European Parliament

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT D
BUDGETARY AFFAIRS

Budgets

Budgetary Control

Financial Instruments under Cohesion Policy 2007-13:

How have Member States and Selected Financial Institutions Respected and Preserved EU Financial Interests?

STUDY

EN

2016

European Parliament

DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT D: BUDGETARY AFFAIRS

Financial Instruments under Cohesion Policy 2007-13: How have Member States and Selected Financial Institutions Respected and Preserved EU Financial Interests?

STUDY

Abstract

This study assesses the implementation of financial instruments (FIs) in Cohesion policy during the 2007-13 programming period. It takes stock of existing knowledge on the operation of FIs as reflected in the academic literature and policy documents. A comparative analysis of eight case studies, focusing on the different stages in the lifecycle of FIs, provides the basis on which to draw lessons from the implementation of FIs in 2007-13, highlighting implications for 2014-20.

IP/D/ALL/FWC/2015-001/LOT2/C2/SC1 04/02/2016

PE 552.306 EN

This document was requested by the European Parliament's Committee on Budgetary Control. It designated Mr Georgi Pirinski, MEP, to follow the study.

AUTHORS

Ms Fiona Wishlade, Ms Rona Michie, Mr Philip Vernon, Mr Stefan Kah and Ms Claudia Gloazzo
European Policies Research Centre, University of Strathclyde, Glasgow (Chapters 1-4).

Mr Fabian Zuleeg, Ms Claire Dheret and Ms Iva Tasheva (Chapter 5).
European Policy Centre, Brussels

Case studies: Prof Julia Spiridonova, National Centre for Territorial Development (BG); Dr Kristiina Tonnisson University of Tartu (EE); Mr Stefan Kah (DE); Ms Claudia Gloazzo (IT); Dr Carlos Mendez (ES); Dr Martin Ferry (PL); Mr Cristian Surubaru (RO); Mr Philip Vernon (SI).

RESPONSIBLE ADMINISTRATOR

Ms Beata Grzebieluch
Policy Department on Budgetary Affairs
European Parliament
B-1047 Brussels
E-mail: poldep-budg@europarl.europa.eu

LINGUISTIC VERSIONS

Original: EN
Translation of the executive summary: DE and FR

ABOUT THE EDITOR

Policy Departments provide in-house and external expertise to support European Parliament's committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU policies.

To contact the Policy Department or to subscribe to its newsletter please write to:
poldep-budg@europarl.europa.eu

Manuscript completed in February 2016.

This document is available on the Internet at:
http://www.europarl.europa.eu/supporting-analyses

DISCLAIMER

CONTENTS

LIST OF ABBREVIATIONS

AA(s)	Audit Authority/ies
AIR	Annual Implementation Report
COCOF	Coordination Committee of the Funds
CPR	Common Provisions Regulation (Regulation (EU) No 1303/2013)
EaSI	European Programme for Employment and Social Innovation
EC	European Commission
ECA	European Court of Auditors
EFSI	European Fund for Strategic Investment
EIB	European Investment Bank
EIBG	European Investment Bank Group
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
FCG	Fondo Centrale di Garanzia
FEI(s)	Financial engineering instrument(s)
FI(s)	Financial instrument(s)
HF(s)	Holding fund(s)
HFM(s)	Holding fund manager(s)
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investments in City Areas
KfW	Kreditanstalt für Wiederaufbau
MA(s)	Managing Authority/ies
MCS	Management and Control System
NHF	Specific fund operated outside a holding fund
OP(s)	Operational Programme(s)
SEF	Slovene Enterprise Fund
SHF	Specific fund operated within a holding fund
SME(s)	Small and Medium Enterprise(s)
TAB	Thüringer Aufbaubank
UDFs	Urban Development Funds
VC	Venture Capital

GLOSSARY

Beneficiary	In the context of Article 44 of the General Regulation (Council Regulation No 1083/2006, as amended), the financial engineering instrument (FEI) is the beneficiary - the specific fund outside a holding fund (NHF) or holding fund (HF), as relevant. Note that this differs from grants where the beneficiary is, for example, the SME receiving the award. In the context of financial instruments (FIs), the SME would be the final recipient. However, at closure (Article 78(6)), eligible expenditure is essentially that reaching final recipients in the form of loans, guarantees or equity, together with eligible costs.
Closure	Closure of programmes concerns the financial settlement of outstanding Union budgetary commitments through payment of the final balance to the competent authority of each programme or recovery of sums unduly paid by the Commission to the Member State and/or decommitment of any final balance. It also concerns the period until which all the Commission's and Member States' rights and obligations remain valid in respect of assistance to operations. The closure of programmes does not prejudge the Commission's right to impose financial corrections.
Co-financing	Structural Funds resources must be co-financed by other public or private resources for Managing Authorities (MAs). Rates of co-financing vary by country and region.
Co-investment	Public or private sector resources additional to Structural Funds contributions, which when added to the Structural Funds create a leverage effect. Where co-investment constitutes national co-financing of Operational Programmes (OPs) it is subject to Structural Funds Regulations; co-investment which is additional to OP contributions is not subject to Structural Funds Regulations.
Default	Where the final recipient fails to repay loans in full.
Equity	Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm; the equity investor may assume some management control of the firm and may share the firm's profits.
European Structural and Investment Funds (ESIF)	For 2014-2020 the collective title for the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).
Ex-ante assessment	A mandatory requirement for the use of FIs in the 2014-2020 programming period, this assessment must precede the ESIF programme contribution to a financial instrument (FI) and establishes evidence of market failures or sub-optimal investment situations and estimates scale of investment needs, including through financial instruments.
Final recipient	A legal or natural person (e.g. a small or medium-sized enterprise) receiving a

	financial product.
Financial engineering instrument (FEI)	Referred to in Article 44 of the General Regulation (Council Regulation No 1083/2006, as amended) as follows: "As part of an operational programme, the Structural Funds may finance in respect of an operation comprising contributions to support financial engineering instruments for enterprises, primarily small and medium-sized ones, such as venture capital funds, guarantee funds and loans funds, and for urban development funds…" In summarising the data on FEIs provided by Managing Authorities, the Commission counts each funding agreement signed between a Managing Authority and a holding fund or with a specific fund outside a holding fund (NHF), as well as each contract between a holding fund and a specific fund within a holding fund (SHF), as distinct financial engineering instruments (FEIs). The exception is where several agreements are signed between the same Managing Authority (MA) or holding fund (HF) and the same specific fund for different annual instalments or different priorities. Note that a funding agreement may provide for several different financial products to be provided by a fund. See also financial instrument (FI).
Financial institution	Organisations whose financial activities (such as taking deposits, investing funds or dealing) are central to their business. All financial institutions are financial intermediaries.
Financial instrument (FI)	Used in the Structural Funds Regulations in preference to *financial engineering instrument* for the 2014-20 programming period. The term *financial instrument* is also preferred in this study, reflecting the Terms of Reference. It is used both in the generic sense, as in the Common Provisions Regulation (CPR) - Council Regulation No 1303/2013 - to refer to repayable forms of intervention, and as in the annual Summary Reports, to mean funding agreements providing for financial products (the number of financial instruments (FIs) are enumerated on this basis).
Financial intermediary	Entity acting as an agent in the supply of and demand for financial products (e.g. holding fund managers, specific fund managers, banks). Fund managers are financial intermediaries; financial intermediaries are not necessarily fund managers, but may offer loan or guarantee products to final recipients on behalf of fund managers on the basis of agreed terms and conditions (e.g. in the case of local banks offering standardised co-financed financial products).
Financial product	The type of transaction from which the final recipient benefits. This takes the form of a *loan*, a *guarantee* or *equity* (also referred to as *venture capital*) and variants on or combinations of these. More than one type of financial product may be offered by a given specific fund.
Financing gap	Mismatch between demand and supply of capital or credit.
Fund manager	The entity responsible for implementing the investment strategy of a fund (holding or specific) and managing its portfolio of investments, as set out in

	funding agreements.
Fund of funds	Replaces the term *holding fund* (HF) in the 2014-020 programming period. This report uses the term *holding fund*, as applicable in 2007-13.
Funding agreement	Contract governing the terms and conditions for contributions from the Operational Programme to the financial instrument. Funding agreements are established between a Managing Authority (MA) and a holding fund manager (HFM) or between a Managing Authority and the specific fund manager (where there is no holding fund) or between the holding fund manager and the specific fund manager (where the specific fund is within a holding fund arrangement).
Gap analysis	A market assessment undertaken to identify the potential for FIs to address market failure.
Grant	A non-repayable contribution to a final beneficiary.
Guarantee	An undertaking to meet all or part of a debt obligation in the case of a default on the part of a borrower.
Holding fund (HF)	A fund that has a controlling interest in one or more specific funds.
Investment strategy	Determines the aims and objectives of the financial instrument (FI), linking the needs identified to the implementation of the funding agreement. No precise requirements in the 2007-13 Regulations, but COCOF guidance refers to the need for an 'underlying' and 'coherent' strategy.
Legacy	Resources from revolved funds available for reinvestment.
Leverage effect	This report uses the Commission definition of leverage, this being the sum of the Structural Funds and additional public and private contributions to the financial instrument divided by the nominal amount of the Structural Funds contribution.
Loan	A transaction whereby a lender makes available an agreed sum of money for an agreed period of time, at an agreed interest rate and the borrower is obliged to repay that amount within the agreed time.
Managing Authority (MA)	The public authority designated by the Member State to manage Operational Programmes (OPs). This may be at national, regional or another level but some MA competences may be delegated to Intermediate Bodies. For example, in Spain the Managing Authority for the ERDF OP is the Ministry of Economy and Finance and the Governments of the Autonomous Communities are Intermediate Bodies, while in Italy, there are both national and regional level Managing Authorities.
Management costs	Management costs refer to direct or indirect cost items reimbursed against evidence of expenditure. Management fees refer to an agreed price for

and fees	services rendered.
Mezzanine	Quasi equity funding - a hybrid of loan and equity funding that enables the lender to convert a loan to an equity interest in an undertaking.
Operational Programme (OP)	Planning document approved by the Commission comprising a set of priorities to be co-financed and which may be implemented through grants, financial instruments and other support.
Pari passu	The principle that co-investors invest on the same terms – same amounts, same timing and same returns.
Quasi equity	Financing that ranks between equity and loans in terms of risk to the investor / lender. Quasi-equity investments can be structured as debt and unsecured and in some cases convertible into equity.
Revolving or revolved/ recycled funds	The notion that contributions to financial instruments (FIs) once repaid by final recipients are re-used. Recycled funds (the legacy) must be used for the same purpose and in the same region.
Specific fund	As distinct from holding funds, specific funds are used to provide financial products to final recipients. Specific funds may be operated within holding funds (SHF) or outside holding funds (NHF).
Structural Funds	The European Regional Development Fund (ERDF) and the European Social Fund (ESF) – applies to 2007-13.
Structural Funds Regulations	Used in this report to refer collectively to the legal basis for the Structural Funds and in particular to the General Regulation (Council Regulation No 1083/2006, and subsequent amendments) and the Implementing Regulation (Council Regulation No 1828/2006, and subsequent amendments).
Venture capital (VC)	A specialist form of equity finance provided to new, small or high risk unquoted enterprises.
Winding-up	A process that involves selling all the assets of a fund, paying off creditors, distributing any remaining assets to the principals, and then dissolving the fund. Essentially, winding up involves the liquidation of the fund.
Working capital	Difference between current assets and current liabilities of an enterprise.

LIST OF TABLES

LIST OF FIGURES

EXECUTIVE SUMMARY

This study assesses the implementation of financial instruments (FIs) in Cohesion policy in terms of economy, efficiency and effectiveness during the 2007-13 programming period and addresses the following research questions:

- What has been the added value of FIs under Cohesion policy in terms of providing better safeguarding of EU financial interests as compared to other modalities under this policy?
- Has the use of FIs contributed to enhancing performance of the implementation of Cohesion policy?
- What have been the roles and responsibilities of the actors involved in terms of preserving the EU's financial interests and assuring the smooth and correct investment of funds?
- What are the best practices at different levels of management and how have the respective institutions addressed the difficulties and problems encountered?
  Are Member States and beneficiaries prepared to use FIs in light of the lessons of the previous Operational Programmes (OPs)? To what extent are they adequately prepared to implement the legislation?

The study's findings are based on existing knowledge on the operation of FIs, as reflected in academic literature and policy documents, as well as information provided by eight regional case studies. These case studies were selected with the aim to provide a sample that reflects a range of FIs experiences. Key facts and data on the case studies were established through desk-based analysis of FIs in the case study regions, followed by semi-structured interviews with Managing Authorities (MAs) and/or Intermediate Bodies and Auditing Authorities (AAs) responsible for the case study OPs. A comparative analysis of the case studies, focusing on the different stages in the lifecycle of FIs, provides the basis on which to draw conclusions from the implementation of FIs in 2007-13 for the 2014-20 programming period.

The following were selected as case studies:

Case studies
BG - OP Competitiveness of the Bulgarian Economy
DE - OP EFRE Thüringen 2007-13
EE - OP for the Development of Living Environment
ES - OP FEDER de Andalucía
IT - OP Ricerca e competitività
PL - OP Województwa Pomorskiego
RO - OP Increase of Economic Competitiveness
SI - OP Krepitve regionalnih razvojnih potencialov za obdobje

The selected case studies suggest a more positive picture of the implementation of FIs than might be expected from the available monitoring data and academic/policy literature. This could be for a number of reasons:

- Over the 2007-13 programming period, more guidance and support became available. The case study responses might reflect the situation more towards the end of the period, rather than at the beginning;
- The case study data are self-reported and might, therefore, include a certain bias to emphasise positive aspects in the implementation, while potentially minimising the difficulties or politically tricky issues such as 'parking' funding in Holding Funds (HFs) to avoid decommitment; and
- The overall quality of the monitoring data for the studied period is patchy and unreliable. Drawing conclusions from such poor quality data might be misleading. In addition, rather than indicating poor performance, there is sometimes an absence of reliable information.
- The selection of case study regions favoured those already making some use of FIs and excluded OPs committing very small amounts since drawing wider lessons from these OPs is likely to be difficult. This might have biased the selection towards OPs with a greater capacity to implement FIs. Additionally, the geographical coverage of the case studies was restricted to Convergence regions (i.e. less developed regions) by the Terms of Reference.

Furthermore, it is important to acknowledge that for several reasons the findings reported in this study should be taken with caution. First, this study covers implementation during the 2007-13 programming period only and many of the regulatory shortcomings identified in the study have since been addressed. In addition, the impact of spending might not be fully delivered. Second, the monitoring of FIs was inconsistent and most of the data were supplied on a voluntary basis leading to some accuracy and comprehensiveness issues. Third, the qualitative feedback provided through the case studies is not always in line with the quantitative data, which is mainly drawn from the 2015 Summary report and thus ultimately from the Annual Implementation Report (AIR). Finally, it should be noted that findings provided by the case studies cannot be generalised.

The FIs in 2007-13

Nearly all Member States (except Ireland, Luxembourg, Croatia) used FIs during the 2007-13 programming period. However, the use of FIs in terms of relative importance, the implementation model chosen and policy objectives vary widely across countries, with no clear overall pattern. Comparing the absolute volume of commitments at the national level, four Member States (Greece, Germany, Italy, United Kingdom) account for 56 percent of OP commitments to FIs in 2007-13, while Italy alone accounted for almost a quarter of the total. The differences between countries are partly attributable to country size and the overall scale of Cohesion policy funding (which itself complicates direct comparisons) but are also a reflection of policy choices and of existing domestic practice.

For most of the case studies (e.g. Bulgaria, Andalucía JEREMIE, Andalucía JESSICA, Pomorskie JEREMIE, Slovenia, Italy, Romania), FIs are considered to enhance the performance of Cohesion policy in terms of achieving objectives and obtaining results when compared to grants. This is partly because of their revolving nature, seen as a key positive factor, making them very attractive to the Member States at a time of increasing budgetary constraints. However, there is scant data on the extent to which funds have revolved and few have explicit strategies for revolving funds or future use. In addition, despite the scarcity of data on the leverage effect that FIs were able to achieve in the 2007-13 programming period, most of the interviewees reported satisfaction in that respect.

This positive view of overall good performance and advantages of recyclable funding contrasts with the low disbursement rates and the low recycling. Part of this could be attributed to funds that are 'parked' in HFs to avoid decommitment before reaching final recipients. On recycling, it is still early in

the process to be able to assess the results as discussions are ongoing among the case study MAs on the re-use of returned resources in the 2014-20 programming period.

Moreover, the use of FIs is most valued in certain areas and for certain target groups (such as SMEs), and it was considered that not all areas are realistically capable of using FIs due to the nature of the services and the length of time of the processes. For example, certain types of projects (particularly in the policy areas of culture and health) are more effectively supported through grants and firms usually prefer grants, which are also easier to administer.

Challenges encountered and lessons learned

The establishment and implementation of FIs is a complex process and involves many actors and interests, which requires a high level of co-ordination and a clear legal framework in order to achieve the policy goals. Ongoing and close contact is needed between specific fund and holding fund managers (HFM), financial intermediaries and the OP MAs to ensure a smooth and correct operation of the funds. The widespread lack of knowledge and experience with FIs was challenging at the outset of the 2007-13 programming period. Dealing with each phase of the FIs, i.e. design, implementation, monitoring and audit, were new experiences for many regions.

Regarding the design phase, the case studies' findings show that practices vary significantly and that both gap assessments and a formal investment strategy are not used by all MAs. Generally speaking, the surveyed MAs were satisfied with the initial approach taken towards the design of FIs (e.g. Estonia, Slovenia, Thüringen).

However, delays resulted from the negotiation of funding agreements, as they needed to specify a high degree of detail in the practical aspects of the proposed conditions. They also involved uncertainty over terms and legal work. However, the lengthy discussions were also seen, with hindsight, to have paved the way for faster implementation of the following stages.

With respect to the implementation phase, the case studies' research shows a development of more complex models of implementation of FIs in the studied period (e.g. a combination of instruments and implementation structure). The major issues related to the implementation of FIs are the small percentage of the FIs reaching final recipients, the shortcomings of the regulatory framework, as well as a very high administrative burden.

Regarding the monitoring phase, effective monitoring of the implementation of FIs is required both for the internal assurance of probity and effectiveness, and to ensure that the required reporting to MAs and the EC is correct, accurate and based on reliable data sets. A range of challenges were identified by the case study MAs. These were related to staff turnover at MA (Romania), data time lags (Bulgaria), and monitoring systems that were unable to collect the required data (Italy). Difficulties were also encountered in the delegation of responsibility to financial intermediaries which may have different working methods (Andalucía JESSICA). Preparing the annual reports was challenging for some (e.g. Slovenia), while reconciliation of EU requirements with domestic audit requirements and the interests of SMEs was particularly difficult for others (e.g. Thüringen). Nevertheless, in almost all case studies, the perception is that FIs are monitored more closely and efficiently than grants and the monitoring was evaluated as good. As regards the controls and audit, almost all of the interviewed AAs (except Estonia and Romania), perceive the audit procedures as complicated and most of the AAs require further guidance on their audit strategy.

Finally, lessons have been learned and legislation has been improved in the 2014-20 programming period. This is partly due to more detailed level of guidance across a range of issues. The technical assistance tool under the European Structural and Investment Funds (ESIF) and European Programme

for Employment and Social Innovation (EaSI) - fi-compass gives a positive signal, aiming to assist the involved actors by providing information on the implementation and use of FIs. Staged payments are also a step forward, reducing the risk of "parking" funds to avoid decommitment, while still allowing timely corrective measures. Finally, it is now clear that political endorsement and a strong, multidisciplinary technical team are critical to the success and timely implementation of FIs.

The Future of FIs in the context of Cohesion policy

In light of the limitations on grant funding, a further increase in the use of FIs to achieve EU objectives appears inevitable. But to make further decisive progress in the FIs under Cohesion policy, it will not be enough to tackle some of the gaps in guidance and improve implementation. There is also a need for a new approach to the allocation, use and accountability of FIs, based on performance and best practices. Flexibility applied in the use of FIs is essential to achieve the more global Cohesion policy objectives. More flexibility in the implementation process also requires transfers of funds where most needed. A focus on HF rather than specific funds might help in this respect. Additionally, more flexibility should be granted to Member States/regions to undertake the most appropriate re-investment of the recycled returns, according to the economic conditions in the specific period and in order to achieve long-term policy objectives. The focus of any funding should be the needs of local businesses and the economy (smart specialisation).

The need to build capacity was highlighted in the case studies. It is important that partners involved in implementing FIs have the necessary experience, skills and financial capacity to ensure successful implementation, potentially including greater use of technical assistance throughout the set-up and delivery of FIs. The EC could also provide information and support to MAs in understanding and implementing more complex instruments.

Wider implications for the use of FIs

FIs provide an attractive route for the implementation of EU policy objectives, especially in a context of economic crisis and limited public funds. Their revolving nature and the involvement of private sector capital and expertise can add significant value in the promotion of economic growth. However, FI is a broad term to cover a wide range of different types of instruments. Assessing the performance of these instruments and deciding on their use for specific projects/policy goals therefore needs a more detailed case-by-case analysis, linked to the assessed needs of a specific regional economy and/or target group.

The analysis of FIs in the context of Cohesion policy shows that FIs are not a *panacea*, neither in this context nor in the wider implementation of EU policy objectives, only able to provide a specific intervention to match an identified specific need. They can be administratively difficult and some challenges remain.

The analysis of FIs raises some fundamental questions about FI interventions at EU-level that are pertinent for the 2014-2020 programming period: how to ensure that there is sufficient local flexibility while also delivering on EU-wide objectives? How to ensure there is sufficient control, auditing and monitoring without adding an excessive administrative burden that deters private investors? How can funds be disbursed quickly and efficiently while minimising error rates? How can it be ensured that those with a low capacity to implement but high levels of economic development needs can benefit from FIs?

These questions do not necessarily have definitive answers but often represent trade-offs between different objectives, which require political decisions and a high level of support from all public administrations in order to facilitate capacity-building.

ZUSAMMENFASSUNG

In dieser Studie wird die Umsetzung der Finanzinstrumente (FI) in der Kohäsionspolitik hinsichtlich Sparsamkeit, Wirtschaftlichkeit und Wirksamkeit während des Programmplanungszeitraums 2007–2013 beurteilt, und die folgenden forschungsrelevanten Fragen werden untersucht:

- Welchen Mehrwert hatten die FI im Rahmen der Kohäsionspolitik im Hinblick auf eine bessere Wahrung der finanziellen Interessen der EU im Vergleich zu anderen Modalitäten im Rahmen dieser Politik?
- Hat der Einsatz von FI dazu beigetragen, die Umsetzung der Kohäsionspolitik zu verbessern?
- Welche Aufgaben und Zuständigkeiten hatten die beteiligten Akteure im Hinblick auf die Wahrung der finanziellen Interessen der EU und die Sicherstellung einer reibungslosen und korrekten Investition von Finanzierungsmitteln?
- Welche bewährten Verfahren gibt es auf unterschiedlichen Verwaltungsebenen, und wie sind die jeweiligen Institutionen mit den Schwierigkeiten und Problemen umgegangen, auf die sie gestoßen sind?
- Sind Mitgliedstaaten und Begünstigte bereit, die FI angesichts der Erkenntnisse aus den vorangegangenen operationellen Programmen (OP) zu nutzen? Inwieweit sind sie zur Umsetzung der Rechtsvorschriften ausreichend vorbereitet?

Die Feststellungen der Studie beruhen auf geltendem Fachwissen zum Einsatz von FI, das sich an der Fachliteratur und konkreten politischen Plänen, sowie den Informationen aus acht regionalen Fallstudien orientiert. Diese Fallstudien wurden mit dem Ziel ausgewählt, eine Stichprobe zu erhalten, die einer gewissen Bandbreite an Erfahrungen mit FI entspricht. In den Regionen der jeweiligen Fallstudie wurden auf der Grundlage einer Sekundäranalyse der FI zentrale Fakten und Daten zu den Fallstudien erhoben, gefolgt von halbstrukturierten Befragungen mit Verwaltungsbehörden und/oder zwischengeschalteten Stellen und Prüfbehörden, die für das OP der Fallstudie verantwortlich sind. Eine vergleichende Analyse der Fallstudien, deren Schwerpunkt die unterschiedlichen Phasen im Lebenszyklus eines FI sind, bietet die Grundlage für die Schlussfolgerungen, die aus der Umsetzung der FI in den Jahren 2007–2013 für den Programmplanungszeitraum 2014–2020 gezogen werden.

Es wurden die folgenden Fallstudien ausgewählt:

Fallstudien
BG – OP Competitiveness of the Bulgarian Economy
DE – OP EFRE Thüringen 2007-13
EE – OP for the Development of Living Environment
ES – OP FEDER de Andalucía
IT – OP Ricerca e competitività
PL – OP Województwa Pomorskiego
RO – OP Increase of Economic Competitiveness
SI – OP Krepitve regionalnih razvojnih potencialov za obdobje

Die ausgewählten Fallstudien bieten ein positiveres Bild der FI-Umsetzung als es gemäß den verfügbaren Überwachungsdaten und der einschlägigen Literatur erwartet werden könnte. Dies könnte auf eine Reihe von Gründen zurückzuführen sein:

- Im Laufe des Programmplanungszeitraums 2007–2013 wurden umfassendere Leitlinien und eine umfangreichere Unterstützung zur Verfügung gestellt. Die Antworten der Fallstudie könnten sich eher an der Situation gegen Ende des Zeitraums orientieren als an der Situation zu dessen Beginn;
- die Daten aus den Fallstudien beruhen auf Eigenangaben und könnten daher eine gewisse Voreingenommenheit mit sich bringen, um positive Aspekte der Umsetzung hervorzuheben, während Schwierigkeiten oder politisch heikle Fragen wie das „Parken" von Finanzierungsmitteln in Holdingfonds (HF) möglicherweise heruntergespielt werden, um die Aufhebung einer Mittelbindung zu vermeiden; und
- die Gesamtqualität der Überwachungsdaten für den untersuchten Zeitraum ist uneinheitlich und unzuverlässig. Die aus derart unzulänglichen Daten gezogenen Schlüsse sind möglicherweise irreführend. Zudem fehlen, anstelle der Angabe von unzulänglicher Leistungsfähigkeit, teilweise zuverlässige Informationen;
- Regionen, die bereits in gewissem Umfang FI nutzten, wurden bei der Auswahl der Fallstudienregionen bevorzugt, während OP ausgeschlossen wurden, über die nur sehr geringe Beträge gebunden waren, weil es voraussichtlich schwierig sein wird, weitreichendere Erkenntnisse aus diesen OP zu gewinnen. Dies könnte die Auswahl insofern beeinflusst haben, dass OP mit einer größeren Kapazität zur Umsetzung von FI ausgewählt wurden. Zudem war der geographische Geltungsbereich der Fallstudien durch die Projektvorgaben auf die Konvergenzgebiete (d. h. weniger entwickelte Regionen) beschränkt.

Außerdem muss eingeräumt werden, dass die Feststellungen dieser Studie aus mehreren Gründen mit Vorsicht betrachtet werden sollten. Erstens befasst sich die Studie nur mit der Umsetzung im Programmplanungszeitraum 2007–2013, und viele der in der Studie ermittelten ordnungspolitischen Mängel wurden seither behoben. Zudem könnte sich die Wirkung der Ausgaben nicht vollständig entfaltet haben. Zweitens erfolgte eine uneinheitliche Überwachung der FI, und die meisten Daten wurden auf freiwilliger Basis zur Verfügung gestellt, was einige Probleme hinsichtlich der Genauigkeit und des Umfangs zur Folge hatte. Drittens stimmen die Qualitätsrückmeldungen aus den Fallstudien nicht immer mit den quantitativen Daten überein, die hauptsächlich aus dem Kurzbericht von 2015 stammen, und daher letztlich aus dem jährlichen Durchführungsbericht. Abschließend bleibt anzumerken, dass die Feststellungen der Fallstudien nicht verallgemeinert werden können.

Die FI in den Jahren 2007–2013

Im Programmplanungszeitraum von 2007 bis 2013 wurden FI von fast allen Mitgliedstaaten genutzt (außer von Irland, Luxemburg, Kroatien). Es gibt jedoch in den einzelnen Ländern große Unterschiede bei der Verwendung der FI, etwa im Hinblick auf ihre jeweilige Bedeutung, das gewählte Umsetzungskonzept und die Ziele der politischen Maßnahmen, und ohne ein klar erkennbares Gesamtmuster. Ein Vergleich der absoluten Menge an Mittelbindungen auf nationaler Ebene zeigt, dass in den Jahren 2007 bis 2013 56 Prozent der OP-Mittelbindungen für FI in vier Mitgliedstaaten (Griechenland, Deutschland, Italien, Vereinigtes Königreich) vorgenommen wurden, während allein Italien für fast ein Viertel der gesamten Mittelbindungen verantwortlich war. Die Unterschiede zwischen den Ländern sind teilweise auf die Größe des jeweiligen Landes und den Gesamtumfang der kohäsionspolitischen Finanzierungsmittel zurückzuführen (wodurch direkte Vergleiche erschwert

werden), tragen aber auch den politischen Entscheidungen und der bestehenden inländischen Praxis Rechnung.

