the structure is already predetermined by the EU institutions. However, how can a two-page country

[44] See ECA (2016), Annex V, pag. 92.

analysis be compared with a local ex-ante assessment going in detail into market failures, even at regional level?

This raises a serious question, namely the usefulness for managing authorities of commissioning large documents with in-depth analysis on market failures, leverage, etc., if simpler analyses are sufficient for the same type of instruments under the central management. Managing authorities could then focus on those areas not covered by the EU ex-ante assessment and on the governance structure of the FI and avoid justifying an action already considered acceptable from the centrally managed instruments. A full ex-ante assessment would then be reserved for the instruments which do not have an equivalent centrally planned one. This would be a good solution, because ex-ante assessments often pay lots of attention to justifying the instruments and analysing past results and too little on a real business strategy and clear focus on reaching specific results.

Another point noted by the reviewers of the assessments, was the lack of a clear structure in a considerable number of the assessment, and particularly the presence of a completeness checklist in all of them listing the relevant articles in the regulations and identifying the relevant chapters in the assessment. A good example on how to do so can be found in the Greater Manchester Combined Authority Urban Development Fund EEA. This would clearly reveal what has not been covered in the assessments, as we identified a number of them skipping entirely some of the requirements, particularly those relating state aid rules.

It terms of fulfilling all requirements, the ex-ante assessments from Portugal – for which we obtained the full documentation – were very detailed, to some extent too detailed and difficult to digest. It suffers like most assessment a disproportion in terms of detailed analysis for the justification and rational of the instruments and a much less detailed investment strategy, which in the end is the most important aspect of setting up any financial instrument.

In the next sections we provide a short overview of the quality of ex-ante assessments coming from our review.

5.2.1 Identification of Market Failure

In the ex-ante assessment, managing authorities are required to provide evidence of the adequacy of the envisaged FI against the identification of a market failure or suboptimal investment situation. In other words, the ex-ante assessment should identify the specific issues preventing the realisation of theoretically viable investment projects and explain how the financial instrument is going to address the failure.

Identification of Market Failure: objectives of the ex-ante assessment
• Identification of the main reasons, type and size of market failure and sub-optimal investment situations with a good practice methodology to make sure the FI resources are used where they make a difference; • FI needs to contribute to the strategy and to the expected results of the relevant Programme(s) by bridging an investment gap.

Source: EC (2014c)

The Commission (EC, 2014c) guidelines present a large list of elements to take into account when performing studies on market failure and presents examples with case studies. With the aim of simplifying the concepts, Table 9 presents a list of market failures. It provides the reader with a description of the market failure, a relevant example, and explains the function and the suitability of FIs for each of the cases analysed.

Table 9. Market failures

MARKET FAILURE	DESCRIPTION	FUNCTION OF AN FINANCIAL INSTRUMENT (FI)
Positive or negative externalities	Projects may create positive or negative externalities for a third party. If positive, the third party cannot be required to pay for the externality. If it is a negative externality, the project developer may not have an incentive or the financial capacity to stop creating the externality. *Example: Projects whose realisation entails environmental harm or produces negative spillovers for a third party. Deforestation, pollution, use of extinguishable resources, relocation of residential units are amongst the typical negative externalities.*	Financial Instruments can be used to reduce the cost of capital and make projects more attractive that create positive externalities. It can also help mitigate negative externalities, by offering a low-cost debt instrument in exchange for additional investments to reduce the negative externality.
Public goods	Projects may generate public goods, which cannot be monetised because nobody can be excluded from the benefit, i.e. clean air. Projects with a high public good content may not attract investors because the returns are not high enough. *Example: Urban investments, in addition to their commercial value, are likely to have a public good content. They may improve the quality of the environment, the level of security, the connectivity of the town.*	Projects for pure public good cannot be financed by a financial instrument. FIs can have the same role as they do in the case of positive externalities, that of making projects with a higher public good element more attractive to investors.
Informational asymmetry	The two parties to an agreement may have different levels of information, making it difficult for the parties to reach an agreement. *Example: The more innovative the project, the lower the capacity of the involved economic actors to make a proper assessment of project return and risk.* *Similarly, the shorter the credit history of the entrepreneur, the lower the capacity of credit institutions to make a proper project evaluation.*	This is a common problem with innovative projects, where the financiers cannot assess the risk due to lack of capacity to evaluate them. They thus avoid the investment. The role of promotional banks is to provide some additional reassurance via risk mitigation tools. It may also provide project technical assistance and evaluation. The EIB, for example, has a specialised projects directorate with the expertise to evaluate technical projects, which private banks and investors may not have.
Split incentives	Parties have different incentives, which makes it difficult to make them reach an agreement. *Example: The typical example is the lack of incentive for tenants to invest in the property they live in (return on investment is too far in the future) and for the landlords to invest in solutions which benefit only the tenants.*	The typical example is the lack of incentive for tenants to invest in the property they live in (return on investment is too far in the future) and for the landlords to invest is solutions which benefit only the tenants. FIs can help developing the right incentives. This is being done for energy efficiency investments by the EIB and other promotional banks.

MARKET FAILURE	DESCRIPTION	FUNCTION OF AN FINANCIAL INSTRUMENT (FI)
Unstable markets	Markets may be affected by irrational speculative behaviour, leading to bubbles and crises. *Example: Economic crises are likely to trigger a tightening of credit conditions, as banks try to mitigate risks and deleverage their accounts. This hampers optimal allocation of funds to viable but relatively riskier investment projects.*	FIs can help maintain investment in key areas affected by a market crash. This is one of the key roles of many FIs and EFSI in particular.
Government and regulation failure	Public policy decisions may create inefficiencies or conflicting policy objectives affecting investment in key areas. This may be caused by a decision to correct a supposed market failure, leading to a new one. *Example: Conflicting regulations, rigidities in marketplace and bureaucratic burdens.*	Policy and administrative efficiency issues should not be addressed by FIs. The main solution is structural reform to eliminate such failures. This is the reason why, in the case of EFSI, one of the pillars of action is structural reform.

The analysis of market failures, as required by the Article 37(2) of the CPR, is interesting to understand the roots of problems in the market and financial sector. Unfortunately, a number of market failures are present to some extent in most markets. Information asymmetry, for example, is a common and recurrent problem in most transactions. Speculative irrational behaviour is a feature that is part of financial markets.

For the EU to intervene with a financial instrument there should be to be a good public policy reason, such as the potential failure to achieve key EU level objectives with high (European) value added. Nevertheless, references to the European value added in the ex-ante assessments are rare (see below, section 5.2.2). This demonstrates that the value added of FIs is constructed using a composite of quantifiable and qualitative "values" with a high degree of discretion and interpretation, allowing to justify the use of any kind of financial instrument.

In the absence of a structured and a unified methodology, the main risk is that the assessments are designed with the intention of justifying FIs which have already been deemed necessary in the operational programmes.

This is the reason why – as emerged from the interviews and surveys performed for this projects – the experts involved in this study do not give the market failure analysis as high an importance as it would have been expected. What was seen as central is the existence of an investment gap in an area of high European Value Added, where the demand of funds outstrips the credit supply.

However, **the mere existence of a financing gap due to an excess demand is not a sufficient condition for intervention. In at least two cases the adoption of financial instrument is not desirable.** Firstly, companies demanding financial support may not be offering financially sound investment plans. In this case, the market gap may be simply a reflection of the lack of viable proposals. The second case may involve funding demand for unfeasible business projects due to excessive regulatory barriers. In cases where financing gap is caused by unnecessary local regulatory barriers, the latter should be removed, rather than circumvented through the use of a financial instrument. For these reasons, the lack of credit supply in an area of high European value added should be carefully assessed.

Nevertheless, although the market gap analysis should be the central part for any assessment, **many ex-ante assessments, reviewed for this paper, were not presenting a good analysis to justify their findings.** A considerable number of studies justified the need of an instrument based on the existence of rather well known market failures, but little of substance on the size of the gap.

Some assessment made an effort for a more precise quantification. One good example could be found in the Polish "Ex-ante evaluation of financial instruments to support social economy entities and young people" scoping the potential deployment of repayable financial instruments feasible to be implemented within the Operational Programme Knowledge Education Growth 2014-2020 targeting among others social economy entities and young people. The gap and its underlying causes are quantified thanks to surveys and desk research. The analysis showed that *"the financial gap understood as not obtaining a credit or a loan both by non-governmental organisations and social cooperatives in 2013 amounted to 51.3 m PLN."* And about 40% of the surveyed entities applying for external funding do not receive it. Thanks to this gap analysis; it could be concluded that there is a need for support (including capacity building assistance) of both young people and social economy entities with the use of repayable financial instruments. It further concludes that *"There is a demand to increase access to external financing in the repayable form for people who cannot obtain it on a commercial basis. Apart from financial support, there is a need for counselling going beyond the initial stage of performing business activity."* The study goes into some depth to support these assertions[45].

Another good example of a market gap analysis is the one performed for the region of Catalonia in Spain for ERDF funds, see Box 2. This report has performed a rather detailed assessment of needs in the SME sector, it takes into account the potential error margins of the gap analysis undertaken and has proposed a rather conservative figure to avoid setting an oversized instrument.

Box 2 – Good Example for the Market Gap analysis: Catalonia (Spain)

The *Ex-ante Assessment of the financing needs of the Small and Medium Enterprises in Catalonia* produced November 2015 offers an example of *available good practice methodology* for market gap analysis. For this section, the study relies on a two steps analysis:

- **SWOT analysis of the business sector for Catalonia:** A detailed SWOT (Strengths, Weaknesses, Opportunities and Threats analysis has been performed.
- **Estimation of financing demand and supply in the SME sector:** An accurate quantitative analysis of the market gap has been performed. The estimated gap is justified comparing it to other studies and methodologies. It proposes a conservative intervention level, taking into account any existing scheme from other sources targeting the same beneficiaries.

The study for financial instruments in Berlin is yet another example of a good ex-ante assessment with estimations of the market gap and causes for it. The assessment reached the conclusion that the continuation of an existing FIs was no longer needed as the financing gap was too low. However, the recommendation – which dates back to 2013 – has apparently been disregarded, as this financial instrument is still proposed today.

Overall, **the quality of the analysis offered by the ex-ante assessments is variable.** Some of the reports go into considerable length and effort to identify the market failures and estimate the financing gap with lightly and detailed analysis, while other assessments are rather generic and superficial. In all cases, however, we find it difficult to understand the real relevance of these market gap analyses and the actual link to the managing authorities' decision of setting up financial instruments and determining their size.

[45] The English executive summary with the text quoted can be found at https://www.efs.2007-2013.gov.pl/AnalizyRaportyPodsumowania/Documents/zlecenie_33__screen.pdf, last accessed on 1 May 2017

5.2.2 Identification of the Added Value of the Financial Instruments (FIs)

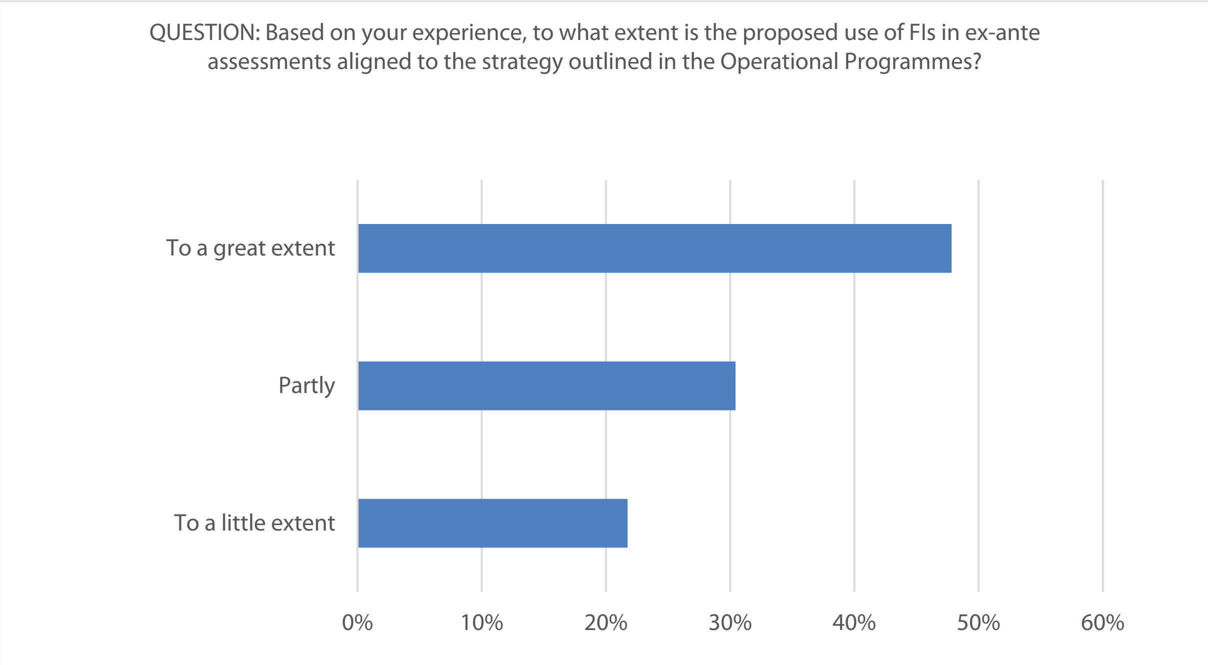
This section aims at ensuring that FIs will contribute to the achievement of the Programme and the ESIF objectives.

Identification of Value Added of the FIs: objectives of the ex-ante assessment
• Check the value added of the FI; • Consistency with other forms of public intervention addressing the same market failure to limit overlap and avoid conflicting targets; • Possible State aid implications including the proportionality of the envisaged intervention to the identified market needs; • Measures to minimise market distortion resulting from the FI.

Source: EC (2014c).

As reported in Figure 16, experts are rather convinced that the strategy proposed for financial instruments in the ex-ante assessments is in line with and connected with the strategy defined in the operational programmes. Under the CPR, there is no legal obligation to report on the thematic objectives supported by the financial instruments, but very often the priority axes defined in the ex-ante assessments voluntarily recall and have a clear link to the thematic objectives. In 5 cases only, there is no direct guiding link or reference to the thematic objectives (Romania, Toscana, Sardinia, and two cases in Germany)

Figure 16. Link between Financial Instruments (FIs) and the Operational Programmes



Source: Authors' elaboration. Note: It refers to the perceptions of 23 experts.

Market assessment includes recommendations that confirm the usefulness of the existing offer of financial instruments and validates the choice of the Managing Authorities (MAs) for new instruments. A rather generalised problem is the little consideration attached to the need of adopting tailor-made financial instruments to tackle different problems. Too often, a single design of instrument is presented for each area of intervention (e.g. loan guarantee fund for farm businesses or co-investment fund for innovative businesses).

A more specific and therefore more effective design of the FIs requires a greater analysis of the value added brought by each potential FI. Value added is defined in the guidelines (EC, 2014c) as being of two different natures: a) quantitative, b) qualitative. Each of this aspects presents a list of values.

The quantitative dimension is based on four points (text from guidelines):

- The leverage of the EU (i.e. ESIF) contribution of additional contributions to the investment at all levels down to the final recipient. The higher the leverage achieved by the FI the higher its value added;
- The intensity of subsidy of the FI, which may be quantified in addition to the qualitative consideration (see below) of non-distorting the competition. The quantification helps to rank different options. The lower the intensity for a given project or group of projects the higher the value added;
- The revolving effect allowing the recycling of funds;
- Additional contributions coming from the final recipients, since these are excluded from the calculation of leverage.

From the above, the elements taken into account for the qualitative analysis of value added are to some extent highly questionable. At present, central to value added are leverage, non-competition and recycling. However, such an approach would be equivalent to measuring the success rate of grants by using "absorption" capacity of funds rather than impacts. The search for more "European" value added in the qualitative dimension does not improve on this weakness.

On the other side, the qualitative dimension lists a large number of possible value added items, which is non exhaustive. The list also puts addressing market failures as only one of the many possibilities and not as a fundamental prerequisite.

Overall, the guidelines leave the definition of value added wide open. The whole document does not once mention European value added. This means that nearly all financial instruments proposed will manage to justify the intervention based on value added, as long as the leverage is high and better is revolving.

As a result, the value added analysis of document analysed for this paper vary strongly in quality and reasoning. This does, however, reflect the lack of consensus in the EU on what constitutes value added at European level, which will likely remain an issue in the future. However, the link to EU objectives should be presented as a *sine-qua-non* condition and not just one of the numerous bullet points.

In conclusion, **our evaluation of the value added analysis performed in the ex-ante assessments is in most cases not positive.** Only some assessments provide a robust "value added" which included EU objectives. In one of the ex-ante assessments, in this case for Hungary in the area of competitiveness of SMEs, we found nearly no mention on the expected value added.