Für die meisten Fallstudien (z. B. Bulgarien, Andalucía JEREMIE, Andalucía JESSICA, Pomorskie JEREMIE, Slowenien, Italien, Rumänien) wird davon ausgegangen, dass die Leistungsfähigkeit der Kohäsionspolitik hinsichtlich der Zielerreichung und in Bezug auf den Erhalt von Ergebnissen durch FI – im Vergleich zu Beihilfen – verbessert wird. Dies beruht teilweise auf ihrem revolvierenden Charakter, der als zentraler positiver Faktor angesehen wird, was sie für die Mitgliedstaaten zu einem Zeitpunkt vermehrter Haushaltszwänge sehr attraktiv macht. In dem Ausmaß, in dem Fonds revolvierend eingesetzt wurden, sind jedoch kaum Daten vorhanden, und wenige Mitgliedstaaten haben eindeutige Strategien für revolvierende Fonds oder für die künftige Verwendung. Hinzu kommt, dass ein Großteil der Befragten trotz des Mangels an Daten zur Hebelwirkung, welche die FI im Programmplanungszeitraum 2007–2013 erzielt hat, diesbezüglich zufrieden war.

Diese positive Auffassung der insgesamt guten Leistungsfähigkeit und der Vorteile der rückschleusbaren Finanzierungsmittel steht im Gegensatz zu den niedrigen Auszahlungsquoten und der geringen Rückschleusung. Dies könnte teilweise an Mitteln liegen, die in HF „geparkt" sind, um die Aufhebung einer Mittelbindung zu vermeiden, bevor diese den endgültigen Empfänger erreichen. Der Prozess befindet sich noch in einem zu frühen Stadium für eine mögliche Beurteilung der Ergebnisse in Bezug auf die Rückschleusungen, weil die Gespräche unter den von dieser Fallstudie betroffenen Verwaltungsbehörden zur Wiederverwendung von zurückgegebenen Mitteln im Programmplanungszeitraum 2014–2020 noch laufen.

Die Verwendung der FI wird außerdem in bestimmten Bereichen und für bestimmte Zielgruppen (wie etwa KMU) besonders geschätzt, und realistischen Einschätzungen zufolge können FI aufgrund der Art der Dienstleistungen und aufgrund der Dauer des Prozesses nicht von allen Bereichen genutzt werden. Bestimmte Arten von Projekten (insbesondere in den Politikbereichen von Kultur und Gesundheitswesen) erhalten durch Beihilfen beispielsweise eine wirksamere Unterstützung, und Unternehmen bevorzugen normalerweise Beihilfen, weil diese auch einfacher zu verwalten sind.

Bestehende Herausforderungen und Erfahrungswerte

Bei der Einführung und Umsetzung von FI handelt es sich um einen komplexen Prozess, in den viele Akteure und Interessen eingebunden sind, was ein hohes Maß an Koordinierung und einen eindeutigen Rechtsrahmen erfordert, um die Ziele der politischen Maßnahmen zu erreichen. Zwischen den spezifischen Portfoliomanagern und den Holdingfondsmanagern, den Finanzintermediären und den Verwaltungsbehörden der OP ist ein laufender und enger Kontakt notwendig, um eine reibungslose und korrekte Funktionsweise der Fonds sicherzustellen. Zu Beginn des Programmplanungszeitraums 2007–2013 bestand die Herausforderung im umfassenden Mangel an Fachwissen und an Erfahrung mit FI. Für viele Regionen war der Umgang mit jeder Phase der FI, d. h. Konzipierung, Umsetzung, Überwachung und Prüfung, eine neue Erfahrung.

Hinsichtlich der Konzeptphase zeigen die Feststellungen der Fallstudien, dass sich die Methoden erheblich unterscheiden, und dass weder Fehlerbeurteilungen noch eine formale Investitionsstrategie von allen Verwaltungsbehörden genutzt werden. Im Allgemeinen waren die befragten Verwaltungsbehörden mit dem ursprünglichen Ansatz zur Konzipierung der FI zufrieden (z. B. Estland, Slowenien, Thüringen).

Aus den Verhandlungen der Finanzierungsabkommen ergaben sich jedoch Verzögerungen, weil in Bezug auf die praktischen Aspekte der vorgeschlagenen Bedingungen eine hohe Detailgenauigkeit

festgelegt werden musste. Zudem brachten sie auch Unsicherheit über die Konditionen und den rechtlichen Aufwand mit sich. Rückwirkend betrachtet ebneten die langwierigen Diskussionen jedoch auch den Weg für eine schnellere Umsetzung der darauf folgenden Phasen.

Was die Umsetzungsphase betrifft, so zeigt die Untersuchung durch die Fallstudien im überprüften Zeitraum, dass sich komplexere FI-Umsetzungsmodelle entwickeln (z. B. eine Kombination aus Instrumenten und Umsetzungsstruktur). Die Hauptprobleme hinsichtlich der Umsetzung von FI sind im geringen Prozentsatz an FI, der die endgültigen Empfänger erreicht, in den Mängeln des ordnungspolitischen Rahmens, sowie im sehr hohen Verwaltungsaufwand zu finden.

In Bezug auf die Überwachungsphase ist eine wirksame Überwachung der FI-Umsetzung sowohl zur internen Sicherstellung der Integrität und Wirksamkeit erforderlich, als auch zur Sicherstellung, dass die erforderliche Berichterstattung an die Verwaltungsbehörden und die Kommission korrekt und genau erfolgt, und auf zuverlässigen Datensätzen beruht. Durch die in diese Fallstudien einbezogenen Verwaltungsbehörden wurde eine Reihe an Herausforderungen ermittelt. Hierbei handelte es sich um Personalabgänge und Neueinstellungen bei der Verwaltungsbehörde (Rumänien), zeitliche Verzögerungen der Daten (Bulgarien) und Überwachungssysteme, die für die Sammlung der notwendigen Daten untauglich waren (Italien). Schwierigkeiten wurden auch bei der Übertragung der Verantwortung auf Finanzintermediäre festgestellt, die abweichende Arbeitsmethoden haben können (Andalucía JESSICA). Die Vorbereitung der Jahresberichte stellte für einige (z. B. Slowenien) eine Herausforderung dar, während die Abstimmung der inländischen gesetzlichen Pflichtprüfungen und der Interessen der KMU auf die EU-Anforderungen für andere besonders schwierig war (z. B. Thüringen). Dennoch herrschte in fast allen Fallstudien die Auffassung vor, dass FI genauer und effizienter überwacht werden als Beihilfen, und die Überwachung wurde als gut bewertet. In Bezug auf die Kontrollen und Prüfungen empfanden fast alle der befragten Prüfbehörden (außer Estland und Rumänien) die Prüfverfahren als kompliziert, und die meisten der Prüfbehörden benötigen weitere Anleitung zu ihrer Prüfungsstrategie.

Letztlich wurden Erfahrungswerte gesammelt, und im Programmplanungszeitraum 2014–2020 wurden die Rechtsvorschriften verbessert. Dies liegt teilweise an den genaueren Leitlinien zu einer ganzen Reihe an Themen. Ein positives Signal wird durch den Fi-Compass, die technische Hilfe gemäß europäischem Struktur- und Investitionsfonds (ESI-Fonds) sowie gemäß Europäischem Programm für Beschäftigung und soziale Innovation (EaSI), gesendet, dessen Ziel es ist, die beteiligten Akteure durch die Bereitstellung von Informationen zur Umsetzung und Nutzung der FI zu unterstützen. Ratenzahlungen stellen ebenfalls einen Schritt nach vorne dar, weil sie das Risiko des „Parkens“ von Finanzierungsmitteln zur Vermeidung einer Aufhebung der Mittelbindung verringern, und dennoch zeitnahe Korrekturmaßnahmen ermöglichen. Schließlich ist jetzt klar, dass politische Unterstützung und ein solides, multidisziplinäres technisches Team für den Erfolg und die zeitnahe Umsetzung der FI entscheidend sind.

Die Zukunft der FI im Rahmen der Kohäsionspolitik

Angesichts der Einschränkungen in Bezug auf Beihilfen scheint eine weiter steigende Nutzung der FI unausweichlich, um die Zielvorgaben der EU zu erreichen. Um aber weitere entscheidende Fortschritte bei den FI gemäß Kohäsionspolitik zu erzielen, wird es nicht ausreichen, einige der Lücken in den Leitlinien zu füllen und die Umsetzung zu verbessern. Bedarf besteht auch für einen neuen Ansatz hinsichtlich Zuteilung und Nutzung der FI, sowie in Bezug auf die Rechenschaftspflicht. Dieser Ansatz sollte auf der Leistungsfähigkeit und bewährten Verfahren beruhen. Die bei der Nutzung der FI angewandte Flexibilität ist entscheidend, um die globaleren Zielvorgaben der Kohäsionspolitik zu erreichen. Eine größere Flexibilität im Umsetzungsprozess erfordert auch, dass die Finanzierungsmittel dorthin übertragen werden, wo sie am dringendsten benötigt werden. Den Schwerpunkt auf Holdingfonds statt auf spezifische Fonds zu legen, könnte diesbezüglich hilfreich

sein. Außerdem sollte den Mitgliedstaaten bzw. Regionen eine größere Flexibilität gewährt werden, um, unter Berücksichtigung der wirtschaftlichen Bedingungen im jeweiligen Zeitraum und zur Umsetzung langfristiger politischer Ziele, die am besten geeignete Wiederanlage für die zurückgewonnenen Erträge vornehmen zu können. Der Schwerpunkt jeder Finanzierung sollte auf den Bedürfnissen lokaler Unternehmen und der Wirtschaft liegen (intelligente Spezialisierung).

In den Fallstudien wurde die Notwendigkeit des Kapazitätsaufbaus aufgezeigt. Es ist wichtig, dass die an der Umsetzung der FI beteiligten Partner über die notwendige Erfahrung, Finanzkraft und die erforderlichen Fähigkeiten verfügen, um eine erfolgreiche Umsetzung sicherzustellen, möglicherweise unter einer stärkeren Inanspruchnahme von technischer Hilfe während der Vorbereitung und Bereitstellung der FI. Die Kommission könnte für die Verwaltungsbehörden außerdem Informationen und Unterstützung bereitstellen, um ein besseres Verständnis und eine bessere Umsetzung von komplexeren Instrumenten zu erreichen.

Weitreichendere Folgerungen für die Verwendung der FI

FI stellen eine attraktive Möglichkeit für die Umsetzung der politischen Ziele der EU dar, insbesondere vor dem Hintergrund der Wirtschaftskrise und den begrenzten öffentlichen Finanzierungsmitteln. Ihr revolvierender Charakter und die Einbeziehung von Kapital und Fachwissen aus dem Privatsektor können einen erheblichen Mehrwert bei der Förderung des Wirtschaftswachstums bieten. Es handelt sich jedoch bei FI um einen weit gefassten Begriff, der eine große Auswahl an verschiedenen Instrumenten umfasst. Die Bewertung der Leistungsfähigkeit dieser Instrumente und die Entscheidung über ihren Einsatz für spezifische Projekte bzw. politische Ziele bedürfen daher einer genaueren Einzelanalyse, die an den ermittelten Bedarf einer spezifischen regionalen Wirtschaft und/oder Zielgruppe geknüpft ist.

Aus der Analyse der FI im Rahmen der Kohäsionspolitik geht hervor, dass FI kein Allheilmittel darstellen, das nur als spezifische Maßnahme dient, um einem spezifischen ermittelten Bedarf gerecht zu werden, weder in diesem Zusammenhang noch bei der weitreichenden Umsetzung der politischen Zielen der EU. Ihre Verwaltung kann schwierig sein, und einige Herausforderungen bleiben bestehen.

Die Analyse der FI wirft einige grundlegende Fragen über FI-Maßnahmen auf Unionsebene auf, die für den Programmplanungszeitraum 2014–2020 sachdienlich sind: Wie kann sichergestellt werden, dass eine ausreichend lokale Flexibilität gegeben ist, während zudem EU-weite Zielvorgaben erfüllt werden? Wie können ausreichende Kontrolle, Prüfung und Überwachung ohne einen zusätzlichen übermäßigen Verwaltungsaufwand sichergestellt werden, der private Investoren abschreckt? Wie können Finanzierungsmittel schnell und wirtschaftlich und bei gleichzeitiger Minimierung der Fehlerquoten ausgezahlt werden? Wie kann sichergestellt werden, dass diejenigen von den FI profitieren, die über eine geringe Umsetzungskapazität, aber über einen hohen Bedarf auf dem Gebiet der wirtschaftlichen Entwicklung verfügen?

Auf diese Fragen gibt es nicht zwangsläufig definitive Antworten. Oftmals handelt es sich um einen Kompromiss zwischen verschiedenen Zielen, die politische Entscheidungen und ein hohes Maß an Unterstützung von allen öffentlichen Verwaltungen erfordern, um den Kapazitätsaufbau zu erleichtern.

RÉSUMÉ

L'étude analyse la mise en œuvre des instruments financiers (IF) relevant de la politique de cohésion du point de vue de l'économie, de la rentabilité et de l'efficacité au cours de la période de programmation 2007-2013 et s'articule autour des questions ci-après.

- Quelle a été la valeur ajoutée des IF relevant de la politique de cohésion, par rapport à d'autres dispositifs relevant de cette politique du point de vue de l'amélioration de la protection des intérêts financiers de l'Union?
- L'utilisation des IF a-t-elle contribué à améliorer les résultats de la mise en œuvre de la politique de cohésion?
- Quels ont été les rôles et les responsabilités des parties prenantes s'agissant de protéger les intérêts financiers de l'Union et d'assurer l'investissement organisé et approprié des fonds?
- Quelles sont les bonnes pratiques aux divers niveaux de gestion et comment les différentes institutions ont-elles fait face aux difficultés et aux problèmes qui se sont posés?
- Les États membres et les bénéficiaires sont-ils prêts à utiliser les IF, au regard des enseignements tirés des programmes opérationnels (PO) antérieurs? Dans quelle mesure sont-ils correctement préparés à appliquer la législation?

Les conclusions de l'étude s'appuient sur les connaissances disponibles concernant la mise en œuvre d'instruments financiers, notamment les publications universitaires et les documents d'orientation, ainsi que sur les informations qui ressortent de huit études de cas régionales. Ces études de cas ont été sélectionnées dans le but de fournir un échantillon représentatif d'un éventail d'expériences en matière d'IF. Les principaux faits et données concernant les huit études de cas ont été établis en procédant à une analyse théorique des IF dans les régions sélectionnées, suivie par des entretiens semi-structurés avec les autorités de gestion (AG) ou les organismes intermédiaires et les autorités d'audit (AA) responsables des programmes opérationnels (PO)concernés . Une analyse comparative des études de cas axée sur les différentes étapes du cycle de vie des IF permet de tirer de la mise en œuvre des IF en 2007-2013 des enseignements pour la période 2014-2020.

Les études de cas sélectionnées sont les suivantes:

Études de cas
BG- PO Compétitivité de l'économie bulgare
DE - PO EFRE Thüringen 2007-2013
EE - PO Elukeskkonna arendamise rakenduskava
ES- PO FEDER de Andalucía
IT- PO Ricerca e competitività
PL - PO Województwa Pomorskiego
RO - PO Sectorial Cresterea Competitivitatii Economice
SI - OP Krepitve regionalnih razvojnih potencialov za obdobje

Les études de cas sélectionnées donnent une image plus positive de la mise en œuvre des IF que ne le suggèrent les données issues du suivi ainsi que des publications universitaires et des documents d'orientation. Il peut y avoir plusieurs raisons à cela:

- pendant la période de programmation 2007-2013, les mesures d'accompagnement et d'aide ont été renforcées. Il est possible que les conclusions des études de cas reflètent davantage la situation en fin de période qu'en début de période;
- les données sont fournies par les bénéficiaires eux-mêmes et il est donc envisageable qu'ils mettent davantage l'accent sur les aspects positifs de la mise en œuvre et minimisent les difficultés ou les questions délicates sur le plan politique, telles que le "parcage" des financements dans des fonds de placement pour éviter tout dégagement;
- les données de suivi pour la période sous revue, sont globalement lacunaires et peu fiables. Les conclusions tirées de données de si piètre qualité peuvent être trompeuses. En outre, le problème n'est pas nécessairement que les données fassent état de mauvaises performances mais qu'il n'y ait pas de données fiables;
- le processus de sélection des régions pour les études de cas a privilégié celles qui ont déjà recours aux IF dans une certaine mesure et exclu les PO qui n'engagent que de très petits montants, car il aurait probablement été difficile de tirer des conclusions plus générales de ces programmes. Un biais en faveur des PO disposant d'une plus grande capacité au regard de la mise en œuvre d'IF est donc probable. En outre, la couverture géographique des études de cas a été limitée aux régions de convergence (c'est-à-dire aux régions moins développées) par le cahier des charges.

Il convient également de noter que les conclusions de l'étude doivent être interprétées avec circonspection et ce pour plusieurs raisons. Premièrement, l'étude porte sur la mise en œuvre pendant la période de programmation 2007-2013 uniquement et de nombreuses lacunes réglementaires ont été comblées depuis. Par ailleurs, il est possible que l'incidence des financements n'ait pas pris toute son ampleur. Deuxièmement, le suivi des IF manquait de cohérence et la plupart des données ont été fournies de manière volontaire, ce qui pose des problèmes de fiabilité et d'exhaustivité. Troisièmement, les données qualitatives tirées des études de cas ne sont pas toujours en adéquation avec les données quantitatives, qui proviennent principalement du rapport de synthèse 2015 et donc, en dernière analyse, du rapport annuel sur la mise en œuvre. Enfin, il y a lieu de noter que les conclusions tirées des études de cas ne peuvent être généralisées.

Les IF en 2007-2013

À l'exception de l'Irlande, du Luxembourg et de la Croatie, tous les États membres ont utilisé des IF pendant la période de programmation 2007-2013. Cependant, du point de vue de son importance relative, du modèle de mise en œuvre retenu et des objectifs stratégiques, l'utilisation des IF diffère nettement d'un pays à l'autre, sans qu'aucune tendance claire ne s'en dégage. Si l'on compare le volume en valeur absolue des engagements au niveau national, quatre États membres (Allemagne, Grèce, Italie, Royaume-Uni) totalisent 56 % des engagements sur instruments financiers en 2007-2013, près d'un quart du total étant imputable à la seule Italie. Ces différences entre pays s'expliquent en partie par leur taille et par le niveau global de financement au titre de la politique de cohésion (qui complique déjà les comparaisons directes), mais elles témoignent également des choix stratégiques et des pratiques mises en œuvre à l'échelon national.

Dans la plupart des cas étudiés (la Bulgarie, les programmes JEREMIE et JESSICA en Andalousie, le programme JEREMIE en Poméranie, la Slovénie, l'Italie et la Roumanie, par exemple), on estime que comparés aux subventions, les IF améliorent la performance de la politique de cohésion du point de

vue de la réalisation des objectifs et des résultats obtenus. Ce constat résulte en partie du caractère renouvelable de ces instruments, qui constitue l'un de leurs principaux atouts et qui les rend très intéressants pour les États membres à l'heure où les contraintes budgétaires se font plus fortes. Cela étant, les données sur l'ampleur du renouvellement des fonds sont rares et peu d'États membres disposent de stratégies concrètes concernant le renouvellement des fonds ou leur utilisation future. De plus, malgré le manque de données sur l'effet de levier engendré par les IF entre 2007 et 2013, la plupart des personnes interrogées ont fait état de leur satisfaction à cet égard.

Cette image positive des performances globalement bonnes et des avantages des fonds réutilisables contraste avec des taux de décaissement et une réutilisation faibles. Ce constat pourrait en partie être dû au fait que les capitaux sont "parqués" dans des fonds de placement, pour éviter tout dégagement, avant de parvenir jusqu'au bénéficiaire final. Pour ce qui est de la réutilisation des fonds, il est encore trop tôt pour pouvoir en évaluer les résultats, car les discussions se poursuivent entre les AG sous revue, sur la réutilisation des fonds reversés au cours de la période de programmation 2014-2020.

En outre, le recours aux IF est particulièrement prisé dans certains domaines et pour certains groupes cibles (tels que les PME), et l'on estime qu'il n'est pas réaliste de l'envisager pour tous les secteurs en raison de la nature des services et de la durée des processus. Par exemple, certains types de projet (notamment dans les domaines de la culture et de la santé) sont plus efficacement soutenus par des subventions, que les sociétés préfèrent également parce qu'elles sont plus simples à gérer.

Les problèmes rencontrés et les enseignements qui en ont été tirés

L'instauration et la mise en œuvre d'IF sont des processus complexes qui englobent de nombreux acteurs et intérêts et qui nécessitent une importante coordination ainsi qu'un cadre juridique clair pour parvenir aux objectifs fixés. Les gestionnaires de fonds spécifiques et de fonds de placement, les intermédiaires financiers ainsi que les autorités de gestion des PO doivent entretenir en permanence une étroite collaboration afin de veiller à une mise en œuvre ordonnée et appropriée des fonds. Le manque de connaissances et l'inexpérience généralisés dans le domaine des instruments financiers ont été problématiques au début de la période de programmation 2007-2013. Les activités liées aux différentes phases des IF, à savoir la conception, la mise en œuvre, le suivi et l'audit, étaient nouvelles pour de nombreuses régions.

Concernant la phase de conception, les conclusions des études de cas montrent que les pratiques varient sensiblement et que les autorités de gestion ne recourent pas toutes à l'évaluation des lacunes ni à une stratégie d'investissement formelle. D'une manière générale, les autorités de gestion interrogées se sont dites satisfaites de la démarche initiale adoptée à l'égard de la conception des IF (l'Estonie, la Slovénie et le *Land* de Thuringe, par exemple).

La négociation des accords de financement a toutefois donné lieu à des retards, car ils devaient être très détaillés au regard des aspects pratiques des conditions proposées. Ils étaient également empreints d'incertitude concernant les modalités et le cadre juridique. Cela étant, les longues discussions qui ont été nécessaires ont également été considérées, rétrospectivement, comme ayant contribué à accélérer l'exécution des étapes suivantes.

Pour ce qui est de la phase de mise en œuvre, l'analyse des études de cas fait état du développement de modèles plus complexes pour la mise en œuvre d'IF au cours de la période sous revue (une combinaison d'instruments et de structures de mise en œuvre, par exemple). Les principaux problèmes liés à la mise en œuvre d'IF résident dans la faible proportion d'instruments profitant au bénéficiaire final, les lacunes du cadre réglementaire, ainsi que les contraintes administratives considérables.

Concernant la phase de suivi, un contrôle efficace de la mise en œuvre des IF s'impose à la fois pour établir des garanties de probité et d'efficacité au niveau interne et pour veiller à ce que les informations transmises aux AG et à la Commission soient exactes, précises et fondées sur des ensembles de données fiables. Divers problèmes ont été recensés par les AG sous revue. Ceux-ci concernaient la rotation du personnel au niveau de l'autorité de gestion (Roumanie), le décalage temporel des données (Bulgarie) ainsi que les systèmes de suivi, qui n'étaient pas en mesure de recueillir les données requises (Italie). La délégation de responsabilités à des intermédiaires financiers susceptibles d'appliquer des méthodes de travail différentes a également suscité des problèmes (JESSICA Andalucía). La préparation des rapports annuels a posé des difficultés à certains (la Slovénie, par exemple), tandis que pour d'autres, c'est la conciliation des exigences de l'Union avec les dispositions applicables au niveau national en matière d'audit ainsi que les intérêts des PME, qui s'est avérée particulièrement problématique (la Thuringe, par exemple). Cependant, dans presque tous les cas étudiés, les IF sont perçus comme étant contrôlés plus étroitement et plus efficacement que les subventions et le suivi a été jugé satisfaisant. Pour ce qui est des contrôles et de l'audit, presque tous les représentants des autorités d'audit interrogés (sauf en Estonie et en Roumanie), perçoivent les procédures d'audit comme étant compliquées et estiment que les AA devraient bénéficier d'un accompagnement plus soutenu à l'égard de leur stratégie d'audit.

Enfin, des enseignements ont été tirés de l'expérience acquise et la législation a été améliorée dans la période de programmation 2014-2020. Cette situation résulte en partie d'un accompagnement plus poussé à l'égard de toute une série d'aspects. Fi-compass, l'outil d'assistance technique associé aux fonds structurels et d'investissement européens et au programme pour l'emploi et l'innovation sociale, envoie un signal positif, en ce sens qu'il vise à aider les parties concernées en fournissant des informations sur la mise en œuvre et l'utilisation des IF. L'échelonnement des paiements constitue également un progrès, car il atténue le risque de "parcage" des fonds pour éviter tout dégagement, en même temps qu'il permet d'adopter des mesures correctrices au moment opportun. En dernier lieu, il apparaît désormais clairement que le soutien politique ainsi qu'une équipe technique solide et pluridisciplinaire sont indispensables à la réussite de la mise en œuvre des IF et au respect des délais dans ce contexte.

L'avenir des IF dans le cadre de la politique de cohésion

Compte tenu des restrictions qui pèsent sur les subventions, un recours accru aux IF en vue de la réalisation des objectifs de l'Union apparaît inéluctable. Pour que les IF relevant de la politique de cohésion progressent sensiblement, il ne suffira cependant pas de combler quelques lacunes en matière d'orientation et d'améliorer la mise en œuvre. Il convient également d'instaurer une nouvelle approche en matière de répartition, d'utilisation et de responsabilité au regard des IF, en s'appuyant sur les performances et les pratiques exemplaires. La flexibilité est essentielle dans le contexte du recours aux IF en vue de la réalisation des objectifs plus généraux de la politique de cohésion. Une plus grande flexibilité du processus de mise en œuvre nécessite aussi de transférer des fonds là où les besoins sont les plus pressants. À cet égard, il pourrait être utile de mettre l'accent sur les fonds de placement plutôt que sur des fonds spécifiques. En outre, les États membres et les régions devraient bénéficier d'une plus grande latitude pour réinvestir les bénéfices réutilisés, de la manière la plus appropriée, en fonction de la situation économique au cours d'une période donnée et réaliser les objectifs stratégiques à long terme. Les opérations de financement devraient se concentrer sur les besoins des entreprises et de l'économie locales (spécialisation intelligente).

Les études de cas ont mis en lumière la nécessité de renforcer les capacités. Il importe que les partenaires qui participent à la mise en œuvre des IF disposent de l'expérience, des compétences et de la capacité financière nécessaires pour mener à bien la mise en œuvre et recourent davantage, si nécessaire, à une assistance technique lors de la mise en place et de la mise en œuvre des IF. La

Commission pourrait également fournir des informations et un appui aux AG pour les aider à appréhender et à mettre en œuvre des instruments plus complexes.

Répercussions plus générales pour l'utilisation des IF

Les IF constituent un moyen intéressant pour réaliser les objectifs stratégiques de l'Union, en particulier dans un contexte de crise économique et de restriction des ressources publiques. Le caractère renouvelable des IF, associé aux capitaux et aux compétences du secteur privé, peut apporter une valeur ajoutée significative en vue de favoriser la croissance économique. Cela étant, le terme d'instrument financier est général et englobe toute une palette d'instruments différents. Dès lors, pour évaluer les performances de ces instruments et décider de leur utilisation pour des projets ou des objectifs stratégiques particuliers, il convient de procéder à une analyse plus détaillée au cas par cas en tenant compte des besoins constatés d'une économie régionale ou d'un groupe cible particulier.

L'analyse des IF dans le cadre de la politique de cohésion montre qu'ils ne sont pas la panacée, ni dans ce cadre ni dans celui, plus général, de la réalisation des objectifs stratégiques de l'Union, mais qu'ils permettent d'intervenir de manière spécifique pour répondre à un besoin précis identifié. Ils peuvent poser des difficultés administratives et certains problèmes subsistent.

L'analyse des IF soulève des questions fondamentales concernant leur utilisation au niveau de l'Union pendant la période de programmation 2014-2020: comment garantir une flexibilité suffisante au niveau local tout en réalisant les objectifs de l'Union? Comment garantir que le contrôle, l'audit et le suivi sont suffisants, sans alourdir les contraintes administratives et dissuader ainsi les investisseurs privés? Comment assurer un décaissement rapide et efficace des fonds en minimisant le taux d'erreur? Comment faire en sorte que ceux qui disposent d'une faible capacité de mise en œuvre, mais dont les besoins de développement économique sont importants, puissent bénéficier des IF?

Ces questions n'ont pas nécessairement de réponse tranchée mais requièrent souvent un compromis entre différents objectifs, ce qui nécessite des décisions politiques et un soutien important de toutes les administrations afin de favoriser le renforcement des capacités.