Box 3 – Good Example for the identification of value added of the FIs: Germany

The *Ex-ante Assessment of ESF Mikrokredite Thüringen (Germany),* produced in August 2015, offers an example of *available good practice methodology* for the identification of value added. For this section, the analysis is divided in two parts:

- **Mapping other existing funding opportunities**: A detailed description of the existing FIs explaining why they serve a different segment from the one targeted by the new FI proposed by the Managing Authority.
- **Analysis of the off-target potential beneficiaries:** Analysis of the appropriate FI's design in order to cater the needs of the potential beneficiaries that cannot meet the requirements of other existing funding opportunities.

5.2.3 Estimation of Leverage

As the capacity to attract additional resources, from the private as well as from public actors, is one of the most appealing features of financial instruments, the estimation of leverage is a crucial feature of policy design.

Estimation of Leverage: objectives of the ex-ante assessment
• Estimate of additional public and private resources to be potentially raised by the FI; • Co-financing down to the level of the final recipient; • Determination of the Expected leverage effect;

Source: EC (2014c).

In the reporting to the Commission, managing authorities provide the expected leverage effect according to the funding agreement for each FI. (EC, 2014d) There is indeed a vast heterogeneity in the methodology to estimate and report the leverage. Concerns over the inconsistent measurement of leverage has already been raised by ECA (2016), that stresses how the lack of a common methodology makes the estimates redundant to compare different financial instruments.

By any means, the estimation of the Expected leverage effect should be based on previous experiences, in the regions and elsewhere for similar products and conditions. However, the relation between the expected leverage effect identified in the ex-ante assessment and the 'achieved leverage effect' for the previous programming period cannot be simply be direct. In a good portion of cases, about 1/6th , the leverage is de facto estimated by re-presenting the leverage obtained with previous – often different – instruments, with a word of caution of the type: '*it is not likely to change substantially*'. We sense that this evidence is not greater just because some regions and Member States had no direct practice with financial instruments in the previous MFF.

A proper analysis of how current trends, regulatory changes and market conditions may influence previous leverage and multipliers effect represents a minimal requirement to ensure a proper assessment. A condition that is not met by numerous assessments. Nevertheless, the fact that in several cases we could only access the executive summaries also limited our ability to judge this aspect.

To determine the expected leverage effect for the medium- and long-term, ex-ante assessments shall properly estimate the reflows, and therefore provide an understanding about potential reinvestment and reuse of funds and its timeline. Reflows can consist of: i) capital repayments – stemming either from the principal of a loan or from the repayments of equity participations, ii) interest on loans, iii) release of guarantees which can be set to reuse, iv) fees collected for providing the guarantee, v) dividends or other capital gains.

Determining the value of equity participation, and the potential related reflows, is certainly not an easy task, as it ultimately depends on the performance of the enterprises. In such a context, and particularly when equity investment is a core part of the investment strategy, two aspects define a sound identification of the leverage: 1) identifying how to maintain information about the value of equity participations, i.e. monitoring the performance and value of the enterprise; 2) clarifying and standardising the way in which such value is reported at the end of the accounting year.

In the vast majority of cases however, as it is for instance the case of the other-wise very well researched ex-ante assessment for Croatia, revolving effects of resources are not factored.

Another problem detected is the partial identification of the estimate. In other words, it appears that the objective of this requirement is coming up with *one* number when actually one estimated leverage should be provided for all the potential interventions put forward. In such a way a final estimation can be made comprising all potential interventions.

Box 4– Good Example for the estimation of leverage: Latvia

In the *Access to Finance ex-ante assessment*, produced March 2015, offers an example of *available good practice methodology* for the estimation of the leverage.

- **Methodology**: the leverage has been calculated as the total estimated additional public and private resources raised divided by the ESI Funds expenditure.
- **Analysis:** the analysis of the expected leverage has been performed for every FI under the scope of the ex-ante assessment.

5.2.4 Definition of an Investment Strategy

Definition of Investment Strategy: objectives of the ex-ante assessment
• Thematic and geographical coverage of the FI; • Ensure that within the meaning of Article 38, the most appropriate implementation option is chosen in regard to the country/regional situation; • Financial products to be offered to ensure an adequate response to market needs; • Final recipients targeted; • If relevant, envisaged combination with grant support to maximise efficiency and ensure minimum intensity of the support element/element of subsidy.

Source: EC (2014c).

Having a solid investment strategy should be the sine-qua non for the setting up a financial instrument. An ex-ante assessment can give the most detailed account to justify the instruments, but a financial instrument cannot be successful without a well-designed investment strategy. In fact, it is more likely that a financial instrument is successful with a weaker theoretical market failure analysis, with a more targeted specific market gap analysis and a good strategy than the reverse. The assessments generally show the inverse relationship, an excessive detail in justifying the actions and often insufficiently developed strategies. This is a sign that evaluators have little knowledge of, or exposure to, the financial institutions that will take on the role of delivering on the objectives. Of course the actual set up of the instruments is done once the final decision is taken. Nevertheless, the quality of this section is generally quite meagre.

The review of the financial instruments has revealed that the investment strategy is in a number of assessments not always well described, including in the centrally planned instruments. The products offered are often described, but the strategy on how to make the fund deliver is often not fully convincing.

Box 5. Good example of investment strategy: Poland

In the November 2015 ***Ex-ante evaluation of the FIs under the Regional Development Plan for Podkarpackie Region 2014-2020***, the investment strategy was well defined:

- **Well defined investment strategies for each of the investment priorities:** It lists the thematic objectives and necessary FIs. It clearly discards some IF structures for others, justifying the best options.
- **Implementation arrangements include, among others, the following details:**
    - financial products offered with specific modalities;
    - possible loan amounts;
    - duration of loans;
    - interest rates;
    - repayment options;
    - final recipients targeted;
    - potential combination with grants.

5.2.5 Identification of Expected Results

Under the present slogan of an "EU budget for results" it is to be expected that all assessments should pay particular attention to quantifying results with a solid justification for the expected results. As the guidelines (EC, 2017c, p.116) specify "*the result orientation of the ESI Funds for the 2014-2020 programming period is based on three pillars:*

- *A clear articulation of the objectives of Programmes with a strong intervention logic (the result orientation of Programmes);*
- *The definition of ex-ante conditionalities to ensure that the necessary prerequisites are in place for the effective and efficient use of Union support;*
- *The establishment of clear and measurable milestones and targets to ensure progress is made as planned (performance framework).* "

Identification of Expected Results: objectives of the ex-ante assessment
• Specification of the expected results and outputs of the FI within the priority of the Programme(s); • Definition of reference and target values based on the specific contribution of the FI to the priority of the Programme results and outputs indicators.

Source: EC (2014c).

To do so, the Managing Authorities (MAs) need to set up target results which are well justified with a monitoring and verification method to follow up progress. **The vast majority of the assessments tend to be weak in this area, listing outputs rather than results, i.e. the ultimate impact of the investments.** Is the output just the number of SMEs financed, or the longer term impact of the support to SMEs? Results should be the latter, but many assessments formulate results as outputs (e.g. numbers of businesses supported; number of projects financed). This is too reductionist, as the guidelines also clearly state that the quantification should be on the strategic objectives, i.e. what the investments will in turn mean for the economy, how many supported SMEs are expected to survive over 5 years, etc. The quantified (if at all) objectives are operational, but rarely strategic.

The vast majority of the ex-ante assessment revised falls short to address these concerns and meet the objectives. Even in cases in which possible output indicators are identified, it remains rather unclear whether these should be considered as expected outputs of the interventions proposed; and in any case, they are often formulated in terms of outputs (e.g. numbers of businesses supported; number of projects financed), rather than in terms of results.

Box 6 – Good Example for the identification of expected results: Latvia

In the *Access to Finance ex-ante assessment (Latvia)*, produced March 2015, offers an example of *available good practice methodology* for the identification of results.   **Very detailed quantifiable list of expected results *per individual instrument*:**   o Number of SMEs per 1000 inhabitants to reach   o The level of SME productivity per employee to be achieved   o The number of supported enterprises   o The level of private investments matching public support to SMEs (i.e. leverage of private funding)   o Maximum credit loss; volume of defaulted loans/over volume of total loans   o Management costs/volume of total loans outstanding;   o Leverage: total additional funding/ESI funding

5.2.6 Inclusion of Lessons Learned

When it comes to determine investment strategy and design policies, lessons learned from the previous experiences with EU and more in general public financing are to be considered in order to avoid recurring problems at the implementation level, poor results and capitalise on success stories. In this respect a simple good practice only partly followed would have been to include in the ex-ante assessment for the 2014-2020 programming period, elements of an evaluation of the 2007-2013 period. This is hardly a general practice, but in some occasions such evaluation is included as a Background Report. That is the case for instance of the Swedish ex-ante assessment, which includes a thorough analysis of past experiences and of on-going financial instruments set under the 2007-2013 programming period. Particularly relevant in this ex-ante assessment, the broad basis of stakeholder brought in to substantiate the evaluation of past experiences.

Another positive example of lessons learned is presented in the ex-ante assessment for Croatia, where there is a section dedicated to experiences and best practices from other EU member states.

Inclusion of Lessons Learned: objectives of the ex-ante assessment
• Analysis of lessons learnt from similar or instruments considered relevant in the past;   • Analysis of ex-ante assessments carried out by the Member State in the past;   • Application of these lessons to make sure that the FI builds on existing and acquired knowledge.

Source: EC (2014c).

Our analysis has also revealed the relevance of lessons learned for the compliance and consistency of other requirements. Specifically, a thorough qualitative and quantitative revision of past experiences and lessons learned appear as a prerequisite for a robust estimation of the leverage and a sound identification of expected results.

The process of reflection about past experiences in certain cases translates into the identification of policy recommendations. For instance, due to the identification shortcomings in the previous strategies, some managing authorities renew their commitment to better understand the offer for equity, to design communication strategies to broaden the target group, to offer business management support specific to SMEs.

Many of the ex-ante evaluations presented acceptable analysis of past lessons, but somewhere too vague to offer workable insights. This is for example the case for Hungary, which overall provided a weak ex-ante assessment which barely fulfils all requirements.

Box 7 – Good Example for the inclusion of lesson learned: UK

In the ***Midlands Engine Investment Fund (UK)*** offers an example of *available good practice methodology* for the analysis of the lesson learned.

- **Lesson learned, UK specific:** Detailed information on management of funds, critical mass of capital, as well as on the qualitative analysis of return on investments. Insights on the appropriate level of independent corporate government have also been included.
- **Lesson learned, general:** This section focuses on eligibility rules, as well as Flexibility and Suitability of the selected FIs. It also deals with the Availability of funds, the Combination with grants. It considers appropriate frameworks of evaluation of financial results. It finally includes insights on monitoring activity to be conducted on the benefits transferred from financial intermediaries to final beneficiaries.

5.2.7 Provisions for Review

As mentioned in section 5.2.5, monitoring is not very well developed in many ex-ante assessments. Monitoring is, nevertheless, perhaps the most relevant aspect to cope with in order to ensure room for revisions and updates in the investment strategy and policy-design for financial instruments, as required by Article 37 (2) (g).

Provisions for Review: objectives of the ex-ante assessment
• Rationale for the revision of the ex-ante assessment; • Practical and methodological procedures to update the ex-ante assessment; • Steps to adapt the FI implementation.

Source: EC (2014a).

It appears rather self-evident that managing authorities propose to engage with monitoring on a continuing basis, but **it is hard to see in ex-ante assessments a detailed methodology, timeframe and toolkit to do so.**

The most relevant changes to monitor relates to market conditions, which are generally considered in the ex-ante assessment surveyed. Changes to the regulatory environment and to policies receive far less attention.

Despite its relevance and it mandatory nature, this requirement is not always met in ex-ante assessments. For instance, the ex-ante assessment for Financial Instruments for Lorraine and Massif des Vosges does not included any provision for review. Nevertheless, it would be particularly useful, given that the managing authority is considering to put a guarantee fund into place in Phase II and might want to specify the economic conditions under which this makes most sense, and monitor them all along Phase I.

Another complication for financial instruments is that the final impacts of the financial instruments may not be seen until after they have been repaid. Requiring monitoring progress of a project that is no longer having an outstanding debt to repay is difficult, as the monitoring would have to be part of the work by the financial intermediary, and once the beneficiary has repaid, there is no incentive and probably even capacity for the financial intermediary to continue monitoring.

Box 8 – Good Example for the provisions for review: Romania

In the *Ex-ante assessment for financial instruments for SMEs in the 2014-2020 programming period* provides a good list of conditions for review:

- **Significant changes in the financial and economic environment:** an economic crisis would have an effect on the supply and demand analysis and the proposed financial instruments that would need to be updated for the new environment.
- **Changes in the fiscal and financing conditions of the economy**
- **Changes in liquidity affecting the FI's capacity to operate:** changes in liquidity would lead to an inability to effectively implement some of the proposed financial instruments. In such a scenario the analysis of supply and demand should be reviewed and on its basis one should restructure the instruments, primarily those for debt financing, on which the change would have an impact.
- **Changes in the level of investment attractiveness of the country:** The analysis takes into account the current level of investment attractiveness of the country and on its basis the private participation and the level of inclusion of additional funding for each instrument have been defined.
- **Changes in legal and administrative framework affecting financing demand and supply:** In case of a change in the legal and institutional framework that lead to changes in the investment environment, one could expect impact on the activity of private investors and hence on the possibility of attracting additional resources at the fund or deal level. In such a scenario, the strategic part of the assessment should be reviewed, the one that defines the structure of the instrument, including the allocation of resources between the program and other investors, and, respectively, the applicable regime of state aid.
- **The inadequacy of the support level by the FI:** Inadequate volume of the support scheme compared to observed demand. For example, a situation where the volume is too low to meet observed demand may undermine the ability of the FI to achieve envisaged objectives.

5.2.8 State Aid Implications

As highlighted in Figure 14, the requirement concerning state aid implications has never been mentioned as a burdensome requirement; it is also identified as one of the most valuable requirements to support decision-making. Nonetheless, **our analysis points out that among different requirements, state aid implications are often neglected and some ex-ante assessments fail to include such considerations within its scope[46].** It is a mandatory requirement for ex-ante assessments in Article 37(2) (b), but State aid issues are often not included in the ex-ante assessments.

[46] State aid implication shall be addressed only for financial instruments under shared management, as there are no issues pertaining to State aid for centrally managed programmes.

State aid implications: objectives of the ex-ante assessment
The ex-ante assessment shall provide evidence that the envisaged FI is either: • market-conforming; • covered by a de minimis Regulation (specific de minimis rules for primary production in agriculture and fisheries apply), which means that the support is presumed not to affect competition and trade between Member States; • under a block exemption Regulation (GBER, ABER) which defines categories of State aid that are presumed to be compatible and hence are exempt from the notification requirement; • exempt from notification procedures, if the envisaged FI is set up as an off-the-shelf instrument, since the design of such instruments ensures that they do not need to be notified to the Commission; or • the equivalent of State aid which is not exempted by a block exemption Regulation and hence requires a State aid notification under the appropriate State aid legal base and approval by the Commission before implementation so as to confirm the compatibility of the aid with the internal market.

Source: EC (2014a), p. 67.

The relevance of State aid rules in setting up and managing financial instruments is also highlighted in Nicolaides (2014), that investigates new risk finance rules in the Guidelines and the General Block Exemption Regulation associated to the implementation of financial instruments under ESI Funds.

Interviews have further highlighted that from the side of regional and national authorities, there is great fear of embarking into avenues that may then encounter problem with EU competition policy. In this respect, a thorough analysis of state aid implications is often seen as pivotal to secure that the entire exercise will actually materialise and will not be blocked by the Commission. We have been reported that such fears have been at time responsible for delays in the first phases of implementation of financial instruments, including the exercise of ex-ante assessments. To contain such problems and minimise the concerns related to state aid implications, the identification and employment of off-the-shelf instruments (see Annex 3) can certainly be beneficial as local and regional authorities can follow the model with the certainty that no state aid issues will be raised.

Box 9 – Good Example for State aid implications: Croatia

In the ***Ex-ante Assessment Report – Financial Instruments Business Competitiveness, Employment, Social Enterprise, ESIF 2014-202 for Croatia***, Final Report of September 2015 offers an example of *available good practice methodology* for state aid implication analysis.

Considerations about potential interaction with state aid regulation are recurring during the analysis. Moreover, specific guidelines ensure compliance are made explicit for any intervention proposed.

- **Growth and expansion loans:** Tailor-made products (individual State aid scheme) shall be drafted based on Regulation 651/2014 and/or de-minimis Regulation. During the enquiry other individual state aid schemes were also signalled as an option to unlock lending to SMEs.
- **Developmental small loans**: Some loans may be offered at market interest rates while aid granted through loans with subsidised interest rate will fall under de minimis modalities.
- **Guarantees:** Guarantees will fall under de minimis modalities, regional aid or start-up aid. Aid modalities will be established individually for each undertaking.
- **Venture capital:** The investment strategy aims to comply with the provisions of Article 21 (10-b) of the Regulation 651/2014
- **Venture loan:** In general, the scheme will comply with risk finance aid (Regulation 651/2014, Article 21) or, where relevant, aid for start-ups. Higher aid intensities require notification.
- **Self-employment loans and repayable advances:** The scheme will operate under de minimis.
- **Loan finance for social enterprises:** The scheme will operate under de minimis.