1. CONTEXT AND AIMS OF THE STUDY

KEY FINDINGS

- Recent developments in Cohesion policy have seen increased emphasis on the use of financial instruments (FIs) with almost all Member States using them (three do not). Their use is justified by claims of sustainability, better quality projects and efficiency.
- By end 2014, EUR 17 billion Operational Programme (OP) contributions had been committed to FIs, of which EUR 16 billion had been paid into holding funds or specific funds, but only EUR 9 billion had been invested in final recipients (small and medium-sized enterprises (SMEs), urban or energy projects). However, quantification of FIs both in terms of actual numbers of instruments and 'spend' is problematic.
- Countries vary widely in their use of FIs, and there are also wide differences in the extent to which FIs have reached final recipients.
- There is evidence of over-capitalisation of some FIs, leading to payment to funds which can only be 'regularised' at programme closure.
- FIs can be implemented through loans, guarantees and equity (or a combination) with loans to SMEs accounting for around half of all financial products offered.
- In 2007-13 the Structural Funds could finance FIs for SMEs, urban development, energy efficiency and renewables. There are wide differences in performance between these policy targets, with 61 percent of funds paid to holding funds or specific funds reaching SMEs, while for urban development and energy efficiency only 33 and 37 percent, respectively, had been invested.
- The disparity between payments to funds and those reaching final recipients is accounted for by a few Member States; in most countries using FIs over 70 percent of payments to funds have been invested.
- This study assesses the implementation of FIs under Cohesion policy in 2007-13, especially with respect to the correctness and smoothness of the process, identifying good practices and lessons learned.

1.1. BACKGROUND

The role of financial instruments (FIs) has increased significantly over successive Cohesion Policy programming periods. Rising from an estimated investment in FIs of EUR 0.6 billion in 1994-99 to some EUR 13 billion in 2000-06,[1] the 2015 Summary Report[2] notes Operational Programme (OP) commitments to FIs totalling over EUR 17 billion for 2007-14.

The 2007-13 programming period saw a new and significant emphasis on the use of FIs[3] as measures to implement Cohesion policy. This was justified on the basis that such instruments are sustainable

[1] CSES (2007) Comparative Study of Venture Capital and Loan Funds Supported by the Structural Funds, report to European Commission.
[2] European Commission (2015a) Op. cit.
[3] In 2007-13, regulatory provisions referred to 'financial engineering instruments'; for 2014-20, 'engineering' has been dropped from the terminology, though there is no change in meaning between the two periods. This report adopts the new terminology – 'financial instruments', in line with the Terms of Reference for the study.

(because funds are recycled to be spent again in the same region), that they generate better quality projects (because funds have to be repaid and commercial expertise can enhance project selection) and that they are a more efficient use of public funds (because private sector monies are leveraged in to supplement public spending). Thus, the overarching 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 to sustainable regional economic growth and employment.[4] Underpinning this are three largely distinct premises for intervention.[5]

First, FIs are designed to **address market imperfections in the availability of capital**. Publicly-funded FIs are justified on the basis of two main types of market imperfection. One is information asymmetry; that certain types of projects – such as start-ups and new firms in high technology sectors - lack sufficient track records or other information for potential investors to be able to assess risks. Another is that commercial assessments of returns in investment do not necessarily capture all positive externalities or wider social benefits. For example, lack of access to finance may constrain investment in R&D and innovation, leading to suboptimal investment in new technologies that would benefit society more widely; similarly, urban development or energy efficiency projects offer longer-term societal gains that justify public intervention, but would not attract commercial funding. The assessment of very small projects requiring microfinance or social enterprises unlikely to make significant returns may incur disproportionate transaction costs for investors, leading to a dearth of funds for initiatives that could have a positive impact on reintegrating individuals into the labour market or supporting disadvantaged groups.

Second, policymakers may argue that repayable instruments can **improve the quality of investments** (compared to grant-funded projects) because the obligation to repay the investment alters the mind-set of those undertaking projects, and the due diligence deployed in assessing investment proposals involves commercially-oriented expertise. Both these factors, it could be argued, may improve the viability of projects compared to grant.

Third, policymakers may consider that the use of FIs will **increase the cost-effectiveness of public funds** since repayments, including interest and dividends (or the 'non-draw-down' of a guarantee), create a revolving legacy that can be reinvested, and that FIs create mechanisms to draw in private sector finance. This argument has become particularly prominent in the context of the financial crisis which has affected not only public spending, but also the willingness of the private sector to lend and invest. Crucially, however, the scale of returns depends not only on the presence of sufficient numbers and scale of viable projects that are not commercially funded and the scope for timely exits and repayments, but also on the level of costs involved in running repayable funds and the need for losses and fees not to erode returns.

[4] European Commission (2012b) *Financial Instruments in Cohesion Policy*, Commission Staff Working Document, SWD (2012)36 final, Brussels 27 February 2012.
[5] Wishlade F. and Michie R. (2014) Financial instruments in 2014-20: learning from 2007-13 and adapting to the new environment. Challenges for the New Cohesion Policy 2014-20: an Academic and Policy Debate, 2nd joint EU Cohesion policy conference, Riga, 4-6 February 2014, https://fi-compass.eu/sites/default/files/publications/Financial%20instruments%20in%202014_20_learning_from_2007-13%20_wishlade_and%20michie_0.pdf (accessed 9 December 2015)

1.2.LEGISLATIVE FRAMEWORK

FIs were provided for under Article 44 of the 2006 Structural Funds Regulation[6] – the **General Regulation** - with some provisions in the so-called **Implementing Regulation**.[7] However, these original legislative provisions were both brief and general, and they gave little guidance on issues specific to FIs, as opposed to non-repayable support. As a result, the General and Implementing Regulations (hereafter 'Structural Funds Regulations') were supplemented both by amending Regulations and by four sets of **COCOF 'guidance notes'**[8] issued under the auspices of the Coordination Committee of the Funds.[9]

The General Regulation indicated that OP contributions could be used for financial products such as loans, guarantees and equity in certain policy areas. More specifically, Article 44 (as amended) envisaged that:

> "As part of an operational programme, the Structural Funds may finance expenditure in respect of an operation comprising contributions to support any of the following:
>
> a) financial engineering instruments for enterprises, primarily small and medium-sized ones, such as venture capital funds, guarantee funds and loan funds;[10]
> b) urban development funds, that is, funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development;[11]
> c) funds or other incentive schemes providing loans, guarantees for repayable investments, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing."

[6] Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006, p. 25), amended by: Council Regulation (EC) No 1989/2006 of 21 December 2006 OJ L 411 6 30.12.2006; Council Regulation (EC) No 1341/2008 of 18 December 2008 OJ L 348 19 24.12.2008; Council Regulation (EC) No 284/2009 of 7 April 2009 OJ L 94 10 8.4.2009; Regulation (EU) No 539/2010 of the European Parliament and of the Council of 16 June 2010 OJ L 158 1 24.6.2010; Regulation (EU) No 1310/2011 of the European Parliament and of the Council of 13 December 2011 OJ L 337 1 20.12.2011; Regulation (EU) No 1311/2011 of the European Parliament and of the Council of 13 December 2011 OJ L 337 5 20.12.2011; Regulation (EU) No 423/2012 of the European Parliament and of the Council of 22 May 2012 OJ L 133 1 23.5.2012; Regulation (EU) No 1297/2013 of the European Parliament and of the Council of 11 December 2013 OJ L 347 253 20.12.2013; Regulation (EU) No 1298/2013 of the European Parliament and of the Council of 11 December 2013 OJ L 347 256 20.12.2013 and by the Treaty of Accession of Croatia (2012) OJ L 112 10 24.4.2012.

[7] Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund OJ L 317/24 30.11.2011 and Commission Implementing Regulation (EU) No 1236/2011 of 29 November 2011 amending Regulation (EC) No 1828/2006 as regards investments through financial engineering instrument OJ L 317/24 30.11.2011.

[8] Note of the Commission Services on Financial Engineering in the 2007-13 programming period, DOC COCOF/07/0018/01-EN FINAL of 16 July 2007; Guidance Note on Financial Engineering, COCOF 08/0002/03-EN of 22 December 2008; Guidance Note on financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006, COCOF_10-0014-04-EN of 21 February 2011; Revised Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006. Revised version COCOF_10-0014-05-EN of 8 February 2012.

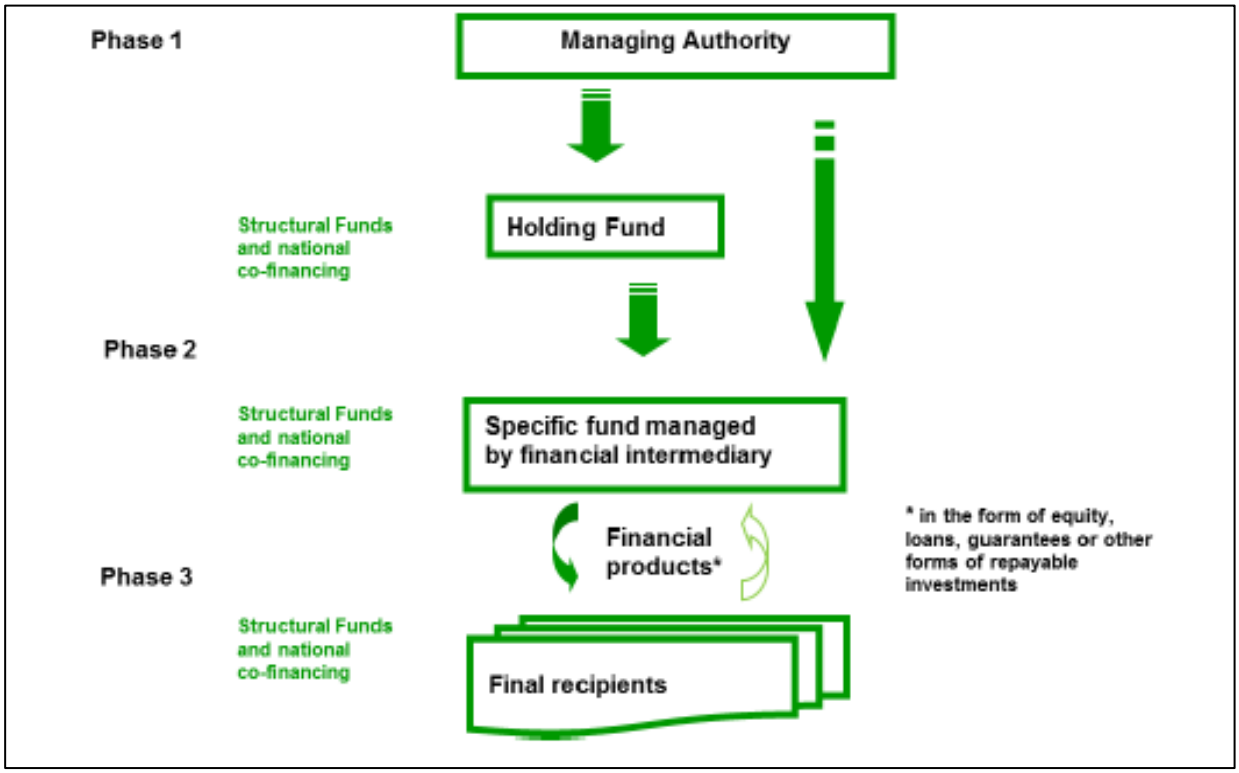
[9] In 2007-13, COCOF was a standing committee of the European Commission attended by officials from Member States. It had management and consultative powers and regularly produced notes that provide guidelines for the implementation of the Funds (Art. 103 and 104 of (EC) Council Regulation No 1083/2006). For 2014-20, COCOF has been replaced by the Coordination Committee for European Structural and Investment Funds (COESIF) and the Group of Experts in Structural and Investment Funds (EGESIF).

[10] These were sometimes referred to as JEREMIE, typically, but not systematically, when the European Investment Fund was involved in their design or implementation.

[11] These were usually referred to as JESSICA funds.

The Regulation enabled these contributions to be provided either through holding funds (HF), [12] which in turn comprised one or more specific funds (SHF), or directly through specific funds *outside* holding funds (NHF). These specific funds could in turn provide one or more financial products (loans, guarantees and equity, and variants and combinations of these) to final recipients.

Figure 1: Implementation options for FIs



Source: 2015 Summary Report.

The implementation of FIs could be procured from, or entrusted to, various types of organisation, subject to the constraints of domestic and European rules on procurement. Beyond this, however, there was comparatively little guidance on how FIs should be set up and managed. This gave rise to considerable uncertainty and delays in the implementation of FIs,[13] notwithstanding clarifications issued in the form of COCOF notes.

In practice, the distinction between holding funds and specific funds (NHF) is less clear-cut than might at first appear. For example, in Estonia, KredEx is listed as a specific fund in the 2015 Summary Report, but does not itself administer the loan funds, which are run by financial intermediaries. Similarly, in Thüringen, TAB is listed as a specific fund (NHF) but loans are actually offered through local commercial banks to final recipients. By contrast, in Hungary, each agreement with a bank to operate a co-financed financial product is counted as a financial instrument, with the result that

[12] Known as 'funds of funds' in the so-called 'Common Provisions Regulation' (CPR) which applies from 2014-20 - (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, OJ L347/320 of 20.12.2013.

[13] Michie R. and Wishlade F. (2011) *Between Scylla and Charybdis. Navigating Financial Engineering Instruments through Structural Funds and State Aid Requirements*, IQ-Net Thematic Paper, Vol. 29. No. 2, European Policies Research Centre, University of Strathclyde, Glasgow, http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports(Public)/ThematicPaper29(2)Final.pdf (accessed 10 December 2015).

several hundred FIs are listed for Hungary. In short, depending on the governance structure and the type of financial product offered, the financial intermediary actually offering financial products to final recipients may be the same as the specific fund manager listed in the Summary Report (typically so in the case of equity products); alternatively, this may have been delegated to financial intermediaries which then administer a given financial product (especially loans and guarantee) according to the terms set by the specific fund manager. This means that the 'number' of FIs listed in the Summary Reports is of limited importance.

Crucially, in the context of the present study, at the start of the 2007-13 programming period, specific reporting on FIs was not required (although, of course, standard requirements and the principles of sound financial management applied to FIs as to the other areas of Cohesion policy spend). However, it was quickly recognised that because of the additional complexities of FIs this was a significant gap in understanding how Managing Authorities (MAs) were implementing the Funds. In 2011, an amendment to Article 67 of the General Regulation[14] obliged Managing Authorities to report on FIs in their Annual Implementation Reports (AIR) from 2012 onwards. Even then the data were rather limited in scope, the mandatory provisions requiring only:[15]

> "(i) a description of the financial engineering instrument and implementation arrangements;
> (ii) identification of the entities which implement the financial engineering instrument, including those acting through holding funds;
> (iii) amounts of assistance from the Structural Funds and national co-financing paid to the financial engineering instrument; and
> (iv) amounts of assistance from the Structural Funds and national co-financing paid by the financial engineering instrument."

The amended General Regulation also provided that:

> "By 1 October each year, the Commission shall provide a summary of the data, on the progress made in financing and implementing the financial engineering instruments, sent by the managing authorities in accordance with Article 67(2)(j)."

In 2012, an annex to the revised COCOF[16] note provided an indicative template for the monitoring of the implementation of FIs. A wide range of information was outlined, but its aim was to facilitate MAs' 'voluntary' reporting of progress to the European Commission (EC), in an annex to their Annual Implementation Reports (AIR). In practice, however, the availability of this voluntary information is very uneven.

[14] Regulation 1310/2011 of 13 December 2011 as regards repayable assistance, financial engineering and certain provisions related to the statement of expenditure, OJ L337/1 of 20.12.2011.
[15] General Regulation (as amended by Regulation 1310.2011), Article 67(2)(j).
[16] Revised guidance note on financial engineering instruments under Article 44 of Council Regulation (EC) n°1083/2006, http://ec.europa.eu/regional_policy/en/information/publications/cocof-guidance-documents/2012/revised-guidance-note-on-financial-engineering-instruments-under-article-44-of-council-regulation-ec-n10832006 (accessed December 2015).

The EC first published a summary of data reported by Managing Authorities on the implementation of FIs in 2012.[17] Subsequent reports (in 2013, 2014 and 2015) have improved the quality and completeness of the data, though gaps and inconsistencies remain. These are partly due to the voluntary nature of the reporting for much of the information, but it is also evident that the requirements have often been misinterpreted or misunderstood by the MAs. Importantly, the data provided in the AIRs are ultimately the sole responsibility of the MA, which means that the EC cannot revise the data in the annexes to the Summary Report simply on its own initiative, though it does make some adjustments to the aggregated data to take account of obvious errors in MA submissions. In spite of the shortcomings of the data, it is still possible to gain some insight into the variations in the use of co-financed FIs across the EU.

Patterns of FI spend have implications for the capacity of FIs to deliver on their stated objectives – for example, the objective of sustainability depends on monies being committed to FIs, paid to specific funds for financial products to be invested in final recipients and repaid. The extent to which each of these stages is completed directly affects the extent to which funds are recycled and the scale of legacy funds available to reinvest in the region.

1.3.SCALE AND SCOPE OF FINANCIAL INSTRUMENTS UNDER COHESION POLICY – EU LEVEL PERSPECTIVES

The 2015 Summary Report on the implementation of FIs covers the situation up to end 2014. This indicates that:

- 25 Member States had established co-financed FIs[18] (Croatia, Ireland and Luxembourg had not).
- 73 holding funds (HF) and 952 specific funds (438 outside a holding fund – NHF; and 514 within a holding fund - SHF) were operating by end 2014. This compares with 73 holding funds and 872 specific funds by end 2013, ostensibly the end of the programming period.[19]
- Of the specific funds, 879 were aimed at business development (i.e. enterprises – typically SMEs); 47 at urban development projects; and 26 at energy efficiency and renewables.
- All Member States using FIs have instruments aimed at enterprises, but only 11 Member States use FIs for urban development and 11 use FIs for energy efficiency.
- FIs mainly provide for support in the form of loans and guarantees with a small proportion in the form of equity finance: by end 2014, some 234,644 financial products had been offered to final recipients, of which over 94 percent were in the form of loans and guarantees (by number of transactions).

[17] European Commission (2012) Summary report on the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds, http://ec.europa.eu/regional_policy/en/information/publications/reports/2012/financial-engineering-instruments-implemented-by-member-states-with-erdf-contributions-synthesis-report (accessed 10 December 2015).

[18] It should be recalled here that for the purposes of data collection, each funding agreement between a MA and a HF, between a MA and a specific fund (NHF) and between a HF and a specific fund (SHF) is treated as a separate financial instrument. Moreover, funding agreements might provide for more than one financial product to be offered by a specific fund.

[19] European Commission (2014b) Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006, see http://ec.europa.eu/regional_policy/sources/thefunds/instruments/doc/summary_data_fei_2013.pdf (accessed 10 December 2015).

The quantification of support through FIs is not straightforward, partly owing to distinct phases in the 'spending' process. This involves:

- OP contributions committed in funding agreements – **OP commitments**
- OP contributions actually paid to either holding funds (HF) or specific funds outside holding funds (NHF) – **OP payments to funds**
- OP contributions from specific funds (NHF or SHF) reaching final recipients (e.g. SMEs or urban development projects) in the form of loans, guarantees and equity – **OP investments in final recipients**.

By the end of 2014, some EUR 17 billion in OP contributions had been ***committed*** to FIs in funding agreements. Of this, over EUR 16 billion had been ***paid*** into HFs or specific funds by end 2014, but less than EUR 9.2 billion had actually been ***invested*** in final recipients. This means that, ostensibly, just over half of the sums committed at the level of the OP had actually reached their intended target by the end of 2014.

In general, however, the data in the Summary reports should be treated with considerable caution. There is some evidence that the sums invested in final recipients include recycled funds (for example in Hungary, Lithuania and Poland);[20] technically, these are no longer OP contributions and including them leads to double-counting (though the extent to which this occurs is not currently known). A further complication is that the amounts invested in final recipients may include interest generated from treasury operations by the fund manager. These *do* count as OP contributions and in some cases can result in OP investments in final recipients being higher than OP commitments to FIs,[21] but again the scale of this is not currently known.

As indicated above most of the sums ***committed*** at the level of the OP (EUR 17,061 million) translated into ***payments*** to holding funds or specific funds (EUR 16,018 million). There is, however, evidence that OP commitments and payments to FIs may sometimes have been 'artificially' inflated by the impact of the N+2/3 decommitment rules.[22] These treat payments to holding funds or specific funds as having reached final beneficiaries - for FIs the beneficiary is the holding fund or specific fund, while for a grant scheme, the beneficiary is the SME, for example. Payments to funds therefore trigger an application for payment from the EU budget, thus escaping, or at least postponing, automatic decommitment. Over-endowed funds can only be 'regularised' at programme closure.[23] Early in the programming period some MAs confirmed that allocations to FIs were used to gain additional flexibility over decommitment,[24] but subsequent criticism from the ECA[25] and the EC[26] has meant that MAs have become more reticent about acknowledging this motivation. Importantly, the 2014-20 European Structural and Investment Funds (ESIF) Regulations provide for phased payments to FIs in

[20] 2015 Summary Report, p 12.
[21] *Ibid*.
[22] Under Article 93 of General Regulation 1083/2006, the Commission will automatically decommit any part of a funding allocation that has been committed but for which an application for payment has not been sent by 31 December of the second (or third in the cases of less-developed Member States) year following the year of budget commitment. In the context of the financial and economic crisis, the N+£ rule has been extended to all Member States.
[23] See Article 78(6) (as amended) of the General Regulation.
[24] Michie and Wishlade (2011) *Op. cit.*
[25] European Court of Auditors (2012a) *Financial instruments for SMEs co-financed by the European Regional Development Fund*, Special report no. 2, see: http://www.eca.europa.eu/Lists/ECADocuments/SR12_02/SR12_02_EN.PDF (accessed December 2015).
[26] European Commission (2012b) *Op. Cit.*

order to align commitments and payments to funds more closely with the uptake of FIs by final recipients.

There are also significant differences in the time periods over which funds have been operating which will have affected uptake. Very few specific funds (just 12) were running by 2007, with some 145 set up as late as 2013, and a further 34 in 2014. Clearly, the period of time during which funds have been active will affect the extent to which funds have reached final recipients and, as sums can still be invested in final recipients until early 2017,[27] there is time for performance to improve under those FIs where there is significant underinvestment.

Table 1 shows OP contributions paid to funds and to final recipients, alongside the amounts remaining in funds. This shows that about 85 percent of total OP contributions paid to funds were aimed at enterprises. This likely reflects the often long-standing experience with repayable support for SMEs, which make such support comparatively easy to design, in contrast with the more complex investment vehicles typically involved in urban development investments.

Table 1: OP contributions reaching final recipients and remaining in funds (as at the end of 2014) - million EUR

	OP contributions paid to HFs or specific funds	OP contributions paid to final recipients	OP contributions remaining in HFs or specific funds
Enterprises	13,903	8,470	5,434
Urban development	1,513	498	1,159
Energy efficiency	602	222	380

Source: Data assembled from 2015 Summary Report.

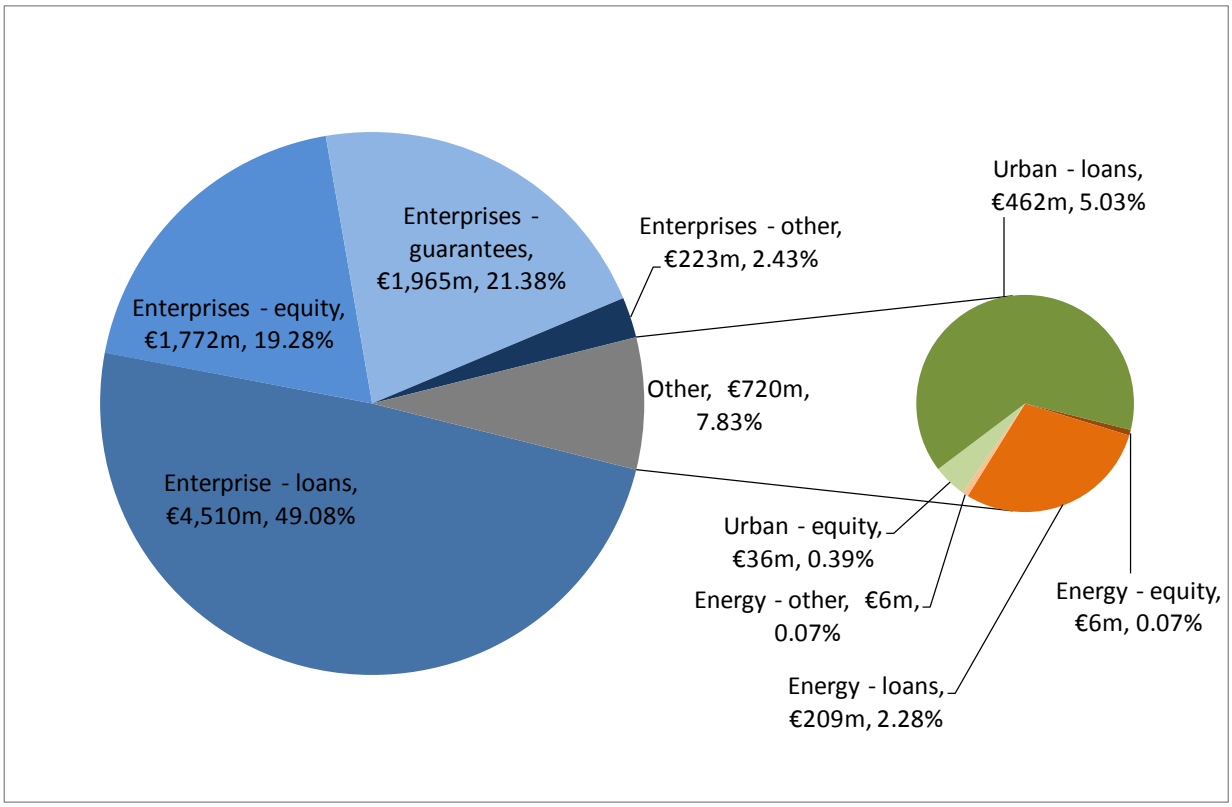
The figures also show wide differences between policy areas in the extent to which funds had reached final recipients by the end of 2014: in the case of enterprises, 61 percent of OP contributions paid to holding funds or specific funds had reached their intended target; for urban development and energy efficiency, the figures were 33 percent and 37 percent respectively.

Taking instrument type and policy area together, Figure 2 shows that almost half of the OP contributions invested in final recipients through FIs are in the form of loans aimed at enterprises, with funds set aside for guarantees[28] accounting for just over a fifth of the total.

[27] No expenditure can be declared after 31 March 2017 but it is recommended to provide the final statement of expenditure to the audit authority three months before this deadline - Annex to Commission Decision amending Decision C(2013)1573 on the approval of the guidelines on the closure of operational programmes adopted for assistance from the European Regional Development Fund, the European Social Fund and the Cohesion Fund (2007—2013), C(2015) 2771 final, Brussels, 30.4.2015, http://ec.europa.eu/regional_policy/sources/docoffic/official/guidelines/closure_2007_2013/annexe_guidelines_closure_20072013_en.pdf (accessed 9 December 2015).

[28] The nature of guarantees means that an amount equal to the loan guaranteed is earmarked in the guarantee fund. This is either used to repay the lender in the event that the borrower defaults or is released and recycled (for use as legacy funding) if the borrower repays the loan in line with loan agreement and the guarantee is not called in.

Figure 2: Sums invested in final recipients by type of financial product and target (EUR m and % of total)



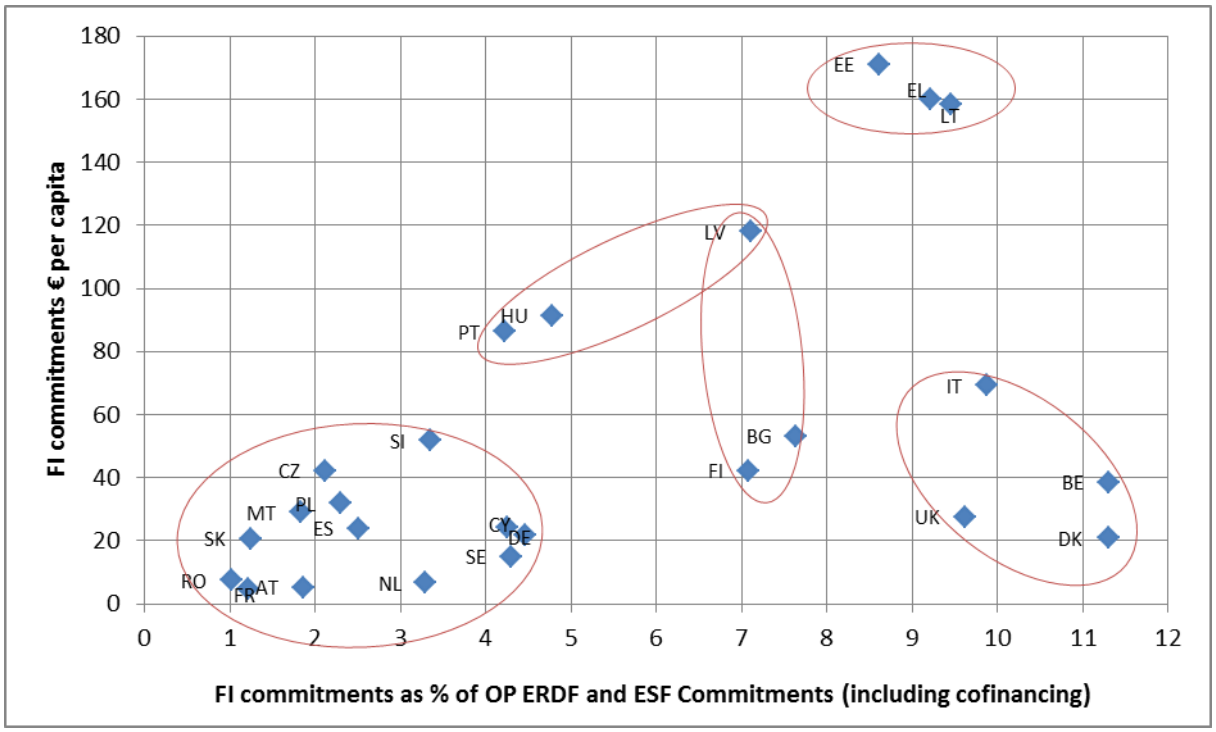
Source: EPRC calculations from 2015 Summary Report.