5.3 Overall Evaluation of the Ex-Ante Assessments

Although the sample of ex-ante assessments cannot be fully representative, due to the several constrains explained at the beginning of this chapter, the overall analysis performed through this paper can offer some preliminary conclusions on the functioning and the practices of ex-ante assessments.

In section 5.1, this study presented the evidence collected through semi-structured interviews and surveys with the purpose of understanding the status of knowledge and the opinion about the applicable regulations of local experts. In section 5.2, this study has evaluated the quality of a sample of 40 ex-ante assessments for each of the requirements laid out in art. 37 CPR and financial regulation.

Besides analysing the results of these two section separately, it is also important to understand whether the experts' opinion over each of the requirements is somehow correlated to the quality of each single section. The results of this last step of analysis are summarised in Table 10.

The majority of the ex-ante assessments present a good analysis for the identification of the added-value. As highlighted in Figure 14, experts list this requirement amongst most relevant ones, while attaching to it a medium level of burden. Experts' opinions and quality of the analysis performed for the assessment of the added value results therefore fairly aligned.

The quality of the ex-ante assessments reviewed varies significantly when it comes to identifying the market failures, and estimating the size of the sub-optimal investment situation. Experts attach to this requirement the highest level of burden and a medium relevance. Here again, the quality of the section is fairly aligned with the experts' opinion. Most likely, **the complexity behind the demonstration of the existence of a market failure and the estimation of the market gap requires further guidelines.** Notably, certain ex-ante assessment present a quite in-depth qualitative and quantitative analysis, so to offer an example of *available good practice methodology*.

On the other hand, despite experts attaching low value and a medium level of burden to the section dedicated to the inclusion of the lessons from the past, the quality of analysis is, on average, good. This might be explained by the fact that local evaluators have a good understanding of the past conditions of the territory.

The quality of the documents reviewed is, on average, not satisfactory for the sections dedicated to the definition of the investment strategy, the identification of the expected results, and the provisions for reviews. Those are all requirements to which experts attach either a low value or a high level of burden. The quality of the analysis results therefore to be aligned to the experts' opinion over the requirements. Nevertheless, the authors consider that an accurate ex-ante assessment should present an in-depth analysis for all the above-mentioned requirements. In particular, particular attention should be drawn on the investment strategy, whose definition should stand upon a common methodological framework.

Interestingly, the requirement concerning state aid implications and the estimation of the leverage have never been mentioned as a burdensome requirement; instead, they are both identified by the experts as two of the most valuable requirements to support decision-making. Nonetheless, **our analysis points out that among different requirements, state aid implications are often neglected (some ex-ante assessments fail to include the requirement within its scope), while the estimation of the leverage are not always based on an accurate methodology.** What may seem a counterintuitive finding, suggests, instead, the need for more clarity regarding both requirements.

Table 10. Overall evaluation of the ex-ante assessment requirements

Requirements	EAA		Experts' opinion	
	Authors' evaluation	Grade	Value	Burden
Market failures; suboptimal investment situations	Too theoretical and expansive		Medium	High
Assessment of added value	Variable quality		High	Medium
Leverage			High	Low
Lessons learned in past	Evaluators are experts in hindsight		Low	Medium
Investment strategy	Often too weak, lack of finance knowledge		Low	High
Expected results	Often weak, more operational than economic		Medium	High
State aid implications	Analysis missing in several EAAs		High	Low
Provisions for review	Vague provisions, available only in some EAAs		Low	Low

Source: Authors' elaboration based on analysis performed in section 5.1 (for the column dedicated to experts' opinion; see Figure 14) and 5.2 (for the column dedicated to authors' evaluation of EEA).

6 CONCLUSIONS AND RECOMMENDATIONS

Financial instruments supported by public funding are not new, and the appearance of EU level financial instruments is to be welcomed, as this ensures consistency across the EU and potential economies of scale.

Lending activities always suffer from market failures to some degree during good and bad times. Having the ability to have flexible instruments that counterbalance those failures is important. The most common permanent failure is the inability of the private sector to monetise positive externalities and public goods generated.

In times of economic downturn, financiers may retract from funding operations due to risk perception and capital adequacy needs. In countries or regions where investments are less profitable or where risks are high, publicly supported financial institutions have often intervened. Public promotional banks have a long story of the use of such instruments, supported by national budgets.

With the financial crisis and the need to expand the reach of the limited funding of the EU budget in relation to its objectives, financial instruments have been expanded considerably. With the appearance of the European Fund of Strategic Investment (EFSI), the dimension of debt and equity operations supported by the EU budget has reached considerable proportions. Due to the financial crisis, there is a case for intervention to dampen the drop in investment in the EU.

However, the expansion of financial instruments has occurred in a relatively short amount of time with several instruments created under central management and others expanded under shared management. This expansion of financial instruments has to be accompanied with procedures to ensure that those instruments are not crowding out private finance, but complementing them. Ultimately, we are seeing similar instruments covering the same beneficiaries through central or shared management, which may need addressing to avoid overlaps and inconsistencies.

By expanding the use of financial instruments under European Strategic Investment Fund (ESIF), the European Commission has been aware that setting up such instruments is complex and can also be for reasons not in line with the principles that should guide those.

As a response, the managing authorities have to perform ex-ante assessments demonstrating the need for any instrument they wish to set up. It has also opened the possibility for managing authorities to allocate the ERDF or EARDF funding for Financial Instruments in support of EU-centrally managed instruments, including the SME Initiative. In this case no ex-ante assessment by the managing authorities is necessary, because the SME Initiative is already set up based on an ex-ante assessment at EU level by the European Commission supported by the European Investment Bank and the European Investment Fund.

This report has reviewed the different Financial Instruments in place and their rationale. It has reviewed their performance and a number of ex-ante assessments to analyse their quality and conformity with the requirements as listed in the Financial Regulation and the Common Provisions Regulation for the ESI Funds.

Many Ex-ante assessments fill the requirements of the regulations, but it is unclear to what extent this exercise influences the decision to set up the instruments; there are a number of reasons for this. First of all, once a managing authority has decided to set up a financial instrument, it is not complicated to find arguments. Market failures always affect markets and the financial gap is difficult to estimate, thus leaving room to develop justifications that are difficult to verify.

What seems to some extent illogical is the fact that for the SME Initiative, managing authorities need to make a detailed ex-ante assessment to justify the use of financial instruments, but if the regional funds for Financial Instruments (FIs) are sent to an EU wide centrally managed instrument there is no need for the assessment, because the EU wide assessment is enough. If this were the case, what is the use of a local assessment? A simple adoption of the EU ex-ante assessment by the European Commission could be enough. There seems to be inconsistency in the existence of parallel instruments with a different ex-ante assessment requirement; the EU level analysis is at national level and rather broad, while local Financial Instruments (FIs) perform specific studies on local conditions. There is room to simplify and to align the process of setting up Financial Instruments (FIs), making the process more focused, less cumbersome and more effective.

6.1 Recommendations

There is **room for improving the alignment of centrally managed and shared management Financial Instruments (FIs)**, thus it is recommended that the ex-ante assessments should just use the EU level analysis and justification as given, focusing more effort on the specific targeted areas and objectives of the planned Financial instruments (FIs), namely:

a) the provision of a better analysis of the demand for credit gap;

b) a focus on the investment strategy with clear plans to target the right beneficiaries;

c) a focus on results of the investments, not only the number of beneficiaries or leverage; a large number of investments with a lot of leverage are not a result if the impact is ultimately not in line with EU objectives;

d) better provisions for monitoring and review, taking into account the ultimate objective of the instruments.

Thus we consider that, in line with the focus on EU budget objectives, **ex-ante assessments should be made shorter and sharper.**

The evaluation was unable to find a clear operational link with the decision to set up or not the financial instruments. **The ex-ante evaluations are not collected or reviewed by the EU institutions and it is unclear what their role is apart from making the managing authorities finance the assessment and then hopefully using it to set up the instrument.** As the operational sections of the assessments, state aid rules compliance, strategy, monitoring and review are often not sufficiently elaborated, the practical use remains apparently limited.

Finally, **we recommend that all ex-ante assessments are stored in full in the fi-compass website[47],** as a few are. It is not a legal requirement but should be encouraged and maybe made a requirement for the next MFF to upload them to a central repository.

From a point of view of risk spread and efficiency we recommend using only an EU-wide capital endowment for all instruments, even if shared management financial instruments are retained and funding is transferred from national/regional endowments of ESI Funds. The use of funds with a higher capital endowment reduces costs and risks. Isolated funds for individual instruments at national and regional levels are not appropriately sized for efficient operation and increase the risk to allocated equity and debt funds.

[47] https://www.fi-compass.eu/resources/ex-ante-assessment-summary.

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ANNEX 1 – QUESTIONNAIRE

Scope of the Survey

The European Parliament, Committee on Budgets commissioned to our consortium a study to assess the application and value of ex-ante evaluations for Financial Instruments under both shared and centrally managed EU funds. The survey is useful to gather hints and perceptions from experts at regional, national and EU level; collected data will inform the qualitative analysis for the study.

Survey Questions

QUESTION: Are you familiar with the regulatory requirements for establishing a "financial instrument" under the EU budget, including the need for an ex-ante assessment?

ANSWER: Multiple choice [Yes, No, Partly]

QUESTION: Are you familiar with the methodological guidelines on ex-ante evaluations for financial instruments edited by the Commission and the EIB Group?

ANSWER: Multiple choice [Yes, No, Partly]

QUESTION: What is the specific financial instrument ex-ante assessment(s) with which you are most familiar? [If possible, please provide a link to any online published version, or attach the file]

ANSWER: [free space]

QUESTION: How many ex-ante assessments for FIs have you gone through?

ANSWER: Multiple choice [None, One, 2 to 5, more than 5]

QUESTION: Do the requirements for ex-ante assessments define a helpful framework for evaluating whether financial instruments are likely to be effective?

ANSWER: Multiple choice [1-5 where 5 is "yes, definitely", and 1 is "no, not really"]

QUESTION: In your view, has the ex-ante assessment of the financial instruments with which you are familiar led to an improvement in their design?

ANSWER: Multiple choice [1-5 where 5 is "yes, definitely", and 1 is "no, not really"]

QUESTION: Which of the ex-ante assessment requirements are the most burdensome to meet?

ANSWER: Multiple Choice (Please rank from 1 to 3 the three most burdensome requirements)

[1. Identification of the market failure, 2. Description of the added value of FIs, 3. State Aid implications, 4. Estimation of leverage, 5. Definition of an investment strategy, 6. Identification of expected results, 7. Inclusion of Lessons Learned, 8. Provisions for review]

QUESTION: Which of the ex-ante assessment requirements are the most valuable in making better decisions on whether and how to establish a financial instrument?

ANSWER: Multiple Choice (Please rank from 1 to 3 the three most valuable requirements)

[1. Identification of the market failure, 2. Description of the added value of FIs, 3. State Aid implications, 4. Estimation of leverage, 5. Definition of an investment strategy, 6. Identification of expected results, 7. Inclusion of Lessons Learned, 8. Provisions for review]

QUESTION: To your own judgment, is the situation of sub-optimal investment or market failure well proven and documented in those assessments you have knowledge of?

ANSWER: Multiple Choice [yes, not, partly] + If NOT: [Why? Please explain]

QUESTION: Based on your experience, to what extent FIs ex-ante evaluations are aligned to the strategy outlined in the Operational Programmes?

ANSWER: Multiple choice [1. To a little extent, 2. Partly, 3. To a great extent]

QUESTION: What would you improve in the ex-ante assessments to ensure that market failures are addressed?

ANSWER: [free space]

QUESTION: What would you improve in the ex-ante assessments to enhance the performance of FIs?

ANSWER: [free space]

QUESTION: Is there a double-check on the methodology and quantitative analysis adopted to estimate the leverage effect and expected results?

ANSWER: Multiple Choice [yes, not, I don't know] + If NOT: [Why? [Multiple choice: 1. No time, 2. Too costly, 3. Competences not available, 4. Unnecessary]

QUESTION: In your view, does the legislation and guidance on the content of ex-ante assessments help to identify the added value of financial instruments?

ANSWER: Multiple Choice [yes, not, I don't know] + Comments [free space]

QUESTION: Please indicate how much you agree or disagree with the statements below:

1. The ex-ante assessments are carried out with a genuinely open mind about the desirability of establishing a financial instrument
2. The ex-ante assessments look at all the available options
3. Ex-ante assessments for FIs are a useful exercise for policy design
4. Ex-ante assessments for FIs are an administrative burden that do not improve the performance of FIs
5. The added value different FIs (loans, guarantees, equity, quasi-equity) is clearly identified

ANSWER: Multiple Choice [Strongly agree, Somewhat agree, Neither agree or disagree, Somewhat disagree, Strongly disagree]

QUESTION: There have been calls for the rules for grants and loans to be harmonised. How do you think this should be undertaken?

ANSWER: [free space]

QUESTION: Can you describe a situation in which the use of a loan/guarantee/equity or quasi-equity has not met expectations?

ANSWER: [free space]

QUESTION: Can you describe a case in which the use of a loan/guarantee/equity or quasi-equity has proved to be an efficient and effective financing tool?

ANSWER: [free space]

QUESTION: Do you think that the current arrangements for monitoring the performance of FIs are sufficient/ too onerous / insufficiently rigorous? Do you have any recommendations for change?

ANSWER: Multiple Choice [They are sufficient, They are too onerous, They are insufficiently rigorous] + Comments [free space]

QUESTION: According to your experience, to what extent managing authorities resort to external service providers to perform activities required to prepare the ex-ante evaluation?

ANSWER: Multiple Choice [Always, Very Frequently, Occasionally, Rarely, Very Rarely, Never]

QUESTION: Are there any recommendations for improvements you would suggest to the rules on establishing financial instruments, and on their management?

ANSWER: [free space]

Demographic questions

Your nationality: [options]

Your expertise on FIs is mainly linked to: [regional, national, EU level]

Your expertise is mainly on: [ESI Funds, centrally managed funds]

Which category better describe your expertise: [public official, researcher, consultant]

Years of experience with FIs: [less than 2, between 2 and 5, more than 5]

ANNEX 2 – LIST OF EX-ANTE ASSESSMENTS COLLECTED

#N	ISSUING AUTHORITY	TITLE	YEAR	COUNTRY	REGION	PROGRAMME	THEMATIC OBJECTIVES COVERED
1	Bulgarian Ministry of Finance	Ex-ante assessment of FI for Operational Programme 'Regions in Growth'	2014	Bulgaria	n/a	ERDF	TA, TO10, TO4, TO6, TO7, TO9
2	Croatia	EU IPA Programme for Croatia	2015	Croatia	n/a	ERDF & ESF	TO 3, TO 8, TO 9
3	Czech Ministry for Regional Development	Preliminary assessment of the use of financial Tools in the IROP	2015	Czech Republic	n/a	UNCLEAR	TO4
4	Estonian Ministry of the Environment	Ex-ante assessment of FI of Cohesion Fund	2015	Estonia	n/a	CF	TO4
5	Region Bretagne	Evaluation ex-ante des FI en Bretagne	2015	France	Bretagne	EFRD, EAFRD	TO3, TO4
6	Region Centre	Mission d'évaluation ex-ante des instruments financiers 2014-2020 (FEDER - FSE – FEADER) en région Centre	2014	France	Centre	EFRD, ESF, EAFRD	TO3, TO4, TO9
7	Conseil Regionale de Lorraine	Evaluation Ex-ante des FI FEDER-FSE Lorraine et massif des vosges	n.d.	France	Lorraine	EFRD	TO1, TO3
8	Region Franche-Comte	Mission d'évaluation ex-ante des instruments financiers des programmes opérationnels 2014-2020 en région Franche-Comté	2014	France	Franche-Compte	ERDF, ESF, EAFRD	TO 1, TO 6, TO 9
9	Germany	Ex-ante assessment of a microcredit fund envisaged in the operational programme of the Free State of Saxony for the ESF 2014-2020	2015	Germany	Saxony	ESF	n/a
10	Berlin Senate	Ex-ante evaluation of the FI within the ERDF 2014-2020	2014	Germany	Berlin	ERDF	