1.4.NATIONAL PERSPECTIVES

The amount of Structural Funds committed to FIs varies widely between Member States: four Member States (Greece, Germany, Italy, United Kingdom) account for 56 percent of OP contributions *committed* to FIs in 2007-14. Among these, Italy alone accounted for almost a quarter of the total. The differences between countries are partly a function of country size and the overall scale of Cohesion policy funding (which itself complicates direct comparisons), but are also a reflection of policy choices by Managing Authorities and of existing domestic practice. Countries of comparable size and with comparable Cohesion policy receipts may take very different approaches to the use of FIs, as in France, where little use is made of co-financed FIs compared with the United Kingdom, where co-financed FIs are used widely. Similarly, countries or regions with considerable experience of *domestic* FIs may opt for limited or no use of FIs under Cohesion policy, as in Flanders (Belgium) and Austria. In short, decisions about whether to co-finance FIs with Cohesion policy are highly context specific.

The variable scale of FIs is reflected in the levels of funds committed to FIs when viewed in per capita terms, set against FI commitments as a share of total commitments. This is illustrated in Figure 3.

Figure 3: Scale of FIs as % of OP Commitments and EUR per capita 2007-13



Note: Data include national co-financing.
Source: Wishlade, F (2015) Financial instruments in EU Cohesion policy: What do we know about the regional incidence of financial instruments and why might it matter? Paper to Regional Studies Association Annual Conference 2015, Piacenza.

Figure 3 shows that:

- In around half of the Member States, FI commitments over the period 2007-13 amounted to less than five percent of OP commitments and less than EUR 60 per capita of population.
- In **Estonia, Greece** and **Lithuania**, commitments to FIs are significant both in *per capita* terms (in excess of EUR 150 per capita) and as a share of OP commitments (more than eight percent of the total).
- In **Belgium, Denmark, Italy** and the **United Kingdom**, *per capita* commitments are more modest (less than EUR 40 per capita in Belgium, Denmark, United Kingdom), but FI commitments account for more than nine percent of OP commitments.
- Commitments to FIs are also relatively significant in **Portugal, Hungary** and **Latvia** in *per capita* terms (more than EUR 80 per capita) and in **Bulgaria, Finland** and **Latvia** in percent of OP commitments (more than seven percent).

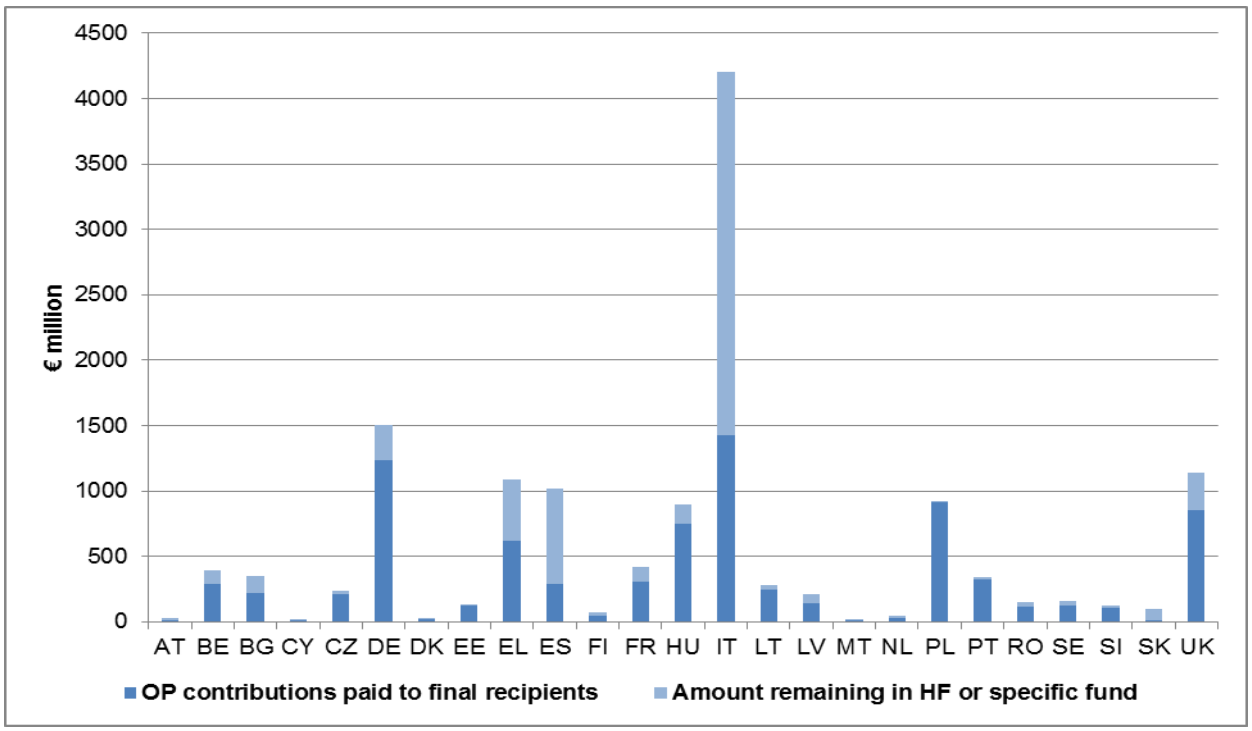
As noted above, most of the *commitments* to FIs result in *payments* to holding funds or specific funds. Indeed, in most countries, 100 percent of the funds committed are paid to funds.[29] A key question is the extent to which these *payments* are *invested* in final recipients – enterprises, urban development and energy-saving projects.

As Table 1 showed, the vast majority (87 percent) of all payments to funds (holding funds and specific funds) are ultimately aimed at investments in ***enterprises***. Some EUR 13.9 billion was *paid* to funds with this objective, of which some EUR 8.5 billion (61 percent) had been *invested* in final recipients so

[29]According to the 2015 Summary Report, in most of the remaining countries (Germany, France, Hungary, Italy, Netherlands, Sweden, United Kingdom) over 90% of commitments are paid to funds, but this is lower in Denmark (68%), Greece (89%), Lithuania (87%) and Portugal (56%).

that by the end of 2014 about EUR 5.4 billion (39 percent of payments) remained in funds. However, both the scale of payments to funds and the extent to which these have reached final recipients varies widely between countries. This is illustrated in Figure 4. It shows that Italy paid by far the largest sums to funds for enterprises, but also that the extent to which these were invested in final recipients is comparatively low – it appears that only around 34 percent of payments to funds in Italy have reached final recipients. The proportion of funds invested in final recipients is also low in Spain (28 percent) and Slovakia (11 percent), though in the latter case the scale of funds committed and paid to funds is very modest. The scale of FIs in Italy and Spain means that they have a significant impact on apparent overall performance – leaving aside these two countries, about 78 percent of payments to funds had reached final recipients by end 2014.

Figure 4: FIs to enterprises reaching final recipients and remaining in funds (2007-14)

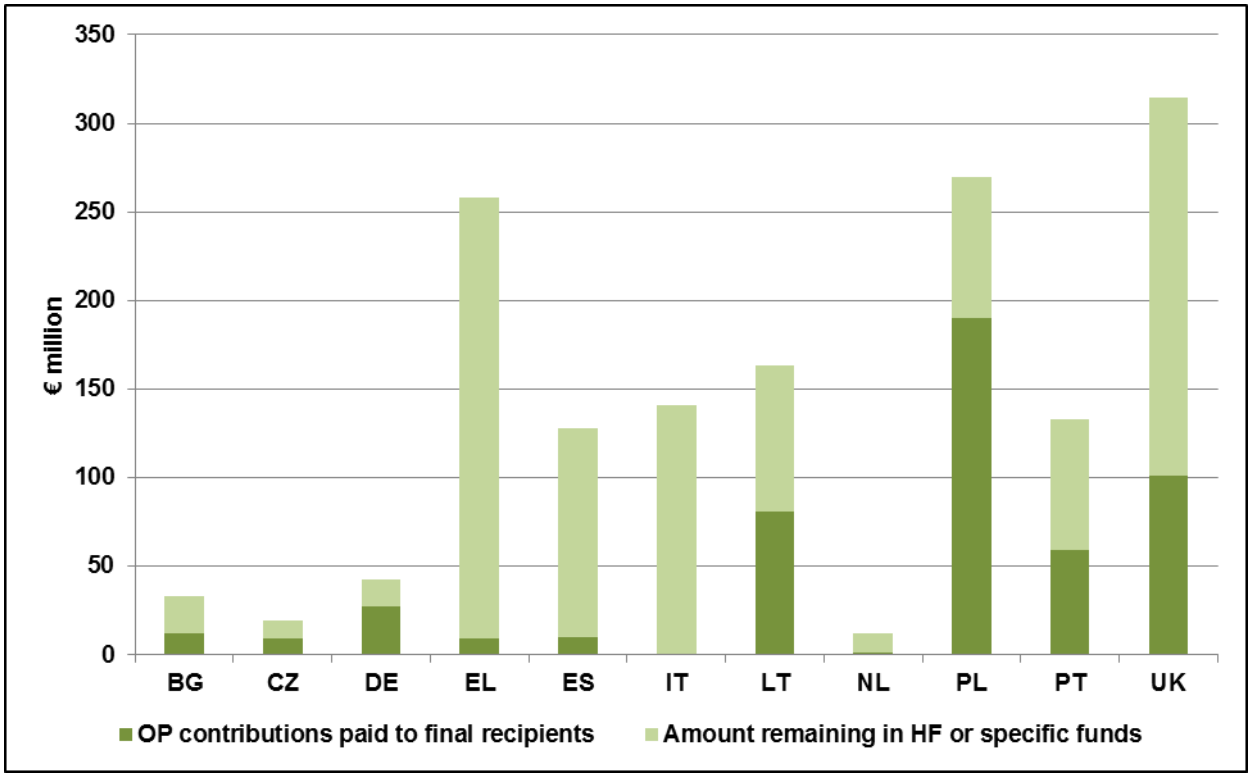


Source: 2015 Summary Report.

There are also considerable variations between countries for FIs aimed at urban development and energy efficiency, though again it should be stressed that the absolute amounts are much smaller than those for enterprises.

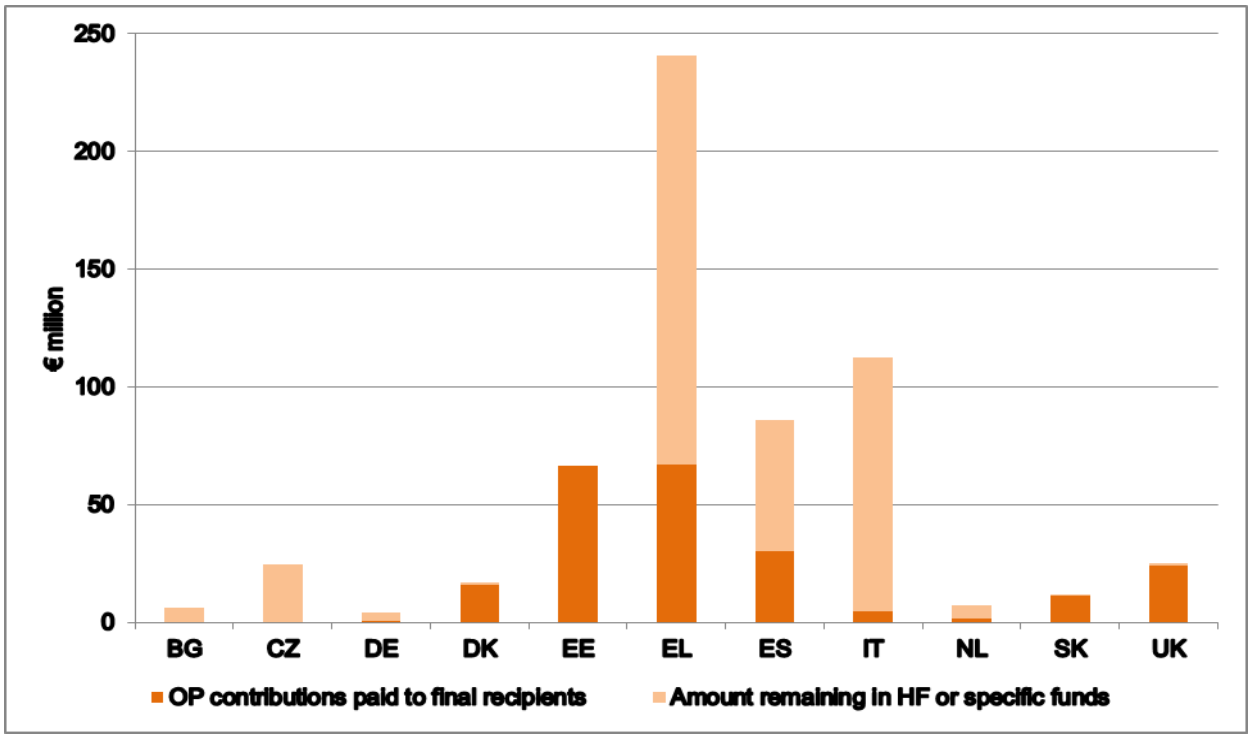
Figure 5 suggests that there are considerable variations in the scale of payments to funds for ***urban development***, with no correlation between country size and size of funds – Greece, Poland and the United Kingdom all paid over EUR 250 million to holding funds or specific funds, but in many countries the sums were very modest (less than EUR 50 million in Bulgaria, Czech Republic, Germany and the Netherlands). Only in Germany and Poland had more than 50 percent of payments to funds been invested in urban development projects by end 2014 (though the figure for Lithuania is 49 percent). As in the case of FIs for enterprises, significant underspend in countries which had paid large sums to funds (Greece and the United Kingdom) affects the overall picture.

Figure 5: FIs for urban development reaching final recipients and remaining in funds (2007-14)



Source: 2015 Summary Report.

Figure 6: FIs for energy efficiency reaching final recipients and remaining in funds (2007-14)



Source: 2015 Summary Report.

Similarly, for investments in ***energy efficiency***, the patterns are mixed. The sums paid to funds are arguably significant only in Estonia, Greece, Spain and Italy. Interestingly, however, and distinct from FIs to enterprises and urban development, some funds appear to be fully invested in final recipients.

This is the case for Estonia and Slovakia, while funds in Denmark and the United Kingdom were also close to being fully invested by end 2014.

1.5.AIMS OF THE STUDY

Against this background, the objectives of the present study are essentially two-fold:

- to assess the implementation of FIs under Cohesion policy in 2007-13 by the Member States, the EC and other financial institutions, especially with respect to the correctness and smoothness of the process; and
- to identify good practices and lessons learned from the 2007-13 period and to provide recommendations which could be useful for Member States to avoid errors and irregularities in using FIs in 2014-20 and to improve their performance.

The **main research questions** are as follows.

(a) What have been the **roles and responsibilities of the actors** involved (the EC, Member States and authorities managing the funds on their behalf, the EIB and the EIF, national financial institutions managing the funds) in terms of preserving the EU's financial interests and assuring a smooth and correct investment of EU funds?

(b) What has been the **added value of FIs** under Cohesion policy in terms of providing better safeguard of the EU financial interests as compared to other financial modalities under this policy?

(c) Has the use of FIs contributed to **enhanced performance** (objectives' achievement, better results) of the implementation of Cohesion policy?

(d) What **best practices** can be identified at the different levels of management? How have difficulties and problems encountered during the implementation of policy been addressed by respective institutions?

(e) Do experiences and lessons learned from the use of FIs in the period 2007-13 indicate that Member States and beneficiaries are prepared to make use of such instruments during the **current programming period**? To what extent are they prepared to implement properly the new legislation? Are these experiences and lessons relevant for the use of FIs in other areas, in particular as regards effective and efficient performance of the European Fund for Strategic Investments (EFSI)?

1.6. METHODOLOGY

The approach to the study has involved four main tasks.

First, the study takes stock of existing knowledge on the operation of FIs, covering academic and policy reports as relevant. The outcome of this review is presented in Chapter 2 of this report.

Second, the study focuses in more detail on what has been learned through the implementation of FIs in 2007-13 and the implications for 2014-20. This involves case study research drawing on the experience of a range of OPs in Convergence regions. In order to provide a sample that reflected a range of experiences, the selection of cases for the study took account of the following factors:

- the scope of OPs (with a mix of national/multiregional and regional programmes);
- different national contexts (drawing examples from EU12, former 'Cohesion' countries in the EU15 and other EU15 countries);

- the policy objectives of FIs (including FIs targeting urban development and energy efficiency, but reflecting the fact that the main emphasis is on support for enterprises);
- the scale of commitments and amounts reaching final beneficiaries (with OPs committing very small amounts excluded on the basis that the wider lessons are likely to be more limited);
- the type of financial products used (with examples of loans, guarantees and equity); and
- governance structures (FIs managed through HFs, including those involving EIB/EIF, and specific funds operating without HFs).

In addition, the need to avoid those OPs being studied under the EC *ex-post* evaluation of FIs (WP3) was noted.[30] The case study selection is set out in Table 2, and a more detailed listing of all the FIs is annexed to this report. The research team considers that this gives a reasonable spread of experience across countries and of different types of financial product, governance structures and policy targets. In addition, the data on levels of payment to funds and investment in final recipients suggest varying degrees of 'absorption' of FIs.

The case study methodology comprised:

- a desk-based analysis of the FIs to establish key facts and data and to identify areas where clarification is required through interviews; and
- semi-structured interviews with Managing Authorities (MA) and/or Intermediate Bodies (IB) and Audit Authorities (AA) responsible for the case study OPs; the basic scheme to be followed for the interviews is annexed to this report, but the questions were adapted to each case in the light of the desk research for the OPs under consideration.

Chapter 3 of the report provides an overview of the implementation of FIs in each of the case studies.

Third, the study provides a comparative analysis of the case studies, synthesising the findings from the case study research and focused on the different stages in the lifecycle of FIs, broadly in line with the approach taken to the stocktake of existing research. This comparative overview is provided in Chapter 4.

Fourth, the study concludes (Chapter 5) by addressing the key research questions set out in the terms of reference and providing recommendations based on past experience, especially in the light of the new regulatory environment for 2014-20.

[30] This covers only support for enterprises, but also includes Regional Competitiveness and Employment regions, so there is not a complete overlap in the scope of the two studies.

Table 2: Case study selection

	Enterprises (44a) (million EUR)		Urban (44b) (million EUR)		Energy (44c) (million EUR)		Scope	Governance (no.)			Product			
	Payments to HF/NHF	Investment in final recipients	Payments to HF/NHF	Investment in final recipients	Payments to HF/NHF	Investment in final recipients	N/R/MR	SHF	NHF	EIBG HF?	L	G	E	O
Bulgaria														
OP Competitiveness	349	433[a]					N	5		✓ (1/1)	1	1	3	
Estonia														
OP Living Environment					67	67	N		1	[b]	1			
Germany														
OP ERDF Thüringen	145	144					R		2		2			
Italy														
OP Research & Comp.	1116	411					MR		9[c]		7	1		
Poland														
OP Pomorskie	88	99	59	36			R	35[d]	3	✓ (1/2)	25	12		
Romania														
OP Competitiveness	150	118					N	3		✓ (1/1)	1	1	1	
Slovenia														
OP Regional Dev.	124	118					N	1	1	(0/1)		2	1	1
Spain														
OP ERDF Andalucía	380	130	17	2	86	30	R	3	1	✓ (2/3)	4	2	2	3

Notes: The data in this table should be treated with caution since there are known to be flaws and inaccuracies in the information provided by MAs.
Scope refers to the coverage of the OP, i.e. whether it is nationwide (N), covers several regions (MR) or is a regional OP (R). *Governance* refers to the number of FIs within HFs (SHF), outside HFs (NHF) and how many of HF the EIB Group (EIBG - i.e. EIB and/or EIF) is involved in managing. *Product* refers to numbers of loans (L), guarantees (G) equity schemes (E) and other products (O) in the selected OPs. Other products refers to e.g. interest rate or guarantee fee subsidies when they are associated and combined with loans and guarantees in a single financing package. The number of FIs is not necessarily the same as the number of financial products offered.

a. Data on investments in final recipients in Bulgaria are known to be incorrect due to double-counting (2105 Summary report, p22), but the scale of the double-counting is not known.
b. This FI is recorded as a specific fund outside a holding fund managed by Kredex. In practice, however, Kredex is more akin to a holding fund, and was referred to as such by case study respondents, since it does not itself administer loan products. This is done by financial intermediaries on the basis of funding agreements that leave those intermediaries very little discretion in the operation of the loan.
c. There are nine NHF in Italy, but as one of these has made no investments in final recipients, the type of financial product is not known – hence there are fewer financial products listed than there are NHF.
d. The large number of specific funds is partly accounted for by the fact that some funding agreements appear to last for one year only. These are 'rationalised' in Chapter 3, but present in full in the Annex.

Source: 2015 Summary Report

2. TAKING STOCK: IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN COHESION POLICY 2007-13

KEY FINDINGS

- Setting up and implementing FIs is complex and involves many actors and interests.
- The principle of 'sound financial management' as measured in terms of economy, efficiency and effectiveness provides a basis for assessing whether EU financial interests are respected.
- The European Court of Auditors (ECA) identified several shortcomings in the regulatory framework for FIs for the period 2007-13: the provisions on attracting additional investment and recycling the funds; the scope to inflate the sums allocated to FIs; the possibility of unjustified preferential treatment of the private sector; and the lack of clarity on the treatment of working capital.
- The underlying rationale for instruments as a form of public policy intervention is to meet financing needs that the market is not delivering or to support activities considered insufficiently profitable by private markets but which have an important social dimension.
- Examining the 'lifecycle' of FIs provides the basis for a fine-grained analysis of the key areas of concern for EU financial interests. These are, inter alia, the scope to over-capitalise FIs with this being 'regularised' only through the programme closure process; and the general absence of links to performance in management costs and fees, which are related to fund size and constitute eligible expenditure irrespective of whether specific funds are fully invested in final recipients.

The set-up and management of FIs is a complex task. It involves an extensive range of actors and interests such that issues related to the safeguarding of EU financial interests arise at different levels of the implementation chain and at different stages of the lifecycle of the FI.

A number of key principles flow from the Treaties in relation to EU public finances. Among these is that of sound financial management, measured in terms of economy, efficiency and effectiveness. The Financial Regulation[31] defines *economy* as the commitment to make resources available in due time, in appropriate quantity and quality and at the best price; the principle of *efficiency* relates to the best trade-off between resources employed and results achieved; and the principle of *effectiveness* is linked to the attainment of specific objectives and the achievement of intended results. The extent to which FIs respect and preserve EU financial interests can be assessed against these three dimensions. In subsequent sections of this chapter, this is done with reference to the different stages in the lifecycle of FIs and the different actors involved in their design and management. Before doing so, some more general comments about the legal basis for FIs are in order since they have a direct bearing on the extent to which the financial interests of the EU have been adequately protected.

As mentioned in Chapter 1, in 2007-13 no specific provisions for the management of FIs were outlined in the Structural Funds Regulations in order to take into account the specificities of FIs. This gave rise to some delays and difficulties in a number of Member States. The EC attempted to resolve

[31] Art. 27 of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities OJ L 248/1 16.9.2002.

this through successive COCOF notes;[32] however, only the most recent of these (2011 as amended in 2012) offered detailed guidance for MAs and bodies implementing the Funds, and the ECA noted that even this did not cover all the issues required. Moreover, COCOF notes are not legally binding.[33]

The ECA identified regulatory issues within four main areas:

- insufficient leverage and fund revolving provisions;
- the possibility to commit unjustified allocations to FIs;
- the possibility for unjustified recourse to preferential treatment of the private sector; and
- unclear eligibility conditions for working capital.

It is important to stress that these criticisms relate to the provisions for 2007-13. For 2014-20, the regulatory process has been characterised by much more detailed provisions in the Regulations as well as much more guidance across a range of issues. Nevertheless, the issues highlighted by the ECA are pertinent since this study concerns the implementation of FIs in 2007-13 and implementation experience in this period could yield further lessons of value for 2014-20.

The new regulations include a number of provisions that directly address issues raised by the ECA. They are much more detailed in their coverage of FIs, with dedicated sections in the CPR, the EC Delegated Regulation 480/2014[34] and a number of detailed Implementing Acts.[35] The CPR provides for an ex-ante assessment which must be undertaken before FIs are set up. The ex-ante assessment must: link the market gaps with the objectives and priorities of the ESIF programmes; include information on what type of financial products should be implemented; explain the added value of FIs; and assess lessons learned. The new regulations also clarify management fees and costs. There is a phased payment approach, so that subsequent payments can only be made once a set percentage of programme contributions paid to FIs has been disbursed to final recipients.[36]

One of the perceived benefits of FIs is their capacity to attract private finance, thereby increasing the sums available for investment in the areas targeted by FIs, namely SMEs, urban development and energy efficiency and renewables.[37] This contribution may take place at the level of the HF, the specific fund or the final recipient.[38] The 2015 Summary Report provides some data on private contributions, suggesting that their scale is rather modest; at the level of the OP, private co-financing amounts to around EUR 619 million, out of EUR 16,018 paid to holding funds and specific funds (NHF). It is not clear whether data on private funding at other levels is complete since not all MAs report on it, but the 2015 Summary Report records a further EUR 342 million in private contributions paid outside the OP - for instance, from financial intermediaries' own resources or in the form of co-investment. While many MAs and fund managers recognized the need to attract private sector

[32] European Commission (2007) *Op. cit.*; European Commission (2008) *Op. cit.;* European Commission (2011a) *Op. cit*; European Commission (2012a) Op. cit.

[33] Wernerus D. and Rusanescu R. (2014) *The Use of Financial Instruments in European Structural and Investment Funds*, European Structural and Investment Funds Journal, Vol 2(3).

[34] Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund, OJ L138/5 13.5.2014.

[35] See: http://ec.europa.eu/regional_policy/en/information/legislation/implementing-acts/ (accessed 9 December 2015).

[36] See CPR Art. 41 and European Commission (2015b) EGESIF_15-0006-01 Guidance for Member States on Article 41 CPR – Requests for payment. Brussels 08/06/2015,

[37] Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Financial Instruments. A Stocktaking Exercise in preparation for the 2014-20 Programming Period*. Final Report. Report for European Investment Bank.

[38] Contributions (co-financing) at this level are distinct from the co-financing of the OP, the rate of which is determined in the General Regulation by country and policy objective.

finance, they also perceived this as challenging - energy efficiency projects have found it especially difficult to attract private investors,[39] which may be linked to the long loan period and modest interest rate payable. The ECA noted the poor record of Cohesion policy FIs in bringing in private investment compared to other EU SME programmes and attributed this to a lack of coherence between the Structural Funds Regulations and the specific characteristics of FIs, and to poor quality (or non-existent) gap analyses.

Regarding revolving provisions, the ECA considered that the Structural Funds Regulations were inadequate. Indeed, it is very difficult to find hard information on the scale or use of legacy funds. This has potentially serious consequences for the efficiency and effectiveness since FIs are, in principle, characterised by their capacity for re-use. In one case the ECA found that the winding-up provisions for a specific fund mentioned that the remaining liquidated funds should be transferred to the regional treasury and then freely be used by the regional government. This meant that the legacy funding could be used to cover regular expenditure of the regional government or take the form of grants to economic operators other than small enterprises.[40]

The ECA also noted that the lack of clear legal provisions had fostered the creation of 'parking-funds' and allowed more resources to be committed to FIs than the market needed. In 2007-13 advance payments could be claimed soon after the creation of the FI, and did not need to be linked to an underlying gap assessment or gap analysis of the failures and needs of the market. According to the ECA, this entailed two risks for EU public finances. First, the reliability of the annual accounts of the European Union was jeopardised by inappropriate recording of pre-financing payments, giving rise to an asset that had not yet been used to disburse Structural Funds to FIs.[41] Second, funds could be created without assessments of the market or the needs of target groups having been carried out. As a result, excessive allocations could be made to the funds created, in conflict with the principle of efficiency in the use of EU public resources.

A further concern in the legal framework for FIs noted by the ECA relates to the possibility of unjustified preferential treatment of the private sector. A balance needs to be struck between ensuring the involvement of private investors through attractive risk/return rewards and safeguarding public financing. MAs using FIs in 2007-13 developed different incentives, e.g. yield restriction, loss mitigation clauses or asymmetric models for the distribution of profit,[42] the design of which requires careful consideration in order to safeguard the public interest when involving the private sector. These incentives may threaten the sustainability of the fund, because they may reduce the availability of sufficient legacy funds for the next wave of recipients, or, in the case of HFs, require transfers from other instruments to 'bail out' defaulting funds. The ECA considered that the Structural Funds Regulations were insufficiently clear about the circumstances in which preferential treatment could be justified or how it should be designed.