11	German Land	Ex-ante-Bewertung der geplanten Finanzierungsinstrumente im OP-EFRE Sachsen-Anhalt 2014-2020 - Risikokapitalfonds	2015	Germany	Sachsen-Anhalt	ERDF	TO1, TO3
12	German Land	Ex-ante-Bewertung Stadtentwicklungsfonds NRW	2014	Germany	NRW	ERDF, ESF, EAFRD	TO6, TO9
13	German Land	Ex-ante-Bewertung des Innovationsfonds Rheinland-Pfalz II	2015	Germany	Rheinland-Pfalz	ERDF	TO3
14	German Land	Ex-Ante-Evaluierung von Finanzinstrumenten in Thüringen 2014-2020	2015	Germany	Thüringen	ESF	TO3
15	Hungary	Ex-ante vizsgálat		Hungary			TO1, TO2, TO3, TO4, TO8
16	Emilia Romana	Valutazione ex-ante degli Strumenti Finanziari da attivare nell'ambito del POR FESR Emilia Romagna 2014-2020	2015	Italy	Emilia Romana	ERDF (partly in conjuction with COSME)	TO 1, TO 5
17	Autonomous Region of Sardegna	Rapporto di Valutazione ex-ante sull'utilizzo degli Strumenti finanziari in Sardegna nel ciclo di programmazione UE 2014-2020	2016	Italy	Sardegna	EFRD	
18	Autonomous Region of Sardegna	POR Sardegna FSE 2007/2013	2015	Italy	Sardegna	ESF	TO 3, TO 8, TO 9
19	Regione Toscana	Valutazione ex-ante strumenti finanziari PSR 2014-2020 REGIONE TOSCANA	n.d.	Italy	Toscana	n/a	
20	Lithuanian Ministry of Finance	Summary and Conclusions of the Ex-ante Assessment	n.d. (before 2013?)	Lithuania	n/a	UNCLEAR/Post-JESSICA	TO 4, TO 5
21	Latvian Ministry of Economics	Access to Finance - Ex-ante assessment Latvia	2015	Latvia	n/a	UNCLEAR	TO3
22	Poland	Ex-ante evaluation of the FIs under the Regional Development Plan for Podkarpackie Region 2014-2020	2015	Poland	Podkarpackie	ERDF/ESF	TA, TO1, TO10, TO2, TO3, TO4, TO5 - TO6, TO7, TO8, TO9

23	Poland	Ex-ante evaluation of the FIs under the Regional Development Plan for Lubuskie Region 2014-2020	2015	Poland	Lubuskie	ERDF/ESF	TA, TO1, TO10, TO2, TO3, TO4, TO5, TO6, TO7, TO8, TO9
24	Poland	Ex-ante assessment of guarantee-type financial instruments offered to social economy entities (SEE) as part of Operating Program Knowledge Education Development	2015	Poland	country-wide	ESF	TA - Technical Assistance, TO10, TO11, TO8, TO9
25	Polish Ministry of Infrastructure and Development	Ex-ante evaluation of financial instruments to support social economy entities and young people	2014	Poland	n/a	EFS	TO 3
26	Portugal	Avaliações ex-ante instrumentos financeiros de programas do Portugal 2020 - 2015 - lot 1	2015	Portugal	North, Centre, Lisboa, Alentejo, Algarve, Açores and Madeira.	n/a	TO 3
27	Portugal	Avaliações ex-ante instrumentos financeiros de programas do Portugal 2020 - 2015 - lot 2	2015	Portugal	North, Centre, Lisboa, Alentejo, Algarve, Açores and Madeira.	ERDF, ESF	TO 3, TO 10
28	Portugal	Avaliações ex-ante instrumentos financeiros de programas do Portugal 2020 - 2015 - lot 3	2015	Portugal	North, Centre, Lisboa, Alentejo, Algarve, Açores and Madeira.	n/a	TO 6
29	Romania	Ex-ante assessment for financial instruments for SMEs in the 2014-2020 programming period	2015	Romania	n/a	n/a	
30	Spain	Ex-ante assesment de las necesidades de financiacion de les pequenas y medianas empresas en Cataluna	2015	Spain	Catalunia	EFRD	TO 3
31	Spain	Evaluación ex-ante de un nuevo instrumento financiero plurirregional para los fondos FEADER 2014-2020	2016	Spain	n/a	EAFRD	TO3

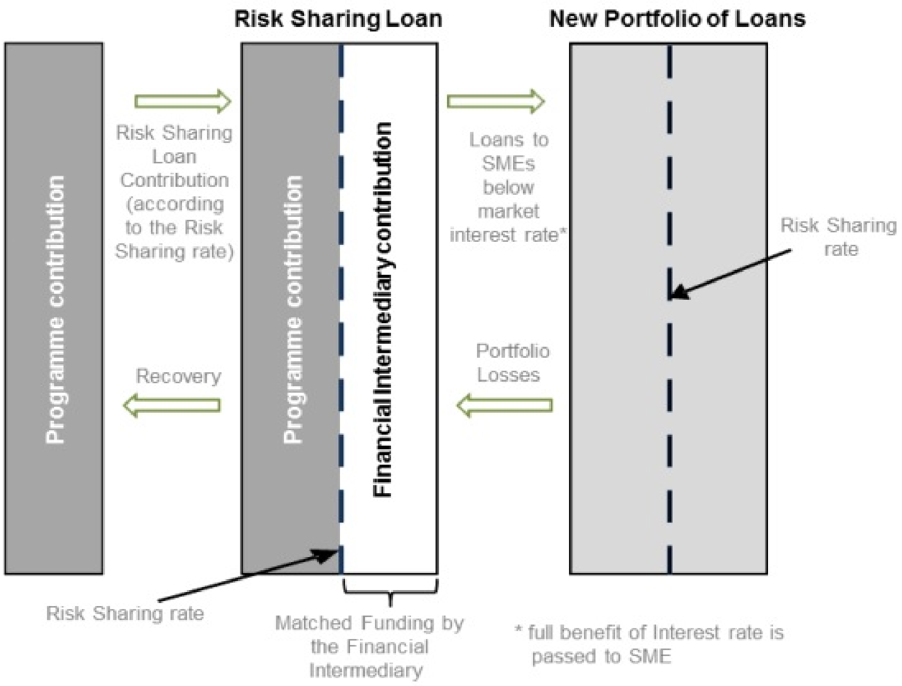
32	Spain	Evaluation ex-ante FI Programme Operativo Andalucia	2016	Spain	Andalusia	InnovFin & ERDF	TO3
33	Swedish Tillväxtverket	Förhandsbedömning för stöd till finansieringsinstrument inom den Europeiska regionala utvecklingsfonden 2014–2020	2015	Sweden	n/a	ERDF	TO3, TO4
34	Scottish Government	ESIFs. Ex-ante assessment of FIs	n.d.	UK	Scotland	ERDF	TO2, TO3, TO4
35	UK	Ex-ante Greater Manchester Urban Development Fund	2016	UK	England	ERDF	TO1, TO4
36	UK	Ex-ante Midlands Engine Investment Fund	2016	UK	England	ERDF	TO 3
37	UK	Ex-ante The North East Fund	2016	UK	England	ERDF	TO3
38	UK	Northern Powerhouse Investment Fund –	2016	UK	England	ERDF	TO3
39	EU	SME Initiative				COSME, ESIF, Horizon2020	
40	EU	NCFF				LIFE	

ANNEX 3 - OFF-THE-SHELF FINANCIAL INSTRUMENTS

We provide here a short description of the main off-the-shelf financial instruments designed by the European Commission to ease the implementation of financial instruments and decrease uncertainty and administrative burden to managing authorities. For more information, the reader can refer to the Fi-Compass website.

A **risk-sharing loan** it is based on the sharing of risks between public and private resources, in order to finance SMEs at preferential interest rate. The main objective of this financial instrument is to enhance SME access to finance by: i) providing funding and effective credit risk sharing to financial intermediaries to increase the availability of funding for SMEs, and ii) incentivising financial intermediaries to offer better financing terms for the SMEs, in particular to reduce interest rates charged to SMEs. The purpose of the loan is the financing of tangible and intangible investments, as well as the working capital linked to the investment financed.