Another concern in the legal framework for FIs in 2007-13 relates to the eligibility conditions for working capital. The 2011 COCOF note stated that the financing of working capital not associated with a business plan for the creation or expansion of an enterprise should not be eligible for funding through FIs. However, the lack of clarity in the definitions of both working and expansion capital

[39] Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Op. cit.*
[40] European Court of Auditors (2012a) *Op. cit.*
[41] European Court of Auditors (2010) Annual reports concerning the financial year 2009.
[42] Michie R., Wishlade F. and Gloazzo C. (2014) Guidelines for the Implementation of Financial Instruments: Building on FIN-EN – sharing methodologies on FINancial Engineering for enterprises, Final report to Finlombarda SpA.

meant that the eligibility of such expenditure had to be considered on a case-by-case basis, taking into account the State aid rules. The ECA noted that this lack of clarity had, in one Member State, effectively undermined the attraction for financial intermediaries to work with ERDF-funded FIs. In short, the absence of clear guidance has hampered the smooth and efficient implementation of FIs.[43]

The ECA report focused on the use of FIs for SMEs, but other work suggests that urban development FIs were, if anything, more challenging. In general, revolving instruments for urban development were more complex than those for SMEs because urban development requires many different actors and it can be difficult to generate sufficient returns on investment. The novelty of the instruments also entailed a steep learning curve and it took considerable time to reconcile the interests and views of various stakeholders in order to reach agreement on FIs investment strategies.[44]

In summary, there is evidence from the ECA of serious shortcomings in the regulatory framework for FIs, some of which raise concerns about the protection of the EU's financial interests, which is the focus of this study. The remainder of this section works through the lifecycle of FIs drawing on a range of policy and academic literature to provide the basis for the case study research.

2.1. ANALYSIS OF THE NEED FOR FINANCIAL INSTRUMENTS

The underlying rationale for FIs in public policy is to meet financing needs which the market is not delivering.[45] This 'funding gap'[46] may arise due to high transaction costs associated with comparatively small but viable projects or due to insufficient capital being available – particularly in the context of the crisis. Defining the funding gap accurately is crucial for several reasons:

- if the market does not require the specific financial product or amount of finance, the funds allocated are underspent;
- if public resources are channelled to FIs for projects that can be funded from private markets on acceptable terms, this may crowd-out private sector funding;
- if the funding gap is not accurately assessed, it may fail to identify where public intervention is actually needed, leaving the funding requirements of some viable projects unmet.[47]

Public intervention through FIs is conventionally justified in the following areas: in specific sectors of activity, characterised by the absence of fixed returns and the riskiness of the investment made (e.g. R&D&I);[48] in activities considered scarcely profitable by private markets, but having an important social dimension (e.g. social enterprises, community development initiatives);[49] when the costs of debt or equity finance are too high or where there is credit rationing, e.g. during an economic and

[43] European Court of Auditors (2012a) *Op. cit.*
[44] Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Op. cit.*
[45] Ward T, (2012) The use of the ERDF to support financial engineering instruments: Synthesis Report. Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-13, Report to the European Commission; Bruhn-Leon B., Eriksson P. and Kraemer-Eis H. (2012) Progress for Microfinance in Europe. Working paper 2012/13. EIF Research and Market Analysis, European Investment Fund, Luxembourg.
[46] Rigby J. and Ramlogan R. (2013) Access to Finance: Impacts of Publicly Supported Venture Capital and Loan Guarantees, Nesta Working Paper Vol. 2, No. 13, pp. 13-14; Cowling M. and Siepel J. (2012) Public intervention in UK small firm credit markets: Value-for-money or waste of scarce resources?, Technovation No. 33, 2013, pp. 265-66.
[47] Cressy R. (2002) Funding Gaps: a symposium. The Economic Journal, No. 112, pp. F1-F16.
[48] Baldock R. and North D. (2012) *The Role of UK Government Equity Funds in Addressing the Finance Gap facing SMEs with Growth Potential,* Paper for the Institute for Small Business and Entrepreneurship Conference, 7-8 November 2012, Dublin; Brown J. and Petersen B. (2010) *Public entrants, public equity finance and creative destruction*, Journal of Banking & Finance, Vol. 34, No. 5, pp. 1077-88; Meuleman M and de Maeseneire W. (2012) *Do R&D subsidies affect SMEs' access to external financing?,* Research Policy, Vol. 41, No.3, pp. 580-91;
[49] Achleitner A., Braun R., Bender M. and Geidner A., *Community Development Venture Capital: Concept and Status Quo in Germany (February 1, 2008).* International Journal of Entrepreneurship and Innovation Management (IJEIM), Vol. 9, No. 4/2009, pp. 437-52; Appleyard L. (2013) *The Geographies of Access to Enterprise Finance: The Case of the West Midlands, UK*, *Regional Studies*, 47:6, pp. 868-79.

financial crisis;[50] and when the uneven distribution of finance limits the availability of funding in disadvantaged areas.[51]

FIs are, to some extent, an alternative option to grants in the delivery of Cohesion policy. However, it is important to take account of the wider business support/entrepreneurship and innovation environment in developing projects and proposals, irrespective of the forms of support granted.[52] An analysis of the needs and conditions in the market must provide clear evidence for government intervention and, as market conditions are diverse, appropriate research on market gaps and economic structures is needed for accurate instrument design and funding allocation.[53]

Considerable importance is attached to ex-ante assessments of the market gap in 2014-20, but such analyses were not carried out systematically for 2007-13 and no specific provision was included in the Structural Funds Regulations. Nevertheless, the EC recognised the importance of such analyses and funded so-called 'gap assessments' which were conducted by the European Investment Fund (EIF) at the request of Managing Authorities. In total, the EIF prepared 55 gap analyses and the EIB 65. Most of the EIF studies concerned Spain, France and Poland.[54] A standardised methodology developed by the EIF was used for all studies, although in practice, there were different approaches and overlaps.[55] Perceptions of the EIF gap assessments were rather mixed. The EIF's technical contribution in terms of expertise, independence and legal advice were valued by some,[56] but a number of criticisms were raised by the ECA. These were essentially threefold.[57]

First, under all the audited gap assessments conducted by the EIF a financing gap was quantified and a need for public intervention was found. However, this need was not systematically assessed on the basis of previous SME access to EU finance support either within or outside the context of the ERDF, and even when the EIF had referred to such support, no lessons were drawn on that basis.

[50] Banca d'Italia (2011) I confidi e il credito alle piccole imprese durante la crisi, Questioni di Economia e Finanza (Occasional papers) Number 105 – October 2011; Cowling M. (2012) Financial engineering Literature review – Credit rationing, equity gaps', and policy solutions for financing entrepreneurial business in Europe: Theory, tests, evidence and the design and effectiveness of policy instruments. Expert evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-13. A report to the European Commission Directorate-General Regional Policy.
http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/expert_innovation/literature_review_financial_engineering.doc (accessed June 2015).

[51] Mason, C. (2010) Entrepreneurial finance in a regional economy, Venture Capital: an international journal of entrepreneurial finance, 12 (3), 167-72; Mason C., Michie R. and Wishlade F. (2012) Access to finance in Europe's disadvantaged regions: Can 'new' financial instruments fill the gap? EoRPA Paper, Vol. 6, No. 12, European Policies Research Centre, University of Strathclyde, Glasgow; Centre for Strategy and Evaluation Services (CSES) (2008) Evaluation of ERDF Supported Venture Capital and Loan Funds [online], available at: http://www.scotland.gov.uk/resource/doc/209231/0055411.pdf (accessed June 2015).

[52] Mason C. and Brown R. (2013) *Creating good public policy to support high-growth firms*, Small Business Economics, 40 (2), 211-225 http://link.springer.com/article/10.1007/s11187-011-9369-9; Brown R., Mason C. and Mawson S. (2014) *Increasing 'The Vital 6 Percent': Designing Effective Public Policy to Support High Growth Firms*, Nesta Working Paper, Vol. 1, No., NESTA; Saublens C and Walburn D (2009) *Smaller Firms, the Equity Gap, Regional Policy and Growth: Will We Ever Learn?*, Local Economy, Vol. 24, No. 6-7, pp. 620-24.

[53] European Commission, EIB, PWC (2014) *Ex-ante assessment methodology for financial instruments in the 2014-20 programming period.* General methodology covering all thematic objectives, Quick reference guide
http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/ex_ante_vol0.pdf (accessed June 2015); Veugelers R. (2011) Mind Europe's early equity gap, Bruegel policy contribution, Issue 2011/18. December 2011; Tykvová T., Borell M. and Kroencke T. (2012) *Potential of Venture Capital in the European Union*, European Parliament, Directorate-General for Internal Policies; Berggren B and Silver L. (2012) Financing Entrepreneurship in Different Regions: the failure to decentralise financing to regional centres in Sweden, *Journal of Small business and Enterprise Development*, Vol. 17, No. 2.

[54] European Court of Auditors (2012a) *Op. cit.*

[55] European Investment Bank (2011) Ex post evaluation of Jeremie 'Evaluation Phase' as it relates to EIF. Operations Evaluation. Synthesis report. EIB, Luxembourg.

[56] Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Op. cit.*

[57] European Commission (2012b) *Op. cit.*; European Court of Auditors (2012a) *Op. cit.*; Spence J., Smith J. and Dardier P. (2012) Overview of Financial instruments used in the EU Multiannual Financial Framework period 2007-13 and the Commission's proposals for 2014-20, DG for Internal Policies: Budgetary Affairs, Brussels.

Second, the ECA noted that the gap assessments prepared by the EIF were conducted independently from the OPs. As a result the gap assessments were often subject to delays and led to sub-optimal fund allocations. Moreover, whenever subsequent financial agreements were negotiated (for instance between Member States and HF managers), significant OP constraints not addressed in the gap assessments often emerged.

Third, gap assessments were not published in full and only executive summaries were distributed.[58] Lessons learned were highlighted in an EIF working paper,[59] and the conduct of an ex-ante assessment is obligatory for setting up FIs in 2014-20.

MAs were not required to use the EIF or EIB to undertake gap analyses but could conduct independent assessments. In many cases no such analyses were carried out, and FIs were just established without an underlying list of needs and priorities being identified. As noted by the ECA, such an approach has the potential to result in excessive allocations to FIs for which there is either no demand in the market or which damages existing private markets and which is not in line with the principles of sound financial management. That said, in many Member States, FIs were implemented by domestic institutions (such as business development banks) with longstanding experience of national and local markets, so it should not be assumed that the absence of a specific gap assessment is tantamount to operating FIs in a vacuum.

2.2.INVESTMENT STRATEGIES

On the basis of understanding relevant finance gaps in the market (whether concerned with new business start-ups, high risk spin-outs or urban development programmes), the next stage in the process is the development of an investment strategy to address them. Notwithstanding the key role of the investment strategy in linking the needs identified to the implementation of FIs, the Structural Funds Regulations provided very limited guidance on the content of investment strategies; they simply stated that the investment strategy should be part of the funding agreement between the MA/Member State and the fund manager (i.e. HF or specific fund). Following criticism from the ECA,[60] the 2011 COCOF note referred to the need for an 'underlying' and 'coherent' investment strategy to be set out.[61]

The role of the investment strategy in steering the use of FIs can vary. Van Ginkel *et al* (2013) suggest that in around half of the cases studied where a market assessment had been undertaken, the implementation of the FI deviated from the strategy set out in the market assessment. The study also showed that in two-thirds of cases, changes to the strategy were the result of shifts in demand due to the crisis. In the majority of the cases where the market conditions changed, this led to new financial products being introduced. In a third of cases, amendments to the investment strategy originated in the political situation, financial risks, technical issues or administrative capacity. The report also found that FIs were difficult to implement where investment strategies were narrow in scope, for instance because they specified target groups, especially where this was combined with geographical limitations. Flexibility was identified as being key to enable adaptation to changing economic circumstances and changing requirements for finance. On the other hand, it is also clear that

[58] European Court of Auditors (2012a) *Op. cit.*
[59] Kraemer-Eis H. and Lang F. (2014) *Guidelines for SME Access to Finance Market Assessments* (GAFMA) EIF Working Paper, No.22, 2014, http://www.eif.org/news_centre/publications/eif_wp_22_gafma_april14_fv.pdf (accessed 22 May 2015).
[60] European Court of Auditors (2012a) *Op. cit.*
[61] European Commission (2011a) *Op. cit.*

flexibility must not be such as to undermine the objectives of the OP or go beyond the identified market gap.

OPs set out how Structural Funds will be allocated across eligible territorial areas according to given priority objectives. They are agreed by Member States with the EC. In 2007-13 the majority of FIs were co-funded by the ERDF with a small number co-funded by the ESF.[62]

For the new period, significant changes in the strategy for using FIs were introduced. In 2014-20 Member States or MAs had to indicate in the OP whether they intended to use FIs to contribute to the achievement of Cohesion policy objectives. The use of FIs had to be included in the implementation strategy for the OP, and be agreed between the Member State and the EC. The ECA had also recommended including all co-financed FIs within a single OP per Member State in order to rationalise the planning process and overcome delays.[63] Reflecting this, the 2014-20 Common Provisions Regulation (CPR)[64] includes an option to devote an entire priority to FIs; in which case the co-financing share is raised by ten percentage points. However, anecdotally, there is so far little evidence of this option being taken up.

2.3.STRUCTURES AND OPTIONS

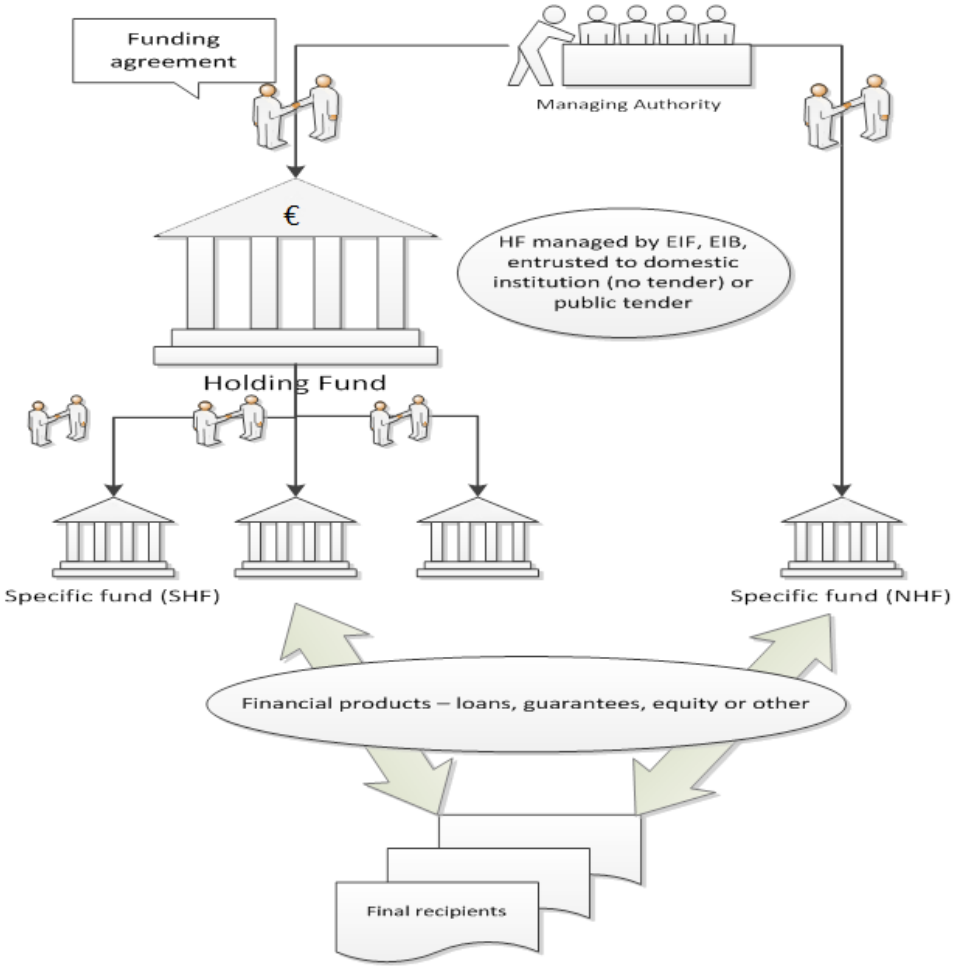
For 2007-13, the Structural Funds Regulation[65] allowed for several options for MAs to set-up a FI (see Figure 7):

- to make a direct contribution to a specific fund without using a holding fund;
- to contribute to a holding fund, the management of which is put out to public tender in accordance with the relevant public procurement law;
- to contribute to a holding fund and contract the management of the HF to a national financial institution without tender under national law (if compatible with the Treaty) – this is often referred to as 'entrustment' and the roles and responsibilities of existing financial institutions in economic development (such as promotional or business development banks) meant that many such domestic bodies were involved as holding fund managers;
- to contribute to a HF and contract the management to the EIF or EIB.[66]

MAs also had to decide whether to establish a distinct legal entity for the FI (including the HF), or whether to set up a separate block of finance within an existing institution, as was done in many of the German *Länder*, for example. The main options for establishing FIs are set out in Figure 7.

[62] More limited use was made of FIs under the rural development and fisheries Funds; FIs could not be used under the Cohesion Fund 2007-13.
[63] European Court of Auditors (2012a) *Op. cit.*
[64] Regulation (EU) No 1303/2013, Article 120(5).
[65] Article 44, General Regulation, as amended.
[66] The EIB Group, comprising the European Investment Bank (EIB) and European Investment Fund (EIF) has been involved in the implementation of FIs under Cohesion policy in several ways. First, they have promoted and supported the implementation of FIs by managing authorities through the provision of technical assistance, capacity building and advisory services, particularly under the JEREMIE and JESSICA Initiatives. The EIB was involved in conducting 55 feasibility studies for FIs for urban development projects (JESSICA), while the EIF undertook 55 gap analyses/evaluation studies for enterprise support FIs (JEREMIE). Second, the EIB and EIF can manage HFs on behalf of managing authorities. In 2007-13, the EIB had mandates for managing 18 HFs set up under the JESSICA initiative, although this was reduced to 16 during the period, while the EIF managed around 16 HFs set up under the JEREMIE initiative. Last, the EIB can contribute loan capital to FIs set up under both the JEREMIE and JESSICA initiatives.

Figure 7: Options for FIs management structures



Source: EPRC.

Importantly, though, in terms of *structures*, these provisions are enabling rather than constraining and governance arrangements for FIs are extremely diverse. Given this, and, as noted above, the blurring of the distinction between specific funds and holding funds and the role of financial intermediaries in offering financial products, counting FIs is not entirely meaningful. However, according to the 2015 Summary Report, most Member States using FIs in their OPs were using both main organisational approaches - 73 holding funds and 952 specific funds (438 outside a holding fund – NHF; and 514 within a holding fund - SHF) were operating by end 2014.[67] In terms of the overall pattern of management, the majority of HFs were either entrusted to public financial institutions or were put out to tender, rather than being managed by the EIF or EIB (around 32 out of 73). Last, in terms of legal form, most HFs (71 percent) were established as a separate block of finance within existing entities. This approach is often considered to facilitate rapid implementation, compared with the time taken to establish new legal structures.[68]

Holding funds are a way of organising the allocations within an OP as a vehicle through which several specific funds can be created. As noted earlier, in 2007-13 HFs were considered *beneficiaries* of the measure for which they received allocations. This has important implications for the flow of funds and

[67] 2015 Summary Report.
[68] Michie R., Wishlade F. and Gloazzo C. (2014) *Op. cit.*

the level of monitoring (see Section 2.6). For Article 44b measures[69] (urban development), the instruments under the HF were called Urban Development Funds (UDFs).

A holding fund offers several advantages for MAs. It allows for greater flexibility, because allocations can be made without having to decide on the specific fund or financial product at the same time. In 2007-13 this also enabled allocations to be committed which were not subject to automatic decommitment during the life of the OP, even if disbursements from the HF to specific funds did not take place. As mentioned above, the ECA noted the negative implications of this for EU public finances. Audits uncovered a significant number of cases where the EC did not properly record payments as giving rise to an asset and urged the EC to revisit the relevant accounting rule in order to provide adequate guidance on the recognition and clearing of pre-financing together with improved supervision.[70] Again, it is important to note that the present study focuses on 2007-13. Some of the criticisms made of those arrangements have been directly addressed by the rules governing 2014-20. In particular, the new Regulations require payments to funds to be phased - MAs must now pay programme contributions to FIs in tranches with subsequent payments to funds linked to investments in final recipients.

More positively, perhaps, HF structures offered a distinct advantage in the crisis, when greater flexibility was important because of the uncertain economic landscape, and new demands emerging from final recipients could be met by moving allocations between funds based on demand and performance.[71]

Some MAs have argued that HFs can attract additional finance because such funding can come in at the level of the OP, the HF and the specific fund (i.e. three rather than two levels). However, these claims are not supported by the ECA, which did not find significant leverage from the private sector at the level of the HF in either the 2000-06 or 2007-13 programming periods. The report found that typically, there were no explicit leverage requirements in the funding agreements between MAs and financial intermediaries, a notable exception being a group of United Kingdom equity funds, which included binding leverage requirements for private co-investors.[72]

More generally, a number of other advantages to the use of HFs to manage FIs have been identified by MAs and others involved in FI implementation,[73] in particular the following:

- **Overall scale**: HFs can help to achieve funding on an adequate scale; critical mass is an important element.
- **Flexibility**: HFs increase the scope for flexible management– i.e. the possibility of moving allocations between specific funds (SHFs) within the HF depending on demand and/or performance of the specific funds.
- **Portfolio approach**: HFs facilitate the use of a portfolio approach which enables a mix of instruments to be used if appropriate, diversifying risk and expected returns.
- **Strategic investment**: HF managers can take a more holistic view of the investment strategy than if funds are managed independently.

[69] Regulation No 1083/2006 (the 'General Regulation'), as amended.
[70] European Court of Auditors (2011) Annual reports concerning the financial year 2010.
[71] Michie R., Wishlade F. and Gloazzo C. (2014) *Op. cit*.
[72] European Court of Auditors (2012a) *Op. cit.*
[73] Michie R., Wishlade F. and Gloazzo C. (2014) *Op. cit*.

- **External expertise**: MAs can delegate some of the tasks required to implement FIs to external professionals (e.g. design of financial products and the procurement of fund managers).
- **Rationalisation**: audit, reporting and other administration costs are pooled at HF level; and the HF management should have the capacity to manage ERDF reporting requirements.
- **Experience**: HF structures can be particularly appropriate in regions with limited risk capital financing capacity, which are unlikely to be able to set up FIs with other public and private sector partners without support.

The views of MAs on the benefits of HFs are somewhat polarised – while some are strongly in favour, others have found that the expected advantages have not always materialised. HFs involve additional indirect costs, with overheads being relatively high compared to other models. This results from the additional layer of management costs and fees, since each specific fund within the HF incurs management costs and fees, in addition to those of the HF. Other disadvantages include loss of transparency and the additional monitoring and scrutiny measures needed. Overall, the use of a holding fund increases the chain of accountability and responsibility for FIs, with the risk that Managing Authorities become distanced from operational realities. Formally, however, an allocation to a holding fund does not imply any reduction or waiver of responsibility by the relevant authorities for Structural Fund resources.[74]

In addition to the discretion in the choice of organisational structure (HF or not, choice of HF manager, separate block of finance or independent legal entity), some freedom was left in the selection of financial intermediaries or fund managers for specific funds and how financial products were to be made available to final recipients. However, Managing Authorities and HF had to assess whether their contribution to a specific fund entailed a public procurement of services governed by EU or national law, and if so comply with that law. More precise provisions were included in the 2012 COCOF note [75] which provided that the procedure for selecting funds, financial intermediaries or any other vehicle for the implementation of FIs, as well as fund managers, should be based on specific and appropriate selection criteria relating to the goals set out in the OP, as approved by the monitoring committee. In practice, however, little information is available about how MAs undertook the process of selecting fund managers or financial intermediaries, although the data in the annual Summary Reports suggest that entrustment to existing public sector entities was widespread. Nevertheless, it is interesting to note that implementation is very diverse. Structures range from quite specialised equity or venture capital funds typically serving a defined market segment (eg. early stage or high growth) and operating in a specific region (for instance, many funds in the United Kingdom), or nationwide loan or guarantee schemes that are deployed through large numbers of financial intermediaries 'on the ground' such as local banks (as in Hungary).

2.4.FUNDING AGREEMENTS

Once fund managers have been selected, a funding agreement is drawn up which sets out the terms and conditions for contributions from the OP to the specific fund. Funding agreements link the objectives set out in the OP with the underlying investment strategy and the needs and failures recognized in the gap assessment, when available. As such, funding agreements are crucial to the correct implementation of the investment strategy and the goals of the OP, since they specify target

[74] European Commission (2012a) Op. cit.
[75] Ibid.

sectors, final recipients to be supported, the range of financial products, likely project types and targets to be achieved through the use of FIs.

The Implementing Regulation[76] provided for funding agreements at two levels:

- between the Member State or the MA and the HF, where FIs are organised through HFs; or
- between the Member State or the MA (or the HF where applicable) and the specific fund – i.e. between the HF and the SHF for specific funds within a holding fund and between the Member State or MA and the NHF, for specific funds outside a holding fund.

Funding agreements must also contain a set of rules, obligations and procedures, to be observed by the parties concerned with respect to the financial contributions made by the OP. Nevertheless, Member States, MAs and HF managers had considerable freedom in the negotiation and form of funding agreements, subject to the minimum requirements, which included:

- terms and conditions for making contributions from the OP to the HF and to the SHF or NHF;
- the investment strategy or policy and target final recipients and measures;
- the financial products to contribute to;
- the exit policy for the OP contributions;
- the winding-up provisions for both the HF and the specific funds, including for the use of recycled funds attributable to the OP contribution;
- monitoring of the implementation of investments including reporting by specific fund managers to the HF manager and/or the MA; and
- audit requirements, such as minimum requirements for documentation to be kept and access to documents by national AAs, EC auditors and ECA, at the level of HF and specific funds in order to ensure a clear audit trail.[77]

The negotiation of funding agreements was a major cause of delay and deviation from implementation plans for FIs. Discussions frequently took longer than expected, as they needed a high degree of detail in the practical aspects of the proposed conditions and because they involved negotiation, uncertainty over terms, and legal work. This was relevant both at the level of holding fund and specific fund managers. More positively, the lengthy discussions were seen, with hindsight, to have paved the way for faster implementation of remaining processes.[78] Nevertheless, such delays are relevant to considerations of the *economy* principle related to the sound financial management of EU public finances.

2.5.MANAGEMENT COSTS AND FEES

The Implementing Regulation included some guidance on management costs, specifically:[79]

"Management costs may not exceed, on a yearly average, for the duration of the assistance any of the following thresholds, unless a higher percentage proves necessary after a competitive tender:

> (a) 2% of the capital contributed from the operational programme to holding funds, or of the capital contributed from the operational programme or holding fund to the guarantee funds;

[76] Articles 43(3) and 44.
[77] European Commission (2012a) *Op. cit.*
[78] Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Op. cit*.
[79] Article 43(4).

(b) 3% of the capital contributed from the operational programme or the holding fund to the financial engineering instrument in all other cases, with the exception of micro-credit instruments directed at micro-enterprises;

(c) 4% of the capital contributed from the operational programme or the holding fund to micro-credit instruments directed at micro-enterprises."

However, concerns were raised over issues of transparency and lack of clarity and the question of whether management costs were based on fund size, investment size or tied to the financial performance of the investments made.[80] An amendment to the General Regulation was introduced to add management *fees* to eligible expenditure;[81] the 2012 COCOF note defined management *costs* as 'cost items reimbursed against evidence of expenditure', whereas management *fees* refer to 'an agreed price or compensation for services rendered'. Both types of expenditure are eligible for co-financing under the Structural Funds. The 2013 COCOF note also recorded that the EC expected Member States to ensure that management costs and fees were agreed in accordance with the principle of sound financial management. It recommended that funding agreements at all levels establish a remuneration structure for fund managers that was linked to performance – related to the funds invested in final recipients, the quality of those investments and the amounts repaid to the fund from the investment (and therefore available to be recycled).

A key difficulty in assessing management fees and costs is the lack of data. In principle, this information is reported by the Managing Authorities in the AIRs, but in practice, because this was one of the voluntary elements in reporting, the data are often absent; for many FIs, it is not clear whether there have been no costs (yet) or no data are available. Data may also be suspect; for example, on some occasions the same costs appear to be reported at the level of both HFs and specific funds within them, but it is unclear whether there is double counting. Anecdotally, it appears that public promotional banks often do not charge fees, viewing the management of co-financed FIs as part of their general remit. Also, anecdotally it seems that few funding agreements provide for performance related fees.