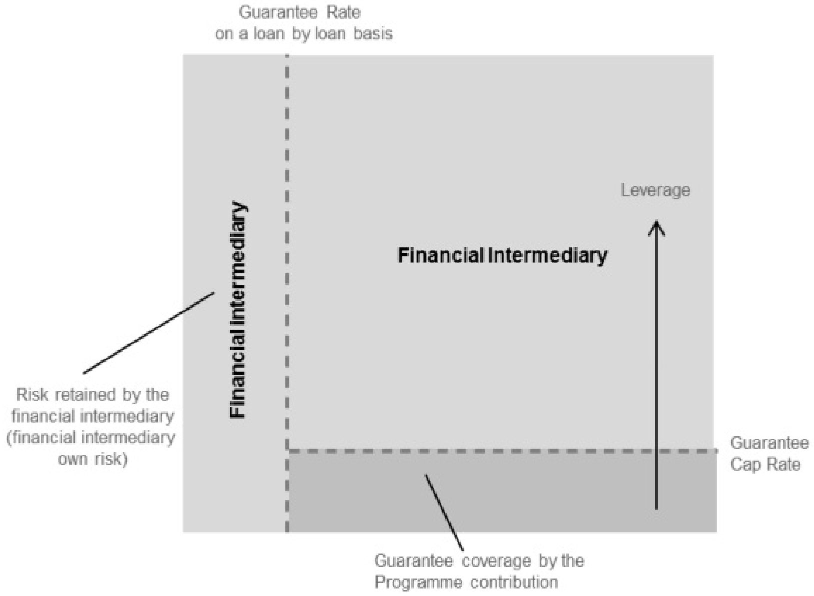
Figure 17. Risk-Sharing Loan



Source: EC (2014d).

A **capped loan guarantee** provides credit risk coverage on a loan by loan basis, for the creation of a portfolio of new loans for final recipients (i.e. SMEs) by a financial intermediary, up to a maximum loss amount (i.e. cap). In other words, it offers protection up to a certain limit and allows the financial intermediary to facilitate final recipients access to finance at better/preferential conditions (interest rate and/or collateral reductions). However, in order to achieve the expected impact, the funds from the programme committed in funding agreements signed between the MA and the financial intermediary must not replace equivalent guarantees received by the respective intermediaries for the same purpose under existing EU, national and regional financial instruments.

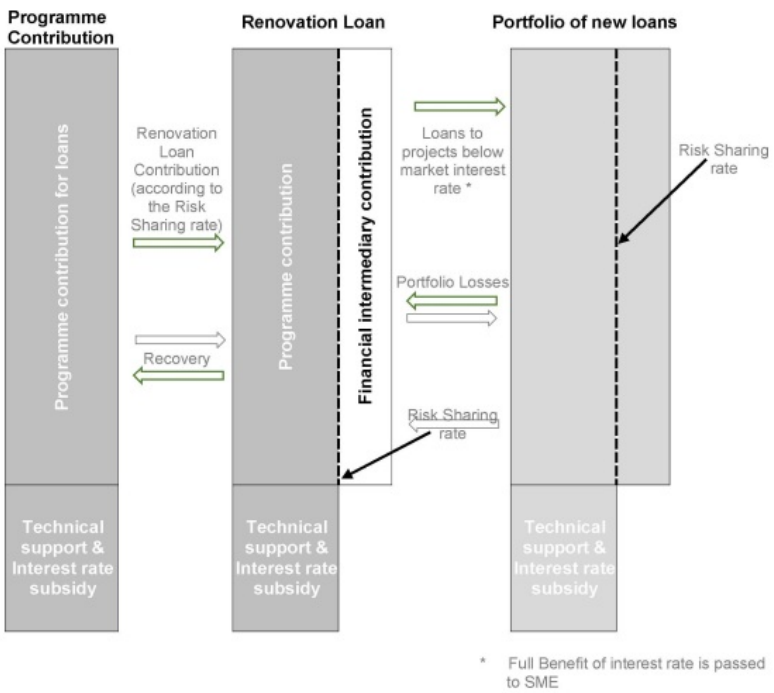
Figure 18. Capped Portfolio Guarantee



Source: EC (2014d).

A **renovation loan** is a type of financial instrument suitable for energy efficiency and renewable energy projects in the residential building sector. In particular, it is primarily aimed at multi-apartment buildings where the energy saving potential of renovation is significant but where apartment owners still need appropriate incentives (e.g. complementary grant assistant, long-term subsidised loan conditions, upfront advisory support and funding). However, the renovation loan assumes two key conditions: i) a financial market in which banks are essentially the only source of funding, but where this funding is either too little (due to the risk appetite of the bank), too short term, too costly or otherwise inappropriate for the long term payback nature of the project being finance, and ii) an inefficient system of identifying and procuring the works on behalf of multiple apartment owners.

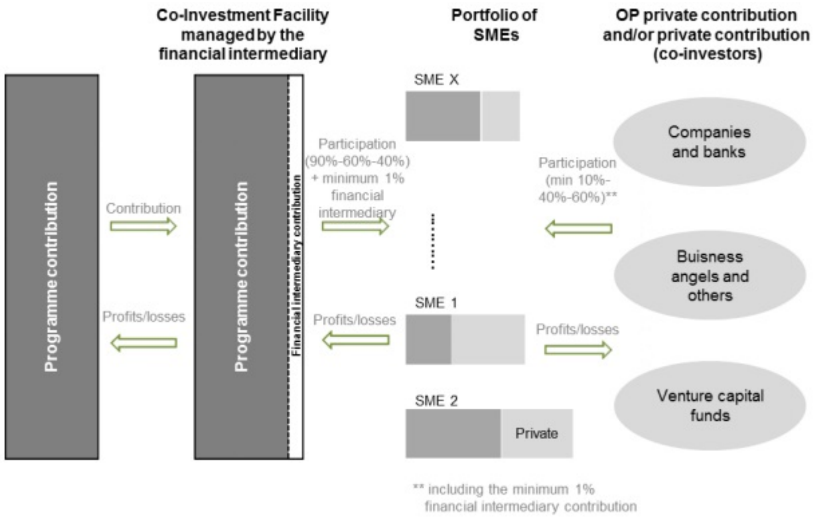
Figure 19. Renovation Loan



Source: EC (2014d).

The **co-investment facility** allows for an investment in the equity of SMEs with the contributions of the ESIF programme, the financial intermediary's own resources and private co-investors. The primary focus of the facility is on SMEs at seed, start-up, and expansion stage, as well as on the realisation of new projects and the development of new markets. This form of financing is a particularly effective way of supporting SMEs located in relatively contained geographies, which, due to their size, do not always offer sufficient market absorption capacity for dedicated venture capital or private equity funds. This phenomenon also applies in the context of SMEs active in less established sectors and stages, where deal flow is still largely unpredictable. Importantly, as long as the contributions to the facility do not crowd out financing available from other public or private investors, the facility participates with the financial intermediary and co-investors on SMEs investments on a deal by deal basis.

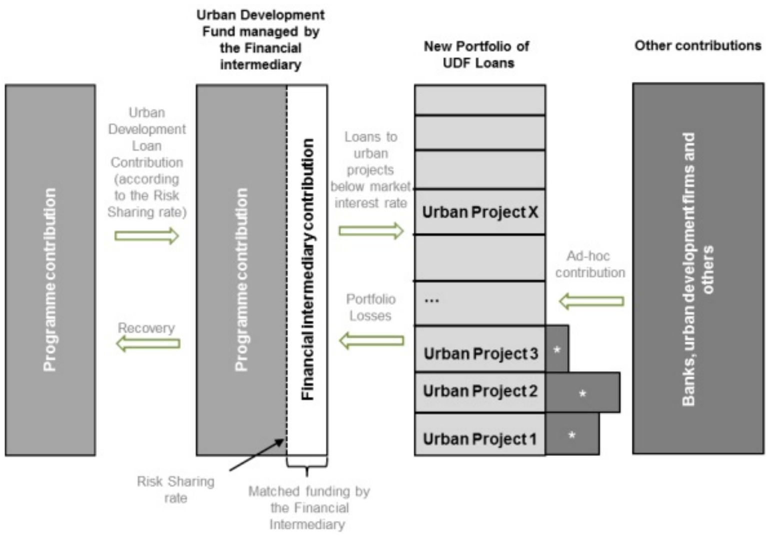
Figure 20. Co-investment Facility



Source: EC (2016b).

The **urban development fund** is a fund investing in public-private partnerships, as well as projects included in an integrated plan for sustainable urban development. It shall take the form of a loan fund and shall be set up and managed by a financial intermediary with contributions from the ESIF programme, the fanatical intermediary and co-investors to finance newly originated loans for urban development projects.

Figure 21. Urban Development Fund



Source: EC (2016b).

The use of financial instruments within the EU budget is becoming more and more common. The present study first revises key concepts in determining the use of those instruments, before providing an analysis of the functioning and consistency of the ex-ante assessments, which are required by regulation to help identify the rationale and scope for financial instruments. It offers recommendations to improve the ex-ante assessment process and on the use of these instruments across the EU.

Print ISBN 978-92-846-1143-0 | doi:10.2861/015797 | QA-02-17-704-EN-C
PDF ISBN 978-92-846-1142-3 | doi:10.2861/48353 | QA-02-17-704-EN-N