An important consideration in the present context is the fact that the ceilings on management costs are set in relation to the funds paid to HFs or specific funds. This means that, in the absence of any performance-related mechanism, the value of management costs could simply be calculated as a percentage of the amount in the fund, with little incentive to invest in final recipients. Moreover, while the amounts left in holding funds or specific funds – i.e. not invested in final recipients - are returned to the EU budget at programme closure, management costs and fees associated with the fund are not.

Management costs and fees are one of several areas where the 2014-20 Regulations introduce more stringent requirements than in 2007-13. For 2014-20, criteria for determining management costs and fees on the basis of performance and applicable thresholds are set out in the Delegated Regulation and aim both at increasing the efficiency and effectiveness of investments undertaken by FIs and avoiding practices such as charging costs to both the final recipients and the ESIF. Among other

[80] Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Op. cit*; CSES (2007) Op. cit.
[81] Regulation (EU) No 539/2010 of the European Parliament and of the Council of 16 June 2010 amending Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund as regards simplification of certain requirements and as regards certain provisions relating to financial management, OJ L 158/1 24.6.2010.

things, this performance-based approach takes account of OP contributions invested in final recipients, the resources returned from investments or released from guarantee contracts and the contribution of the financial instrument to the objectives and outputs of the programme. It includes ceilings for base remuneration and performance-based remuneration for different types of instruments.[82]

2.6.VERIFICATION, MONITORING AND REPORTING

The verification system providing for internal checks to ensure that projects selected for funding by the FI are in accordance with the criteria applied by the fund, the OP and national and EU regulations is an important part of the compliance process. Verification checks may include:

- document-based checks;
- on-the-spot checks (sometimes for all projects);
- sampling among projects, sometimes using risk analysis (where there are a high number of final recipients); and
- 'extraordinary' or *ad hoc* checks.

Two models of verification which can be identified (though others could be possible) are:[83]

- the 'cascade model' in which typically only the level directly below a given entity is checked, but not the lower levels in the hierarchy; and
- the 'ladder model' in which typically the entity checks all lower levels below in the hierarchy.

Under the cascade model, the holding fund manager would check the specific fund manager, who would in turn check the final recipient. Under the ladder model, holding fund manager would check both the specific fund manager and the final recipient. In practice, however, implementation structures may be more complex, with the possibility that financial intermediaries such as banks may be involved in implementing comparatively standardised financial products across large numbers of SMEs while some equity fund managers may be undertaking a small number of investments annually. The diverse structures involved in implementation make it rather difficult to generalise about models of verification and likely that others apart from the cascade or ladder models also exist.

Effective monitoring of the implementation of FIs is required both for the internal assurance of probity and effectiveness and to ensure that the required reporting to national governments and the EC is correct, accurate and based on the best possible data. Funding agreements between holding funds and Member States or MAs must include a requirement to monitor and report on the implementation of investments in accordance with the terms of the funding agreement. This implies that effective methods to follow the execution at the level of final recipient need to be put in place and data collected need to be provided to the holding or specific fund manager. A further step requires the aggregation of specific data for reporting to the MA or the EC. Other relevant authorities may also require the reporting of all or selected data according to the country-specific governance systems.

As discussed in Chapter 1, the first reporting exercise on FIs set-up in 2007-13 was carried out on a voluntary basis by MAs in 2011. The data provided by the Member States in various formats were collated and aggregated by the EC in the synthesis report issued in December 2011. At the end of

[82] Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 Op. cit.
[83] Michie R., Wishlade F. and Gloazzo C. (2014) *Op. cit.*

2011, the General Regulation[84] was amended to introduce an obligation for Member States to formally report on FIs within the Annual Implementation Reports by 30 June each year. The amended Regulation introduces some compulsory elements and a number of optional data. MAs first reported formally on FIs on this basis in 2012 and have continued to do so annually. The quality of the data provided for 2007-13 has improved, but numerous inconsistencies and inaccuracies persist. The guidance document on reporting has been revised and more stringent, compulsory reporting is required in 2014-20.[85]

At a more general level, one of the most problematic aspects relating to the monitoring and reporting procedures involves the identification of suitable indicators for FIs. Indeed, as early as 2007, an evaluation of co-financed FIs raised questions over the usefulness and appropriateness of the indicators being used for effective monitoring. For instance, the evaluation pointed out the potential mismatch between funds investing in technology-based businesses designed to provide long-term returns and high-quality jobs, and ERDF measures on job creation during the programme period.[86] Another report notes the difficulties faced by MAs in reconciling FIs with the targets and indicators set out in the OPs. The OP monitoring requirements could be particularly challenging, since, in 2007-13, OP indicators did not distinguish between FIs and grants, resulting in some indicators being unhelpful in assessing the progress of FIs.[87]

In 2012, the ECA reported that standard Cohesion policy monitoring for the ERDF was either inadequate or not fit for purpose when applied to FIs. Where monitoring and information systems existed, they were generally ill-equipped to monitor the sound financial management of the funds. In response, the EC observed that monitoring and control of individual operations falls within the responsibility of MAs, whereas the EC has overall responsibility to ensure that adequate management and control systems are in place in Member States. The EC also noted that more general guidance on the implementation of the 2007-13 provisions had been provided over several years.[88] Nevertheless, published summary reports for the last period display numerous gaps in the data available and evident misinterpretation of the reporting requirements.

2.7.EXIT, RETURNS AND REUSE OF THE FUNDS

Funding agreements must include an exit policy for the OP contribution from the FI and investments undertaken by it. This exit policy must include provisions for recycling resources returned from investments, or left after guarantees have been honoured, that are attributable to the OP contribution.

Similarly, when the Structural Funds support FIs organised through HFs, the funding agreement must include an exit policy for the HF. The ECA identified areas for improvement in setting up clear exit strategies and winding-up provisions.[89] Lessons from a number of MAs emphasise the importance of considering the whole life-cycle of each FI and each transaction at planning stage, and of incorporating information on processes and rules for exit and closure policy in funding agreements.

[84] Council Regulation (EC) No 1310/2011, OJEU L337/1 20.12.2011.
[85] European Commission (2014c, updated 2015) *Reporting Instructions for the Financial Engineering Instruments*. Version of 20 March 2014: http://ec.europa.eu/employment_social/sfc2007/quick-guides/sfc2007_reporting%20instruction_fei_air_updated_version.pdf (accessed 2 June 2015); version of 15 June 2015: http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/guidance_reporting_instruction_air2014.pdf (accessed 15 August 2015).
[86] CSES (2007) *Op. cit.*
[87] Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Op. cit.*
[88] European Court of Auditors (2012a) *Op. cit.*
[89] European Court of Auditors (2010) and (2012a) *Op. cit.*

Due to underperformance, for example, because of the impact of the economic crisis, some regions have faced the need for extraordinary closure of some FIs; this was not envisaged at the outset, so the rules and procedures have not been clear. This highlights the need to specify clear rules in the case of underperformance or defaults and extraordinary exits in the instrument design.[90]

The academic and policy literatures recognise that whether a specific fund is privately or publicly managed has implications for returns to the fund, with public sector management giving precedence to policy considerations (e.g. regional development) over returns. In contrast, private shareholders are likely to be more concerned with financial returns and see regional development impacts as subordinate. Different priorities have differential implications for how the fund is run, perceptions of performance and returns, which all need to be factored into policies on exits.[91]

The MA must ensure that any resources returned which are attributable to the Structural Funds contribution are either re-used by the FI for further investments or are used to cover management costs and fees of the FI or allocated elsewhere in the programme area for the same type of action.[92] Resources returned should not be used for the purpose of national match-funding of the FI nor to cover the cost of borrowing money in financial markets.

2.8.WITHDRAWAL OF CONTRIBUTIONS FROM THE OP TO THE FINANCIAL INSTRUMENT

The conditions for a partial or full withdrawal of resources contributed from an OP to a FI should be included in the funding agreement. These conditions need to foresee situations such as possible conflict between the MA and the specific fund or holding fund, incapacity of the fund manager to carry out investments, or other situations where the proper implementation of the measure is not possible. The OP contributions to the holding fund or specific fund (NHF) included in a statement of expenditure submitted to the EC are considered as 'expenditure' and will be reimbursed These are generally made through a single payment as soon as the legal structure of the HF or the specific fund has been set up.

If the contribution paid to a holding or specific fund is later withdrawn, there is potential for misuse of the funds, the Member State having received an interim payment from the EC for expenditure which in fact had not been spent on the measures for which it was declared. This may result in an irregularity, unless the statement of expenditure is subsequently modified to take out or replace the expenditure for which an advance payment has been received. There is also a question of whether any such withdrawal would comply with the principle of sound financial management. In particular, there is a risk that such a practice could result in a circumvention of the provisions related to automatic decommitment. This risk is confirmed by the ECA in the 2012 Special Report.[93] In practice, however, no information is available on the extent to which this has arisen or on funds withdrawn in 2007-13. The provision of phased payments for 2014-20, which involves advances, as well as interim and final payments, is designed to overcome these shortcomings. Phased payments will link the amounts that can be paid to specific or holding funds to the extent to which those funds have invested sums already received thus preventing the overcapitalisation of funds.

[90] Michie R., Wishlade F. and Gloazzo C. (2014) *Op. cit*.
[91] CSES (2007) *Op. cit.*; Wilson K. and Silva F. (2013) Policies for Seed and Early Stage Finance: Findings from the 2012 OECD Financing Questionnaire, OECD Science, Technology and Industry Policy Papers, No. 9, OECD Publishing.
[92] Article 78(7), General Regulation (as amended).
[93] European Court of Auditors (2012a) *Op. cit.*

2.9.AUDIT AND CONTROL

Financial instruments are subject to the standard management and control provisions applicable to the Structural Funds. In order to ensure that FIs are operated in accordance with the criteria applied by the funding agreement, the OP and national and EU regulations, an audit trail is put in place and checks are carried out.

At national level audits are carried out by the audit authorities (AA) to check whether effective control systems are in place in the implementation of the FIs carried out by MAs, as attested by Certifying Authorities. Audit activities are based on an audit strategy, which is approved by the EC at the beginning of implementation of the OP. The results of the controls carried out are reported annually to the MA and Certifying Authority and the EC, and include an audit opinion. The AA is further responsible for the closure declaration and report to the EC, at the end of the implementation of the OP.

The scope of the audits covers the setting-up of FIs in terms of compliance with State aid and public procurement rules, as well as legal agreements; moreover it focuses on the functioning of the FI, for instance the use of interest, returns and the repaid investments.

In the case of FIs, the extent of audits is arguably more limited than for grants. Checks can only be carried out at the level of the final recipient – i.e. the SME or urban investment project – in duly justified circumstances since the holding fund or specific fund (NHF) is considered to be the final beneficiary. As stressed elsewhere, this is an important difference between FIs and non-repayable support.

An adequate audit trail should allow the verification of expenditure paid in establishing or contributing to the FI. This can be included in an interim statement of expenditure, the eligibility of which will be assessed at final or partial closure. To ensure a clear audit trail allowing expenditure eligible under the Structural Funds to be distinguished from ineligible expenditure, FIs need to maintain a separate accounting system or use a separate accounting code for co-financed expenditure down to the level of individual investments made in final recipients.

There should be clear identification of the capital from each OP and each priority axis contributing to the FI, and of the expenditure which is eligible under the Structural Funds, to allow for verification in terms of eligible expenditure declared to the EC and compliance with Structural Funds Regulations. Ex-post verifications of such payments by AAs generally relate to the financial year in which the payment has been made. Because of the delays in the selection of operations and disbursement to final recipients and projects, the ECA warned, as early as 2010. against the postponement of checks on the actual implementation of FIs towards the closure of the 2007-13 programming period, unless specific verifications were envisaged.[94]

An error occurs when a transaction is not carried out in accordance with the legal and regulatory provisions for Structural Funds, rendering declared expenditure irregular. A distinction is made between *errors*, defined as unintentional mistakes, and *fraud*, which implies an intentional breach of the rules. Errors may arise at several stages and phases. In relation to the use of Structural Funds, they occur predominantly in areas such as public procurement, eligibility of expenditure and the existence

[94] European Court of Auditors (2010) *Op. cit.*

of an appropriate audit trail.[95] Specific issues related to FIs under Cohesion policy include weaknesses in the set-up of FIs, compliance errors and risks in the regularity of transactions.[96]

There are no specific data on error rates under FIs as opposed to grants in the ECA annual reports, which makes it difficult to establish whether the EU's financial interests are better protected under non-repayable instruments. However, an important issue is the level at which information is generally available and audited and the difference between grants and FIs in this regard. As mentioned, in the case of FIs, it is the *fund* (HF or NHF, as applicable) which is the final beneficiary, whereas in the case of grants, the final beneficiary is the SME or the project. This means that, for the most part, audit and control of FIs do *not* take place at the level at which sums are actually invested.

Another consideration is the role of the EIB Group given that the EIF and EIB are holding fund managers in a number of countries. EIBG is beyond the purview of the national audit authorities; however, there are formal arrangements for the internal and external audit of the EIB[97] and EIF[98] and a number of EIBG managed funds have been audited.[99] In addition, the EIBG may come under EC audit scrutiny. One example is the EC's audit mission on the Romanian competitiveness OP.[100] It is, nevertheless, unclear how frequent or systematic such checks are and the only traceable report of this type seemed to have been made available through a 'freedom of information' request. In other words, it is not known how widespread such checks are, though it appears that EC's Directorate General for the Regional Policy has, at least, audited EIF activities also in Latvia, Lithuania and Bulgaria.[101]

More generally, it has been argued that FIs should be audited at several stages throughout the programming period in order to identify issues early on and be able to act in preventative mode.[102] It is not clear to what extent this has happened.

2.10. EVALUATION

The evaluation of FIs may be part of the overall evaluation of OPs, given the scale of the FIs within such programmes, or in rare cases be conducted separately. Both mid-term and final evaluations are crucial steps in adjusting the investment strategy and gap assessment, and important tools to build on experience and adapt spending as required.

EU-wide evaluations are not yet available for 2007-13, but some evaluations of FIs implemented at national level are available. For example, a recent study commissioned by the Polish Ministry of

[95] European Commission (2011b) Commission staff Working Paper analysis of errors in Cohesion Policy for the years 2006-2009_Actions taken by the Commission and the way forward. Brussels, 5.10.2011.
[96] European Court of Auditors (2010) *Ibid.;* European Court of Auditors (2011) *Op. cit.;* European Court of Auditors (2012a) *Op.cit.;* European Court of Auditors (2012b) *Op.cit.;* European Court of Auditors (2014) Annual report concerning the financial year 2013.
[97] See: http: //www.eib.org/about/structure/control_and_evaluation/index.htm
[98] See: http://www.eif.org/who_we_are/governance/audit_controls/index.htm
[99] See Cottogni H. (2010) Latest Developments of JEREMIE EIF Activities, see: http://ec.europa.eu/regional_policy/archive/funds/2007/jjj/doc/jeremie_jessica_20101129/w3/3_1.pdf
[100] See: http://www.asktheeu.org/en/request/625/response/2351/attach/3/Audit%20report%20mission%20798%201%20OP%20Competitiveness.pdf
[101] Cottigni H. (2010) *Op. cit.*
[102] Pinto, A. (2012) Audit Approach for Financial Engineering Instruments, presentation, Lisbon, 16th January 2012, see: http://www.ifdr.pt/HttpHandlers/docHandler.ashx?id=8792&menuid=369 (accessed December 2015).

Regional Development on the effectiveness of FIs implemented under several national and regional OPs notes a number of interesting points.[103]

- In general, FIs were effective in bridging the gap between the demand for funding by businesses and the availability of credit; nevertheless, some high risk investments did not find appropriate funding.
- There may be competition between publicly-backed funds and financial products offered at commercial terms.
- In general, FIs were valued as cost-effective instruments.
- Loans, and to some extent guarantees, provide flexibility for investment projects.
- There is a need for coordination mechanisms to manage, implement and monitor FIs under both national and EU regulations.

[103] As reported in Polverari L., Bachtler J. and Zwet A. (2015) *Evaluating the Effectiveness of Regional Policy*, European Policy Research Paper, No. 91, European Policies Research Centre, University of Strathclyde, Glasgow

3. THE CASE STUDIES: AN OVERVIEW

KEY CASE STUDY FINDINGS

- Bulgaria: Enterprises. One EIF HF containing five SHFs with EUR 349 million paid to funds and EUR 396 million reportedly invested in final recipients by end 2014 (but known issues in data reported in the AIR).
- Germany (Thüringen): Enterprises. Two specific funds (NHF) with EUR 145 million paid to funds and EUR 144 million invested in final recipients by end 2014.
- Estonia: Energy efficiency. A single renovation loan fund (reported as an NHF, but effectively operated through a holding fund with financial intermediaries offering loans); EUR 66.7 million paid to the fund and all EUR 66.7 million invested in final recipients by end 2014.
- Spain (Andalucía): Enterprises, urban development and energy efficiency. Three HFs (one EIF and one EIB), with one SHF in each in Andalucía (the HF cover several regions), and one specific fund (NHF). A total of EUR 482.4 million committed and EUR 162 million invested by end 2014. Performance varies significantly between specific funds.
- Italy: Enterprises. Nine specific funds (NHF) with a total of EUR 913.51 million paid to funds and EUR 353.5 million invested in final recipients by end 2014. Data gathered during the case study suggests a more positive outcome, but performance is variable between the specific funds.
- Poland (Pomorskie): Enterprises and urban development. Two HFs - one EIB Jessica HF comprising two urban development funds, an enterprise HF containing 18 SHFs (but see Annex); and three specific funds (NHFs). A total of EUR 137 million was paid to funds but EUR 146.8 million invested in final recipients by end 2014 (this may be attributable to interest accrued, which are part of OP contributions, or to the inclusion of recycled funds, which are not – both are known to occur in Poland).
- Romania: Enterprises. One EIF HF with three SHFs. EUR 150 million committed and EUR 117.6 million invested by end 2014.
- Slovenia: Enterprises. One HF with one SHF; and one specific fund (NHF). EUR 123 million paid to funds and EUR 111.7 million invested in final recipients. It is possible that recycled funds have been included in investment figures.

This section provides a brief review of the OPs reviewed as part of the case study analysis.[104] By way of context, it is important to recall that the OPs considered vary widely in scale and content, while the FIs operated within them differ in policy target, governance and their overall importance within the OP. Indeed, it was the intention of the study that the sample be broadly representative of the use of FIs within Convergence regions.

[104] It is important to stress that the quality of the data limits the extent to which firm conclusions can be drawn about the performance of FIs. In the main, the tables in this section draw on the data included in the 2015 Summary Report. In principle, the timing of the study would likely have meant that data from both the case studies and the AIR would have been the same. In practice, it often proved extremely difficult to reconcile even the number of FIs, funds or financial products as perceived by respondents in the case study OP MAs with the data in the 2015 Summary Report, which had also been provided by the MA. Related, it also did not prove possible, in general, to use the case study process to complete data missing from the annual Summary Reports. Note also that the graphics in this section are primarily intended to illustrate the structures involved in implementing FIs and any financial data may be out of line with the 2015 Summary Report.

As Table 3 shows, total commitments to the case study OPs range from EUR 1,162 million (Bulgaria) to EUR 8,568 million (Andalucía). However, the relative importance of FIs varies widely. For example, less than six percent of the OP was committed to FIs in **Andalucía** and **Estonia**, but over 14 percent in **Italy** and some 30 percent in the case study OP for **Bulgaria**.

Table 3: Total OP Commitments, Commitments to FIs and FIs investments in final recipients (by end 2014)

Member State	OP	Total OP Commitments (million EUR)	OP payments to HF or specific funds (million EUR)	OP FI Investment in final recipients (million EUR)
Bulgaria	Competitiveness	1,162	349.0	396.0
Germany	ERDF Thüringen	1,970	145.0	144.0
Estonia	Living Environment	1,778	66.7	66.7
Spain	ERDF Andalucía	8,568	482.0	162.0
Italy	Research & Competitiveness	6,205	913.5	353.5
Poland	ERDF Pomorskie	1,227	137.0	146.8
Romania	Competitiveness	3,011	150.0	117.6
Slovenia	Regional Development	2,011	123.0	111.7

Note: Total OP commitment refers to the total public contribution to the programme. Note that these data are drawn from single sources for the purposes of comparability, but some of the data are updated in the case-by-case sections below.
Source: 2015 Summary Report.

3.1. BULGARIA

The OP Competitiveness of the Bulgarian Economy promoted the use of technology and innovation to improve the business environment and exporting capacity of Bulgarian enterprises. The target groups were SMEs involved in innovative activities, primarily in agricultural, food processing and forestry sectors. The total budget of the OP for 2007-13 was EUR 1,162million, of which EUR 349 million was allocated to FIs (30 percent of the OP).

The rationale for the use of FIs was based on market failure and weaknesses in the SME financing market, particularly in micro-finance, guarantees and VC. Improved access to finance was required to achieve the OP objective to encourage innovation and enterprise with instruments focused on high-risk investments mainly related to innovation activities. While the market assessment was generally perceived to be sound, more frequent analysis will be carried out for future FIs to ensure they address market failures.

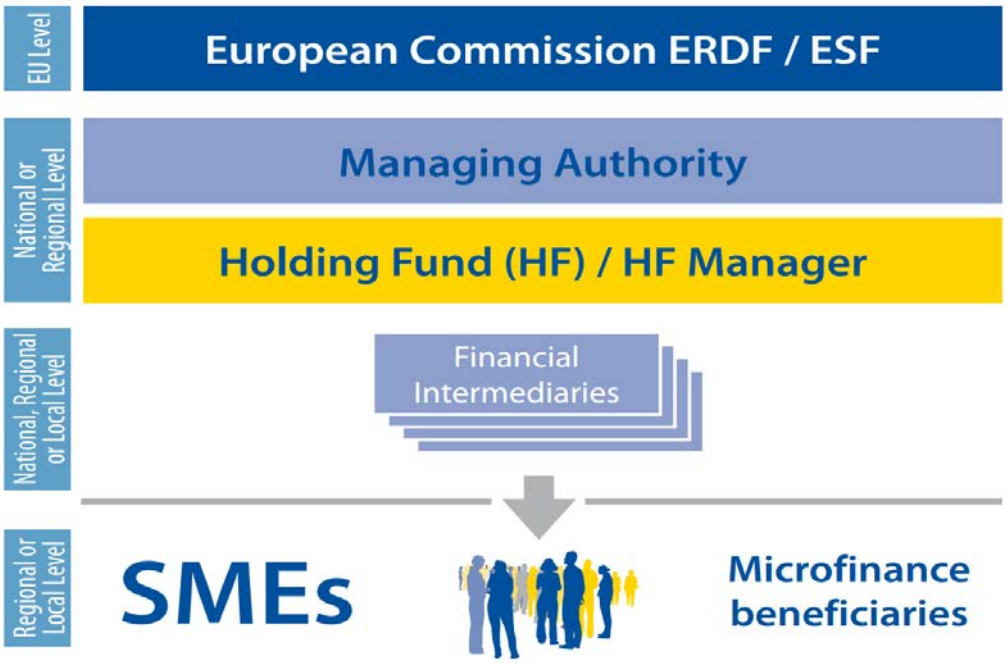
Five specific funds were created under a holding fund managed by the EIF, comprising a mix of debt and equity funds. The five funds were managed by financial intermediaries selected on the basis of a competitive procedure. The equity funds focused on each stage in the business lifecycle, i.e. pre-seed/seed; early expansion; mature growth. The debt products comprised a guarantee aimed at decreasing the collateral levels and interest rates of loans and a soft loan.

As this was the first Structural Funds programme period for Bulgaria, the EIF was appointed as HF manager to bring external expertise and reduce the administrative burden for the MA. The holding fund approach enabled re-allocations between specific funds allocations across in response to changing levels of demand as well as termination of non-functioning funds. A key lesson was the need for greater accountability, sharing of know-how and regular reporting from the EIF to the MA, as well as to stakeholders more broadly (a national fund of funds structure will be developed under the

Ministry of Finance in 2014-20). One issue of concern has been the delays in receiving performance data due to complex reporting structures. However, this has been improved, enabling increased monitoring.

The leveraging of private sector capital was targeted to varying degrees across the funds with an overall target of EUR 2.57 for every EUR 1 of public funds. To date, the reported leverage ratio has been EUR 2.45 for EUR 1 of public funds.[105] The equity funds found this aspect challenging, which can be attributed to difficult market conditions and national financial stability. At present, only very modest returns from the investments have been realised.

Figure 8: EIF JEREMIE Structure (as implemented in Bulgaria)



Source: Jeremie: A new way of using EU Structural Funds to promote SME access to finance via Holding Funds, EIF http://www.eif.org/news_centre/publications/Jeremie_leaflet_files/jeremie_leaflet_en.pdf

[105] 'About JEREMIE Bulgaria', Available at http://jeremie.bg/about-jeremie-bulgaria-2/ (accessed 12/12/2015)

Table 4: Bulgaria FI Performance

Financial instrument	Financial product	Target	OP contribution paid to FIs (million EUR)	OP contribution invested in final recipients (million EUR)	No. of investments	Mgt costs and fees (million EUR)
JEREMIE Bulgaria (HF)			**349.00**			**13.7**
Entrepreneurship Acceleration and Seed FI (SHF)	Equity	Early stage SMEs	17.01	14.56	170	1.57
Portfolio Risk Sharing Loan (SHF)	Loan	Enterprises	188.11	188.11	2,960	0.218
First Loss Portfolio Guarantee (SHF)	Guarantee	Enterprises	64.58	64.58	4,851	0.0
Risk Capital Fund (SHF)	Risk Capital	Enterprises	4.21	3.03	5	0.203
Co-investment Funds (SHF)	Co-investment	Enterprises	10.10	3.32	8	0.750

Note: This data (obtained in the course of the cases study) differs significantly from that reported in the 2015 Summary Report, especially in respect of OP contributions invested in final recipients, with the 2015 Summary Report indicating use of recycled funds.
Source: EIF Preliminary Data – accessed 30 June 2015.

3.2. GERMANY (THÜRINGEN)

The Thüringen Convergence ERDF OP (total budget EUR 1,970 million) aimed to promote education and R&D&I, SME competitiveness, sustainable regional and urban development and the environment. Two specific funds (NHFs) were established within the SME competitiveness priority, with a total value of EUR 145 million (seven percent of the OP), to meet the OP's aim of expanding the range of innovative FIs. In 2008, an existing grant scheme was expanded to offer a loan element with a total budget of EUR 25 million (Invest Fund). The fund provides grants of up to EUR 20,000 and loans of up to EUR 100,000, and targets sectors not covered by the main regional policy instrument. In 2010, a further loan fund of EUR 120 million, Dynamik Fund, was launched to offer larger loans of up to EUR 4 million.

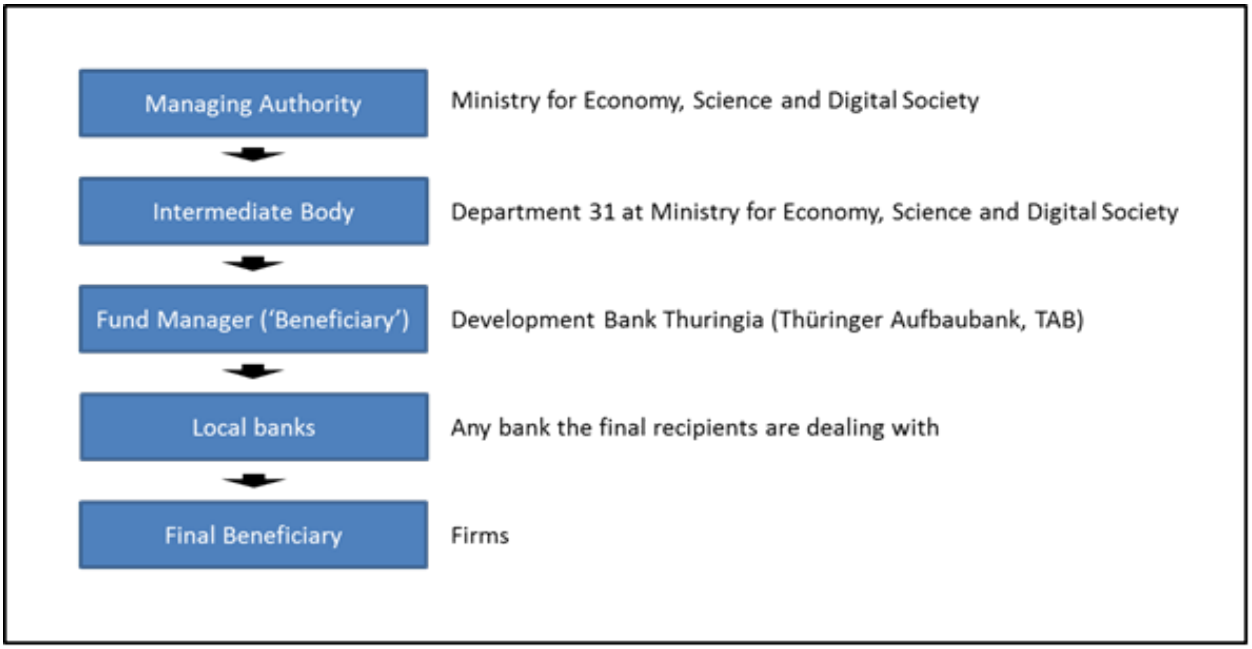
The *Land* development bank (*Thüringer Aufbaubank*, TAB) was appointed as fund manager for both funds, without a formal selection procedure. This decision was based on its well-established connections with the target market, its status as a 100 percent subsidiary of the regional authority, and affordable fees. The TAB distributes funding via final recipients' local banks. In this way, some administrative tasks are outsourced for a fee.

There was no ex-ante evaluation or market assessment conducted; market needs were gauged on the basis of the experience of TAB. Also, although no formal analysis was carried out during the life-cycle of the FIs, the OP mid-term evaluation assessed the merits of FIs in relation to grants. The investment strategies for both funds were followed closely and, given that both funds have been fully absorbed, they appear to have reflected the market effectively. The low interest rates and other advantages such as repayment breaks and early repayment have also proved to be attractive. The TAB produces detailed quarterly reports and there is a system of checks and balances at the level of the TAB, local banks and final recipients. The administrative burden relating to control and verification is considered

to be too high in relation to the scale of investments, but overall, the costs and levels of controls are similar for other types of instruments.

Only the Dynamik Fund has attracted private sector capital, but the level of investment is not currently known. There is a perception that compared to grants, FIs are less attractive for firms, and that grants contribute better to policy performance as firms have a greater incentive to engage.

Figure 9: Individual structure for Dynamik Fund and Invest Fund



Note: This graphic refers to firms as the 'final beneficiary' – in fact it should be the 'final recipient', the TAB being the final beneficiary for the purposes of eligible expenditure.
Source: Case study interview.

Table 5: Germany (Thüringen) FI Performance

Financial instrument	Financial product	Target	OP contribution paid to FIs (million EUR)	OP contribution invested in final recipients (million EUR)	No. of investments	Mgt costs and fees (million EUR)
Invest Fund	Grant/loan	Enterprises	25	23.89	652	1.82
Dynamik Fund	Loan	Enterprises	120	120.33	363	0.45

Source: 2015 Summary Report

3.3. ESTONIA

The 'Renovation Loan for apartment buildings' fund, implemented under the OP for the Development of Living Environment aimed to improve energy efficiency in apartment buildings by at least 20 percent. Much of the country's housing stock comprised ageing apartment blocks; rising housing costs, further depreciation of housing stock, and EU regulations intensified pressure to address the issue.

Although there was no gap assessment conducted, the creation of the FI was based upon a range of studies and policies. An earlier grant scheme had failed due to insufficient resources in relation to need, and a low intervention rate (10 percent) which was payable only after renovations were completed. Bank loans were unaffordable and often had too short repayment periods. The FI offered an attractive loan by combining zero interest funding from ERDF with external financing at market rates.

The MA contracted KredEx, a public financing institution, to implement the FI. Formally, KredEx is not listed as a *holding* fund manager in reporting by the Estonian authorities (and hence the 2015 summary Report), but rather as a *fund* manager. This largely owes to the fact that the funding agreements between KredEx and the financial intermediaries which operated the loans afforded the intermediaries little discretion, to the extent that KredEx considered itself the fund manager.[106] An open procurement procedure was organised to find financial intermediaries, and two commercial banks, Swedbank and SEB, were selected to administer the loan products.

The original fund size of EUR 49 million was increased to EUR 72 million and comprised EUR 17.7 million ERDF and contributions from the Council of Europe Development Bank, State Treasury (as a loan to KredEx) and KredEx own funds, as well as EUR 5.3 million of ERDF funds returned for reinvestment. The banks foresee that all loans will be repaid in full. On average energy savings of 40 percent were achieved.

A number of 'success factors' were identified:

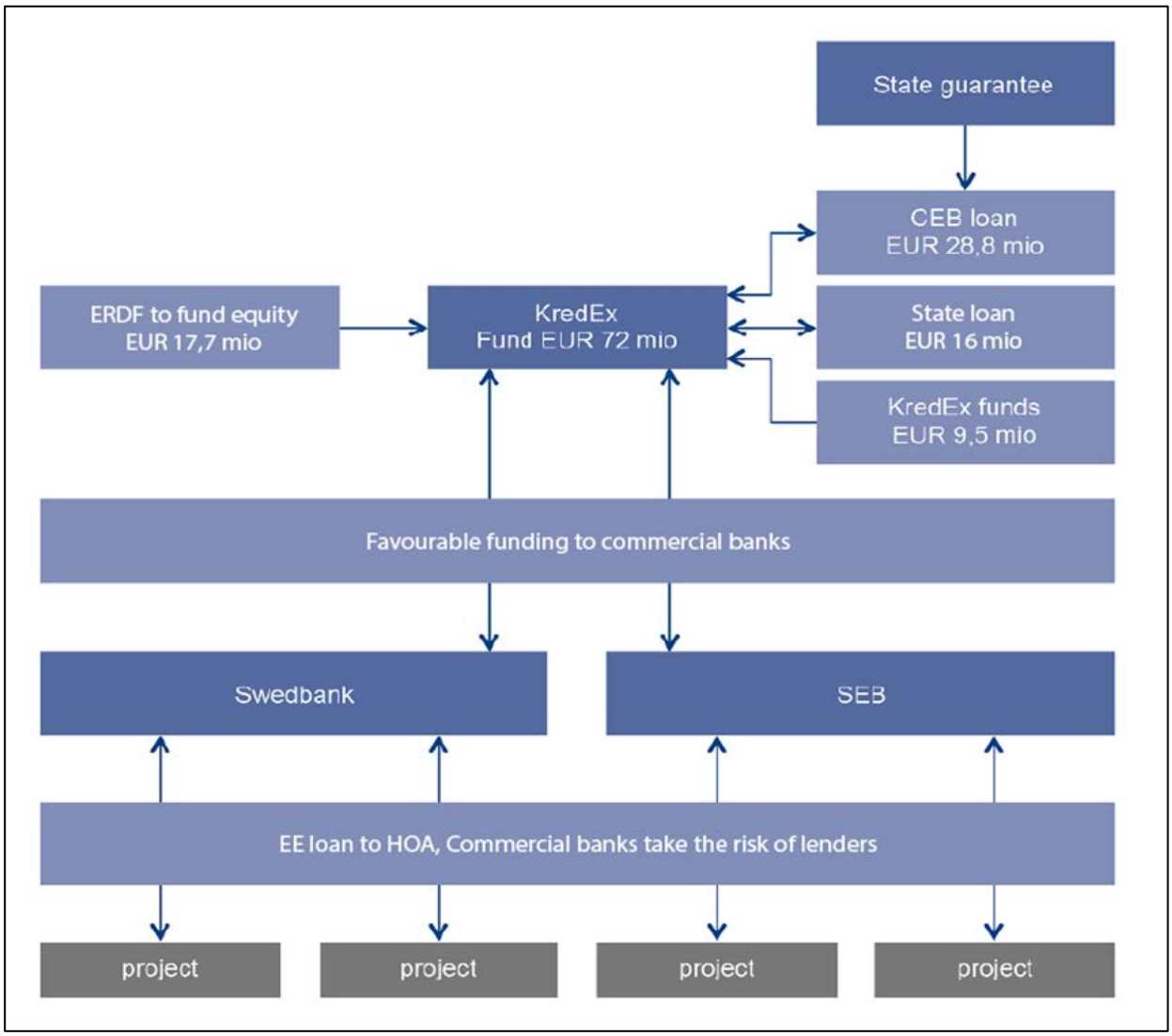
- the credibility of KredEx in the market;
- the ability of KredEx to lever in additional grants and loan guarantees from their portfolio to incentivise housing associations (even allowing for the grant to act as the 15 percent match required for the loan);
- a holistic approach that included awareness raising, legal support, and guidance for applicants; and
- real-time monitoring of performance which produced valuable information on energy efficiency.

The loan fund is perceived as more cost-effective than grants, due to the fact that most of the due diligence and administration tasks are performed by the banks (more cost-effectively than KredEx could achieve). However, some problems arose such as lengthy negotiations with the EC, changes to guidelines during the implementation period and burdensome and costly administration.

The fund will not be continued in 2014-20 due to the improved availability of affordable private finance. However, it is anticipated that the legacy returns will be used for the same purpose in the next funding round (due to the long term nature of the loans it will be several years before most loans are repaid).

[106] From a definitional perspective this is somewhat unhelpful, but patterns of implementation are extremely diverse, making precise definitions difficult to impose.

Figure 10: KredEx Renovation Loan Fund Structure



Source: fi-compass Case Study – Renovation Loan Programme Estonia https://www.fi-compass.eu/sites/default/files/publications/case_study_renovation_loan_programme_estonia_0.pdf

Table 6: Estonia FI Performance

Financial instrument	Financial product	Target	OP contribution paid to FIs (million EUR)	OP contribution invested in final recipients (million EUR)	No. of investments	Mgt costs and fees (EUR)
Renovation loan for apartment buildings	Loan	Apartment owners associations	66.71	66.71	639	0.0

Source: 2015 Summary Report

3.4. SPAIN (ANDALUCÍA)

The Andalucía OP (total budget EUR 9,084 million) supported both JEREMIE (SME support) and JESSICA (urban and energy efficiency) FIs; the former under the Priority Axis 'Innovation and the Knowledge Economy' and the latter under Priority Axis 'Sustainable local and urban development'.

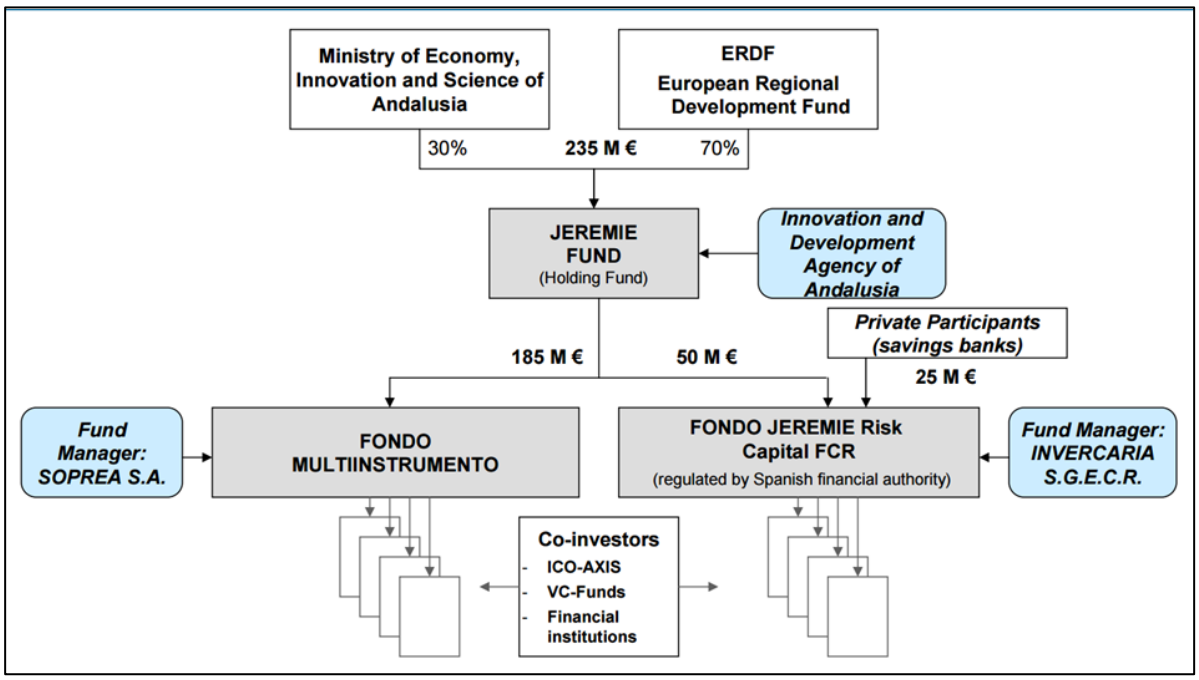
An independent unit within the regional development and innovation agency 'IDEA' was established to act as holding fund manager for the JEREMIE fund, which comprised a venture capital fund run by public body INVERCARIA (EUR 50m) and a mixed product fund run by SOPREA, another public financial body. Two further specific funds were added, for sustainable construction and energy, both run by private sector banks. The structure of the funds was informed by a market gap assessment undertaken by the EIF in 2008. This was considered to be accurate for the prevailing market, but the economic crisis created new gaps (e.g. need for conventional loans) which were subsequently addressed by the addition of new financial products. The two later specific funds addressed new government priorities and the need to tackle absorption challenges in other parts of the OP. An investment strategy, modified over time to reflect changes in economic conditions and government policies, has underpinned FI implementation. The holding fund structure, which was a novel approach for FIs in Spain, is considered to have been effective and to have stimulated learning and professionalism within the IDEA agency. Overall the selection of specific fund managers was satisfactory, but the banking crisis affected levels of interest in the tender process. A key lesson was the need to ensure that rules for selecting fund managers are well specified in the calls to avoid difficulties during implementation, and to build in flexibility to transfer allocations between specific funds.

Of the EUR 238 million allocated to the JEREMIE fund, EUR 140 million has been invested and around EUR 40 million returned. New FIs may be created to reuse the returns in future. Monitoring is considered to have been good, and checks are made on 100 percent of projects by the intermediaries and on a sample by the holding fund manager. Clearer guidance has been sought from the EC on audit/control. FIs are considered to make better use of Cohesion policy funds than grants and to contribute to better policy performance. This view is influenced by the reimbursable nature of the instruments, the high levels of additionality, and the impact on priority sectors. A combined grant-loan instrument may be pursued for 2014-20.

The EIB manages two JESSICA holding funds in Andalucía: an urban fund (EUR 85.7 million) with two Urban Development Funds providing loans, equity and quasi-equity to urban projects that form integrated sustainable urban development plans; and a fund for investments in energy-saving and diversification (FIDAE) comprising mainly loans and also VC and quasi-equity. Despite a late and slow start to both funds (slow uptake and weak investment climate), it is expected that OP contributions will be fully invested before programme closure.

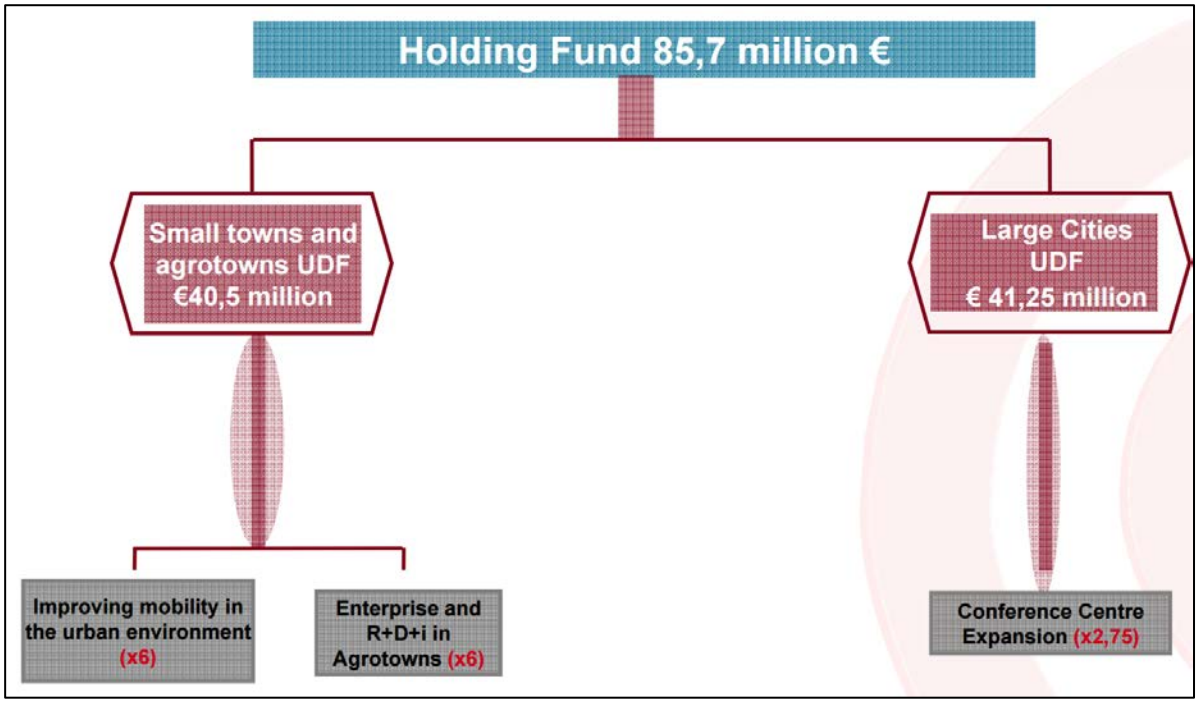
EIB-commissioned studies were used to inform the design of both funds. The investment strategy was subject to ongoing adaptations in response to demand and supply issues (e.g. changes in national renewable energy policies, budgetary constraints). Additional financial intermediaries were incorporated to increase competition and demand. Good partnership between the EIB, MA and the HF managers enabled the FIs to address challenges. FIs are considered more effective than grants, and have stimulated learning which has contributed to a culture shift in the public administration in terms of financial sustainability of urban development.

Figure 11: JEREMIE Andalucía Structure



Source: JEREMIE implementation with a Regional Development Agency - The case of Andalucía: challenges, achievements and perspectives - Presentation, Agencia IDEA. (Note that the sustainable construction and energy funds are not shown) http://www.eib.org/attachments/general/events/idea.pdf

Figure 12: JESSICA Andalucía Structure (urban fund)



Source: Implementation of JESSICA in Andalucía. Evaluation study: Outlook and Opportunities, Afi Consultores de las Administraciones Públicas: http://www.eib.org/attachments/documents/implementation-of-jessica-in-andalucia_en.pdf

Table 7: Spain (Andalucía) FI Performance

Financial instrument	Financial Product	Target	OP contribution paid to FIs (million EUR)	OP contribution invested in final recipients (million EUR)	No. of investments	Mgt costs and fees (million EUR)
JEREMIE (HF)						
Venture Capital Fund	VC	Enterprises	50.0			
Multi-instrument Fund	Loan, Guarantees, Quasi-equity	Enterprises	185.7			
Sustainable construction	loan	Enterprises	50.0			
Energy	loan	Enterprises	93.3			
JESSICA (Andalucia)						
Urban	loans, equity, quasi-equity	public-private partnerships, private sector, public sector	85.7	42.6	4	
JESSICA (FIDAE)						
FIDAE (Energy)	loans, VC, quasi-equity	public-private partnerships				

Note: Where there are no data, it is not clear whether this is due to no investments having been made or data not having been returned to the EC by the MA. Most of the data were supplied by the MAs on a voluntary basis. Note that it is not clear from the MA data whether JEREMIE FIs are specific funds under the holding fund (SHF) or outside (NHF).
Source: MA data and case study interview.

3.5. ITALY

Italy made extensive use of FIs in 2007-13 through two national OPs (Renewable Energy and Energy Efficiency; and Research and Competitiveness) and 17 regional OPs.

The FIs in the National OP Research & Competitiveness 2007-13 were aimed at fostering research, innovation and competitiveness in Convergence regions (Calabria, Campania, Puglia, Sicilia). Within the OP, nine specific funds (NHF) have been set-up, five of which are managed by the Ministry for Economic Development internally, three are managed by the Italian agency for attraction of foreign investments (*Invitalia spa*) and one *(Fondo centrale di Garanzia)* is managed by the banking group *Mediocredito centrale Spa*.

Mediocredito centrale Spa was the only fund manager to be publicly procured. For *Invitalia spa*, an in-house body of the Ministry, direct entrustment was used. An internal unit of the Ministry was designated an Intermediate Body, which enabled the direct management of the FI by the Ministry.

The largest national FI is a guarantee scheme (budget EUR 550 million), *Fondo Centrale di Garanzia* (FCG), addressing limited SME access to finance. This has built on long-standing experience, and has reached a large number of final recipients. However, in 2012-13 a re-launch of FCG was required to better meet SMEs needs in the economic crisis. This involved expansion of eligibility criteria, resulting in increased take-up. The various loan funds are differentiated by size of firm, technology sectors, and self-employment linked to various OP objectives.

A number of issues were encountered, with decommitments being necessary for some loan products, e.g. in the case of the Fund for Technological Innovation (*Fondo Innovazione Tecnologica*), following a lack of demand and eligibility issues. Monitoring arrangements have also presented challenges and, while the system of checks and verifications are perceived as satisfactory, they require improved coordination and further simplification.

Overall, FIs are considered more effective than grants (more sustainable and enabling transfer of expertise to firms), although grants continue to be of value, particularly in Convergence regions. Due to a lack of capacity and know-how and perceived lack of demand, particularly in Convergence regions, equity products were not used, however, a number of equity funds will be piloted in 2014-20.

Table 8: Italy FI Performance

Financial instrument	Financial Products	Target	OP contribution paid to FIs (million EUR)	OP contribution invested in final recipients (million EUR)*	No. of investments	Mgt costs and fees (million EUR)
Revolving Fund DM 23 July 2009 from 12/2011 expanded to include Development Contracts Fund	Subsidised loans	SMEs and larger companies	202	39.4	54 (DM) and 15 (Con Sv)	Not available
Revolving Fund Development Contracts	Subsidised loans	Large investments and R&D&I	95	17.2	11	Not available
Fund L.46.82 FIT and PIA innovations	Subsidised loans	SMEs, mainly concerned with innovative development projects				Not available
-factual analysis			45	14.6	53	
-generalist			85	27.6	97	
-reach			10	4	9	
-start up			5	1.6	9	
FIT-PIA			90.5	17.3	242	Not available
Revolving fund D Lgs. 185/2000		Self-employed	33	18.4		Not available
PON guarantee fund	Guarantee	SMEs	550	311.2	22,891	Not available

Note: *Includes revolved funds.
Source: Italian MA AIR 2014. Note that the data for the amount invested in final recipients differs for several of the FIs from that reported in the 2015 Summary Report.

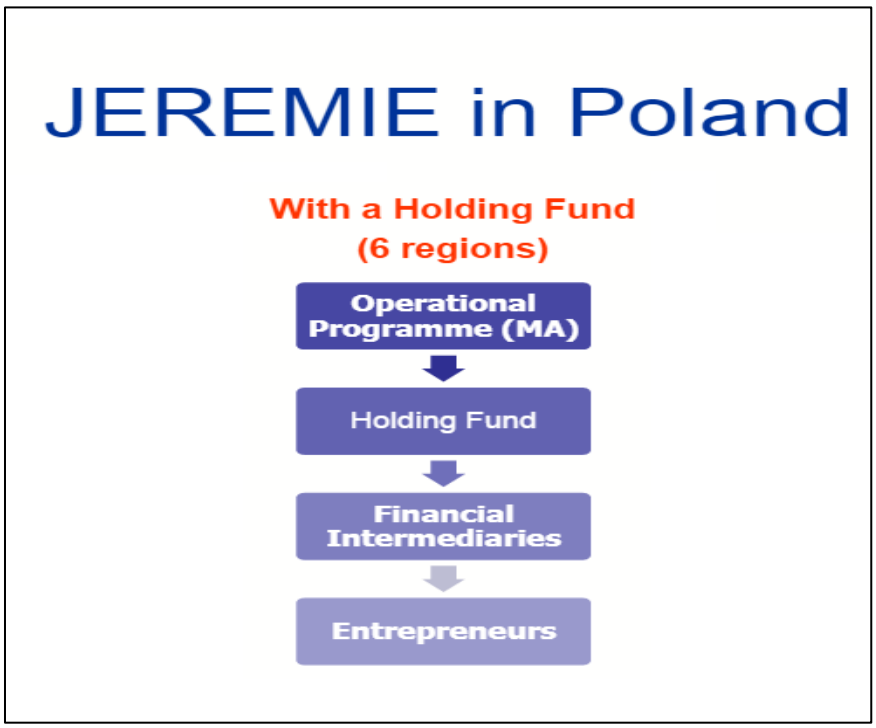
3.6. POLAND (POMORSKIE)

The Pomorskie Regional OP (total budget EUR 1,300 million) aimed to improve the region's competitiveness, social cohesion and accessibility by focusing on competitiveness and innovation, urban centres, attractiveness and targeting disadvantaged areas. FIs were incorporated by amendment of the OP in 2010 following the mid-term review, to take advantage of the revolving and multiplier effects of the funds to support a larger number of SMEs, increase flexibility and focus on actual market demand, and to strengthen the market of financial intermediaries. Both JESSICA and JEREMIE instruments, with a total value of EUR 125.6 million, were introduced (9.7 percent of OP funding).

The JEREMIE fund was based on a market assessment, which focused on the need for support of micro and small enterprises. Poland's only state-owned bank, BGK, was appointed as holding fund manager following public competition; it was noted that there was little experience and capacity within the MA to prepare and negotiate the funding agreement. However, the use of the HF provided flexibility, speedy implementation, reduced management costs and brought in external experience. An initially complex structure of instruments was subsequently rationalised from 12 to four loan and guarantee products, with the scale of guarantees substantially reduced as the market could offer better terms. The learning from the implementation of the investment strategy based on gauging market needs, setting of indicators and targets, and managing the reporting burden for final recipients has fed into the 2014-20 period. The anticipated level of private sector co-financing did not materialise; there was a lack of incentive for banks to participate, and no solution has been found to address this in 2014-20. Overall, in terms of SME support, FIs are perceived to be superior to grants, as they introduce market-based principles to implementation.

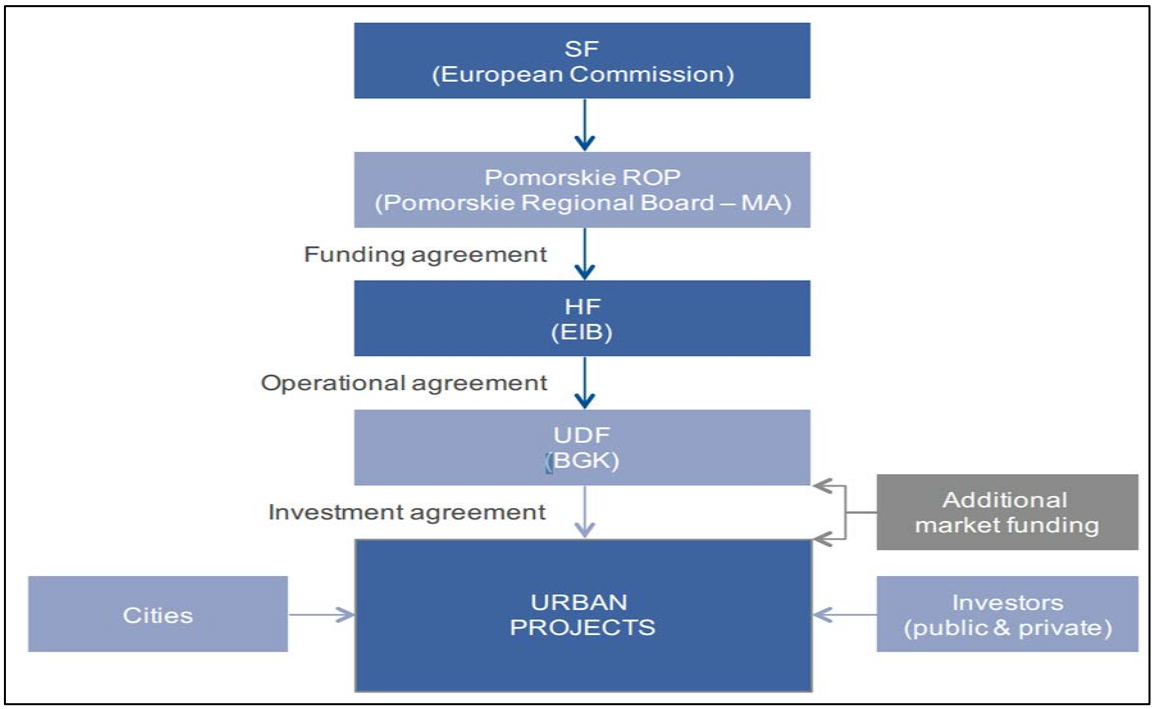
For the JESSICA Fund, given the short period of time, need for efficiency and possibility to draw on their experience, the EIB was contracted as holding fund manager and it appointed BGK as Urban Development Fund (UDF) manager; the UDF then invested in urban projects in four main cities, with the interest rate depending on social, economic, environmental and spatial planning factors. Although the management fees were considered high by the MA, the fund management was perceived to represent fairly good value for money. The model allowed for leveraging private sector investment and the resources that have been repaid are being used to finance new projects. The JESSICA investment strategy addressed the OP objectives, and was flexible to changes in market conditions which reduced the pipeline of city projects. In 2012, changes were made to: expand the list of eligible cities; improve progress reporting; and introduce new types of projects. The MA designed its own detailed monitoring framework, and controls are undertaken at every level of management. It is perceived that both grants and FIs have a place within Cohesion policy. FIs will be expanded to new thematic areas in 2014-20, building on lessons of inbuilt flexibility; efficient monitoring; constant cooperation; and capacity building at every level.

Figure 13: JEREMIE Poland Structure



Source: *Implementation of the JEREMIE Initiative Poland,* Radosław Krawczykowski, Marshal Office of the Wielkopolska Region, *08 November 2011:* http://www.ekonomiaspoleczna.pl/files/ekonomiaspoleczna.pl/public/_MRR_Better_Future/JEREMIE_2011_11_06_Praga_R_Krawczykowski.pdf

Figure 14: JESSICA Pomorskie Structure



Source: fi-compass Case Study – Urban Development Fund in Pomorskie, Poland: https://www.fi-compass.eu/sites/default/files/publications/case-study_urban_development_fund_in_pomorskie_poland.pdf

Table 9: Poland (Pomorskie) FI Performance

Financial instrument	Financial Product	Target	OP contribution paid to FIs (million EUR)	OP contribution invested in final recipients (million EUR)	No. of investments	Mgt costs and fees (million EUR)
JEREMIE Access to finance for SMEs (HF)			**70.32**			
Czersk Cooperative Bank (SHF)	Loans	SMEs	4.89	4.89	167	0.28
Pomorskie Loan Fund, Gdansk (SHF)	Loans	SMEs	19.63	19.63	1233	0.95
Pomorskie Regional Credit Guarantee Fund, Gdansk (SHF)	Guarantees	SMEs	9.9	17.43	634	0.68
Regional Investment Society (SHF)	Guarantees	SMEs	6.73	9.93	367	0.2
Centre for Economic Development, Paslek (SHF)	Loans	SMEs	2.45	2.45	87	0.12
Society for Social and Economic Investment (SHF)	Loans	SMEs	7.34	7.34	173	0.44
Wisla Development Company (SHF)	Loans	SMEs	1.71	1.25	235	0.53
Black Rose Finance(SHF)	Loans	SMEs	0.49	0.03	28	0.49
FM Bank PBP (SHF)	Guarantees	SMEs	2.27	2.84	435	0.06
Idea Bank (SHF)	Loans	SMEs	2.45	2.45	85	0.17
IKB Leasing (SHF)	Loans	SMEs	1.31	1.27	75	0.11
Micro Initiative (SHF)	Loans	SMEs	2.45	2.45	121	0.21
Kaszubski Enterprise Fund (SHF)	Loans	SMEs	2.08	1.84	105	0.08
Polfund Credit Guarantee Fund (SHF)	Guarantees	SMEs	1.71	3.67	45	0.03
Polish Entrepreneurs Foundation, Szczecin (SHF)	Loans	SMEs	13.45	12.33	533	0.77
JEREMIE Seed Capital Fund, Pomorskie Region (SHF)	Equity	SMEs	1.20	0.00	0.00	0.00
JESSICA Urban projects (HF)			**59.02**			**2.4**
UDF Warsaw (SHF)	Loans	Urban projects	58.03	48.73	32	3.17
Pomorskie Loan Fund Limited Liability Company, Gdańsk **(NHF)**	Loan	SMEs	4.09	4.09		0.45
Regional Investment Society SA, Dzierzgoń **(NHF)**	Loans	SMEs	1.25	1.25		0.04
Slupskie Association of Economic Innovation and Entrepreneurship **(NHF)**	Loans	SMEs	2.77	2.77		0.07

Note: Where there are no data, it is not clear whether this is due to no investments having been made or data not having been returned to the EC by the MA. Also, it should be noted that in the case of Pomorskie each annual contributions to SHFs are reported individually in the 2015 Summary Report. For clarity, the total contribution to each SHF has been calculate and presented as a single figure.

Source: EPRC calculations from 2015 Summary Report.

3.7. ROMANIA

The OP 'Increase Economic Competitiveness' (POSCCE) aimed to increase the productivity of Romanian enterprises, in line with the principles of sustainable development. The EUR 2,554 million Programme has five priority axes including 'An innovative and eco-efficient productive system' which targets SME growth and improving the business environment, through a range of measures including FIs. A single holding fund managed by the EIF consists of three specific funds for guarantees, risk capital and loans.

Although implementation is considered by the MA to have been relatively successful (particularly in the light of severe difficulties with the OP overall), a number of lessons have been learned with respect to tailoring instruments to demand, maintaining flexibility, ensuring good communications between the holding fund manager and stakeholders, and evidencing impacts. Lack of European legislation and guidance and delays in contracting with financial intermediaries (attributed to the MA and EIF) were also cited as challenges.

The HF structure was perceived to be advantageous in terms of flexibility, added value in the market, and support for final recipients. The guarantee product was not very attractive to financial intermediaries given its innovative character and issues with interpretation, and was perceived to be overly bureaucratic due to EU regulatory requirements. The FIs attracted a high level of interest in the private finance market, and the leverage effect is perceived to be good. However, there is a lack of data on the level of returns or default rates.

A key issue with the MA is the lack of capacity and stability of internal personnel to monitor the progress of the FIs. Checks and verifications are carried out at the level of the financial intermediaries (in this case banks), but capacity issues and a reluctance by banks to change their internal procedures have presented challenges. National auditors do not have the authority to check the activities of the EIF; however, the activities of the EIF were covered by an audit mission covering the whole programme in Romania which became available through a freedom of information request.[107]

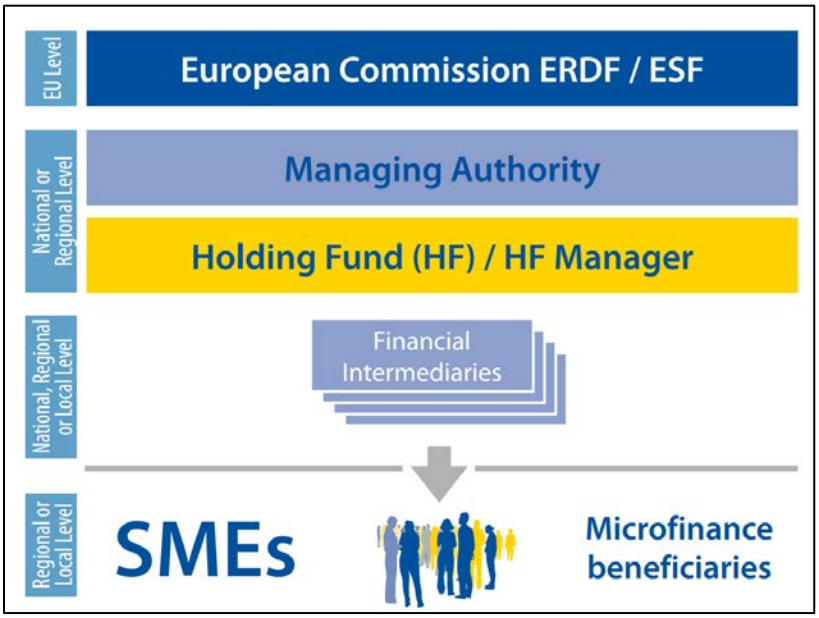
Table 10: Romania FI Performance

Financial instrument	Financial Product	Target	OP contribution paid to FIs (million EUR)	OP contribution invested in final recipients (million EUR)	No. of investments	Mgt costs and fees (million EUR)
EIF JEREMIE (HF)	**Loan**		**150.00**			**6.74**
Risk Capital	Equity	SMEs	10.56	2.60	4	0.88
First Loss Portfolio Guarantee	Guarantee	SMEs	62.0	55.38	2864	0.00
Portfolio Risk-Sharing Loan	Loan	SMEs	74.74	59.65	742	0.0

Source: 2015 Summary Report.

[107] See: http://www.asktheeu.org/en/request/625/response/2351/attach/3/Audit%20report%20mission%20798%201%20OP%20Competitiveness.pdf

Figure 15: EIF JEREMIE Structure



Source: Jeremie: A new way of using EU Structural Funds to promote SME access to finance via Holding Funds, EIF http://www.eif.org/news_centre/publications/Jeremie_leaflet_files/jeremie_leaflet_en.pdf

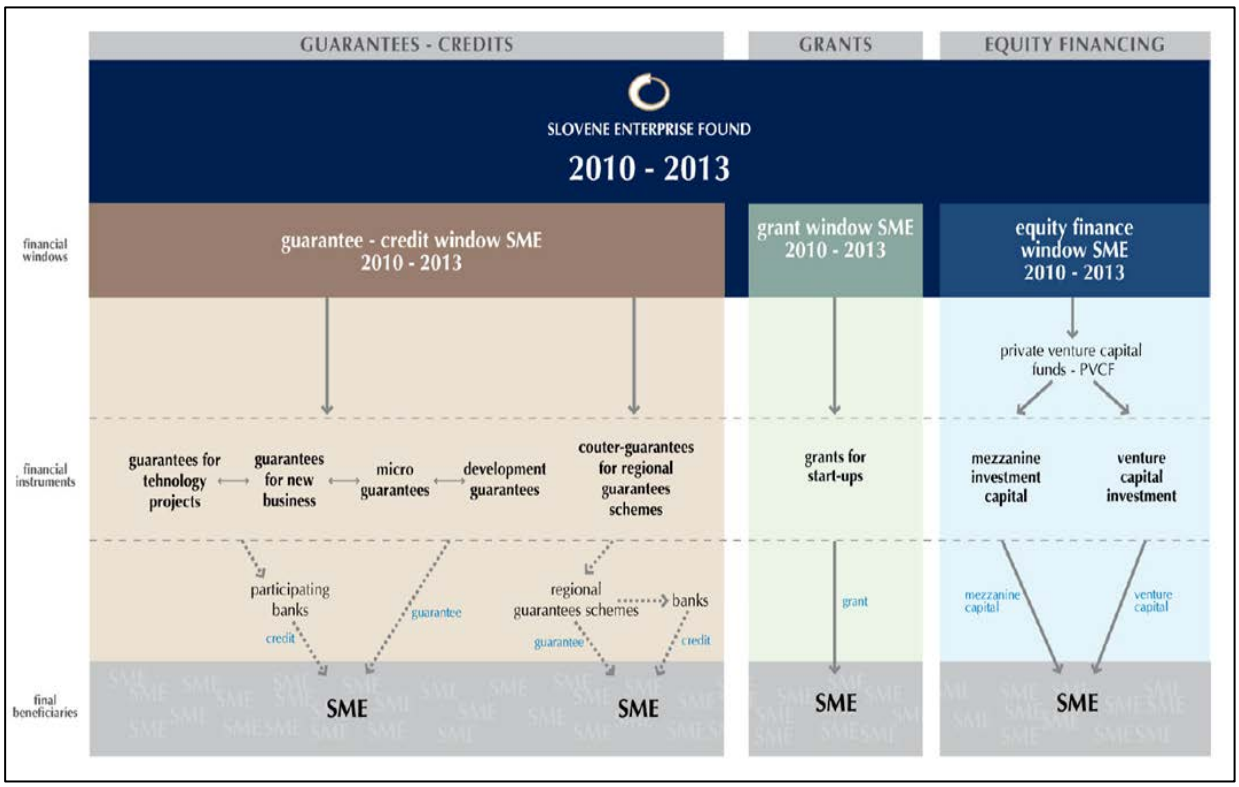
3.8. SLOVENIA

The 'Strengthening Regional Development Potentials' OP focused on increasing competitiveness and fostering balanced regional development, with a total budget of EUR 2,010 million. FIs were implemented by an established publicly-owned body with experience of supporting innovative SMEs, the Slovene Enterprise Fund (SEF). In 2008, a loan guarantees with interest rate subsidies was established as a specific fund (NHF). In 2009, the SEF as holding fund manager brought the loan guarantee fund within its remit and added other specific (SHF) funds for venture capital and microfinance. The HF sits alongside SEF's other national funds, comprising seed and start-up finance and other guarantees.

SEF's previous experience was considered vital to the early implementation of FIs, and their relationship with private banks is seen as a clear strength, especially in agreeing the interest rate subsidy guarantee scheme. There was good communication between the public HFM and the MA and other government departments. Specific fund managers were selected through public procurement, with a simple process which included dialogue between SEF and Ministry of Finance officials and stakeholders. The government set the management fees (three percent for VC and 0.5 percent for HF), and this was considered value for money, even under-priced, as more funding would have allowed for capacity improvements. Compared to grants, the costs of operating FIs are considered reasonable. However, there seems to be a lack of clear strategy for returns, particularly VC.

No initial market gap assessment was undertaken, and although an EIF JEREMIE feasibility study was undertaken in 2008, it was not considered influential in preparations. It could be considered that the very quick absorption and revolution of funds indicates that the initial allocation was too small. Although there was no clear investment strategy, the premise for FIs was straightforward: targeting SMEs, with particular focus on innovation and technology. The VC element performance is less clear, but there is a suggestion of poor engagement from the private sector. There was flexibility to transfer VC allocations to guarantees reflecting demand.

Figure 16: Slovene Enterprise Fund Structure



Source: Slovene Enterprise Fund website (image no longer available)

Table 11: Slovenia FI Performance

Financial instrument	Product	Target	OP contribution paid to FIs (million EUR)	OP contribution invested in final recipients (million EUR)*	No. of investments	Mgt costs and fees
Bank Loan Guarantee with interest rate subsidies (stand-alone ended 2009 to become part of HF)	Guarantee	SMEs	211.3	460.4	1,104	Not available
Holding Fund						**Not available**
Bank Loan Guarantee with interest rate subsidies	Guarantee	SMEs	163.9	326.6	901	Not available
Microcredit	Loan	Small firms	10	18.4	425	Not available
Venture Capital Funds	Equity	SMEs	60.5	Not available	Not available	Not available

Note: *This includes revolved funds.
Source: MA case study Interview.

3.9. CHANGES FOR 2014-20

In 2014-20, some MAs foresee mainly consolidating the experience of 2007-13 (Thüringen, Andalucía JESSICA, Pomorskie JESSICA). This may be combined with adjustments – for example, combining instruments (Andalucía JESSICA and Andalucía JEREMIE, Slovenia) or implementing FIs 'better and faster', as well as expanding into new thematic areas and using new financial products (Pomorskie JESSICA). A sharper focus on innovative measures will be sought in **Italy**, in order to reward those businesses that are highly innovative and develop particularly high quality projects, as well as measures supporting the economic upturn.

Capacity building is a major feature of changes in several countries. A national fund of funds is being established in **Bulgaria** as a management structure to govern all FIs centrally, under the supervision of Ministry of Finance. The aim is to develop local capacity to manage FIs. There will also be more focus on developing capacity in **Pomorskie JEREMIE**, particularly to address the challenges of using guarantee-based products, in making provisions to mobilise private investment and in developing more realistic indicators and targets.

Capacity building is also likely to be a feature of developments in **Romania**, where internal communication between domestic structures, and also in relation to the EC, could be improved. There is a need to establish a system that would engage all sides and a management plan needs to be established, including periodic meetings.

More fundamental change is planned in Estonia, where the renovation loan programme will not be continued in 2014-20, as there is no longer an urgent need for this type of intervention. The economic situation has changed and commercial banks now also offer very low interest rates, have the necessary resources and are well capitalized.[108] The market for financial products for renovation has expanded (apartment owners now have more financing options), partly due to the renovation loan scheme.[109] There is still need for 'soft' support in the form of grants and advice which will be continued. However, the MA is prepared to re-establish the instrument quickly, if market conditions deteriorate (as in 2009).[110]

Areas where uncertainty remains or further guidance is still sought include:

- more guidance and best practice exchange is needed on blending loans and grants (Slovenia);
- improvement in audit/control rules, especially clear rules to avoid legal insecurity and clear differentiation of the rules that apply to FIs and to direct grants, as well as simplification in the regulatory framework (Andalucía JEREMIE);
- more overall support, especially in terms of technical discussions and issues (Bulgaria); and
- the impact of moving to a phased payments approach rather than advances (Italy, Pomorskie JEREMIE).

[108] Suu L. (2015) *Financial instruments for sustainable energy investments in residential buildings* (presentation), 16 June 2015, p. 16, http://www.eusew.eu/upload/events/4582_20861_lauri%20suu.pdf (accessed 12 July 2015).
[109] See https://www.fi-compass.eu/sites/default/files/publications/case_study_renovation_loan_programme_estonia_0.pdf, p. 21 (accessed 16 June 2015).
[110] Suu L. (2015) *Ibid.*, p. 16;
https://www.fi-compass.eu/sites/default/files/publications/case_study_renovation_loan_programme_estonia_0.pdf, p. 21 (accessed 16 June 2015).

4. COMPARATIVE ANALYSIS OF CASE STUDY OUTCOMES

This section provides an overview and analysis of the key findings from the case study research. It focuses on the main phases and dimensions in the life cycle of FIs. The key findings on each aspect are summarised at the start of each subsection.

4.1. ANALYSIS OF THE NEED FOR FINANCIAL INSTRUMENTS

KEY FINDINGS

- Half of the MAs surveyed used formal market assessments before launching FIs; the remainder relied on prior experience, fund managers' market expertise or more informal analysis.
- The EIBG carried out a number of market assessments for the launch of JEREMIE and JESSICA instruments.
- All MAs found the gap analyses conducted to be accurate (at the time) even where they did not affect decision making.
- All were satisfied with the approach taken, whether using a formal market analysis or other sources, highlighting the successful performance of their FIs as justification for the approach, although in some cases significant amounts remain in the holding funds and specific funds and have not been invested in final recipients.
- A number of interviewees noted that the analyses were accurate at the time of completion, but the impact of the economic crisis altered this and there is a need to conduct further analyses, especially when new instruments are to be set up.

4.1.1. Context

A crucial issue in considering the role for FIs is whether there is a need for public policy intervention or whether the market is already providing finance of an appropriate type and scale. There may be market failure or a sub-optimal investment situation due to the high risk of the sector involved (e.g. R&D&I), expectations of low profitability, high costs associated with available funding sources or the 'space' and 'place' effects of an uneven geography of finance.[111] For the 2007-13 programming period there was no explicit requirement for an ex-ante evaluation or assessment to be carried out specific to FIs. Nevertheless, the usefulness of such analysis was recognised by the EC, which co-financed so-called 'gap assessments' with the EIF and 'evaluation studies' with the EIB at the request of Member States or regions; these were provided free-of-charge. However, the ECA was highly critical of many of the EIF gap assessments in their sample of audited FIs, citing a lack of synergy with OPs, no quality control of the assessments and that they were not systematically made public, amongst the failings.[112]

4.1.2. Market assessments

In four of the eight case study OPs, formal market assessments were carried out before the launch of the FIs (Andalucía JEREMIE and JESSICA urban, Bulgaria, Pomorskie, Romania), while elsewhere, the decision to introduce FIs was based on other considerations or more informal assessments (Andalucía JESSICA energy, Estonia, Italy, Slovenia, Thüringen).

[111] European Commission, EIB, PWC (2014) *Op. cit.*; Mason C., Michie R. and Wishlade F. (2012) *Op. cit*.
[112] ECA (2012a) *Op. Cit.*

- **In preparation of JEREMIE instruments in the case study OPs**, the EIF undertook the gap assessments (Andalucía, Bulgaria, Romania and Pomorskie).[113] The EIF also undertook a gap assessment for a potential JEREMIE fund in **Slovenia**, but this did not affect the Slovenia FI significantly as the instrument was already under development;
- In Andalucía, **the EIB commissioned an assessment for the urban JESSICA fund**,[114] but not for the energy JESSICA fund, for which only a pilot study was carried out (in Galicia).[115] Both studies were commissioned by the EIB following a public tender and undertaken by consultancies employing the EIB methodology.

In some cases, there has been **more than one analysis in the course of the programming period** (BG and Pomorskie JESSICA). In **Bulgaria**, the EIF carried out a series of studies between 2007 and 2011, which fed into the design and review of a number of instruments: a gap analysis and a study on SME access to finance (September 2007); a market analysis reflecting the different market conditions due to the financial crisis (September 2009); and market analyses before launching the Portfolio Risk Sharing Loan (PRSL) and the Seed & Start-up Fund (2011). In the case of the **Pomorskie JESSICA**, an initial ex-ante study in 2010 was followed by an evaluation of implementation preparations in 2011.

Box 1: Methods used in gap assessments – example of Pomorskie JESSICA

The Pomorskie MA commissioned two studies. The first study (April 2010) involved:

- direct interviews (meetings or telephone conversations) with bodies to be potentially involved in JESSICA;
- questionnaires identifying potential projects to be covered by JESSICA financing;
- information gathering on potential projects through meetings with selected respondents to the project identification questionnaires;
- market research on regeneration activities in Poland;
- analysis of available JESSICA implementation studies for other regions in Poland;
- use of available EIB experience in JESSICA implementation in other regions in Poland and Europe; and
- use of the consultancy's experience in regeneration projects and FIs.

The second study (2011) looked at the status of preparations for JESSICA in Pomorskie. It involved:

- a written questionnaire;
- telephone conversations and mail correspondence with relevant potential stakeholders;
- meetings with most of the stakeholders;
- follow-up contacts to clarify the outstanding issues; and
- desk research of publicly available information.

Source: Interview with Pomorskie MA.

MAs for the Estonia, Italy, Slovenia and Thüringen OPs decided not to carry out formal gap assessments for their FIs. The decisions about whether and how to set up FIs were **based mainly on previous experience** and also partly on studies prepared as part of wider gap analyses (Estonia). Studies with a wider scope were also undertaken in Spain. Together with EIB's pilot study in Galicia,

[113] European Investment Fund (2009) Executive Summaries of Evaluations Studies on SME Access to Finance in EU Member States/Regions carried out by EIF in the Context of the JEREMIE (JOINT EUROPEAN RESOURCES FOR MICRO TO MEDIUM ENTERPRISES) Initiative from 2006 to 2008, 1 March 2009, http://ec.europa.eu/regional_policy/archive/funds/2007/jjj/doc/pdf/jeremie_sme_access.pdf

[114] AFI (2010) *Implementation of JESSICA in Andalucia. Evaluation study: Outlook and Opportunities*, http://eib.europa.eu/attachments/documents/implementation-of-jessica-in-andalucia_en.pdf

[115] European Investment Bank (2010) JESSICA Evaluation Study for Galicia, Ref.: IR812, Final Report, 15/09/10. http://www.eib.org/attachments/documents/jessica-galicia-final-report-en.pdf

they became the reference point for the IDEA agency and the EIB and, therefore, for the introduction of the JESSICA energy FIs in Andalucía.

In **Slovenia** and **Thüringen**, the ERDF-funded **FIs were set up building on existing public structures and experienced (holding) fund managers**. In **Slovenia**, the Slovene Enterprise Fund (SEF), which acts as a HF manager, has been offering funding to SMEs since 1992. Also in **Italy**, there was previous experience with the FCG, which is a long-running domestic instrument. The fund manager of FCG carried out a forecast of resources needed, based on demand trends, and funding was increased from EUR 100 million to EUR 550 million. In **Thüringen**, the Development Bank Thüringen (TAB) is a 100 percent subsidiary of the *Land* government. One of the two FIs – the Invest Fund – was already in place as a grant-based instrument before the 2007-13 programming period, but the MA was motivated to use FIs in order to maximise the scope for legacy funding.

Box 2: Setting up the Estonian Renovation Loan Scheme

In Estonia, government and EU-funded schemes have been available through KredEx since 2004: a 50 percent grant for energy audits, building design documents and technical supervision and a 10 percent grant for the renovation work. The renovation grant ended in 2007 due to a lack of resources. The approach had not been successful in filling the market gap because the amount of grants was insufficient and the grants were given only after renovation was completed. Although the investment need was high, the scheme's capacity to invest was low. Residents had to rely on ordinary commercial loans to pre-finance the renovation works but these had too short repayment periods and too high interest rates.[116]

The gap was considered to highlight the need for stronger State intervention. The introduction of the Estonian Renovation Loan Scheme was also inspired by similar renovation schemes in Germany, where the development bank *KfW Bankengruppe* (*Kreditanstalt für Wiederaufbau*) had used ERDF funding for loans in social housing. The Estonian government decided to introduce a FI for the 2007-13 programming period that would make it more feasible for owners to renovate apartment buildings. With the renovation loan scheme, there was an expectation of higher efficiency deriving from the revolving nature of the fund as the initial funds could be reinvested. KfW was also involved in setting up the scheme and assisted KredEx in designing the FI.[117] The Renovation Loan Scheme is perceived by the MA to be the most successful FI in Estonia.

Source: Interview with Estonian MA.

With hindsight, **programme managers are largely satisfied with the approach of *not* carrying out formal assessments** (e.g. Estonia, Italy, Thüringen). In **Thüringen**, programme managers highlight the fact that the allocated funding in both instruments has been used up completely, without any major issues in their implementation. In the Italian case of the FCG, the approach adopted is seen as positive, as the FI has responded to the identified needs of businesses, including through the increase

[116] *Financing energy efficiency renovations in the Latvian Housing sector* (JESSICA report) (2012), p. 54-55, http://www.eib.europa.eu/attachments/documents/jessica-study-latvia-en.pdf; https://www.fi-compass.eu/sites/default/files/publications/case_study_renovation_loan_programme_estonia_0.pdf, p. 7; AEIDL (no year) Tartu, Estonia. Rejuvenating an ageing city, p. 2, http://www.aeidl.eu/images/stories/50bestpractices/ee_tartu_case-study.pdf, p. 2.

[117] Kalvet T. (2012) Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-13:Year 2 – 2012. Task 1: Financial engineering (a report to the European Commission Directorate-General Regional Policy), p. 6; Kalvet T., Vanags A. and Maniokas K. (2012) Financial engineering instruments:the way forward for Cohesion policy support? Recent experience from the Baltic states. Baltic Journal of Economics 12(1), p. 13; https://www.fi-compass.eu/sites/default/files/publications/case_study_renovation_loan_programme_estonia_0.pdf, p. 8; AEIDL (no year), *Op. cit.*, p. 3.

in allocated resources during implementation (though according to the 2015 Summary Report, the proportion invested in final recipients remains comparatively low). In contrast, in **Slovenia**, despite the instrument working effectively, programme managers **would have preferred to have carried out an ex-ante assessment** into the scale and suitability of FI.

Table 12: Market failures identified by formal gap assessments

Gap Assessment	Market Failure	Member State/Region
JEREMIE	Low provision of micro-finance	Bulgaria, Romania, Slovenia
	Low provision of loans and guarantees	Bulgaria, Slovenia
	Low VC activities	Bulgaria, Slovenia
	Lack of business angel networks	Andalucía, Bulgaria, Slovenia
	Particular market gap for small and micro enterprises, rather than medium-sized firms	Bulgaria, Pomorskie
	Limited mezzanine finance for large investments	Andalucía
JESSICA	Information asymmetries combined with resulting risk aversion	Andalucía (urban)
	Transaction and agency costs increasing single projects' costs	Andalucía (urban)
	Limited experience in the use of public-private partnerships	Andalucía (energy), Pomorskie
	National funding sources failing to meet demand for investment in urban projects	Pomorskie, Slovenia
Other	Insufficient funding for investment in energy-saving measures	Estonia

Source: Case study interviews.

4.1.3. Impact of gap assessment on the FIs

Where **formal market assessments were carried out for JEREMIE instruments** (Andalucía, Bulgaria, Pomorskie, Romania), **these usually formed the main basis for the decision on the introduction of the FI**.

In **Andalucía JEREMIE**, the recommendations are considered to have provided a useful reference point for the design of the various instruments (VC, guarantees, equity loans etc.).

In **Pomorskie JEREMIE**, the gap analysis fed into the FIs in two ways: first the limited scale of the funding relative to the gap in financing identified by the assessment meant that the emphasis on concentrating and focusing the instruments increased. Second, as part of this, support was directed towards small and micro-sized enterprises.

In **Slovenia**, however, the **assessment by the EIF had very little direct impact** on the introduction of the FIs. The FIs were already being developed and discussions were underway in the public sector prior to the production of the report and the assessment did not change the model under development. The same is true for the assessment by the EIB for a potential JESSICA/urban fund, which was not pursued due to political considerations.

Other assessments for JESSICA funds **had an impact on the design of the FIs, but less directly than the JEREMIE assessments** in the cases studied. In **Pomorskie JESSICA**, for instance, some of the conclusions from the two assessments in 2010 and 2011 affected the implementation of the JESSICA initiatives in the region. In the case of the urban JESSICA fund in **Andalucía**, the **study was used to refine and further specify the investment strategy**, since the funding agreement had already been signed before the completion of the study. However, the **investment strategy did not take all recommendations on board**. For instance, the study proposed creating two separate UDFs for small and large cities respectively, whereas the Investment Board decided to create two UDFs covering both types of cities in competition with each other (with indicative budget shares for large and small cities). In the case of the urban JESSICA fund FIDAE in **Andalucía**, there was only a pilot study for Galicia. Although the Galician government decided against participating in JESSICA, contacts with the national ERDF MA and IDEA energy agency led to a decision to set up the FIDAE energy fund, including in Andalucía.

All interviewees found the gap assessment to have been fairly accurate. Even where the assessment did not affect the design of the FIs (Slovenia), it was considered correct. However, in **Pomorskie JEREMIE** it was difficult to make use of the assessment as it did not focus on specific products and much of the analysis was based on estimates. A number of interviewees (Andalucía JEREMIE, Bulgaria, Pomorskie JESSICA) noted that the analyses were accurate at the time of completion, but the crisis that soon followed and its fallout had a major impact on the economic and financial contexts; Bulgarian policymakers highlighted the importance of updated analyses, especially when new instruments are to be set up.

4.2. INVESTMENT STRATEGIES

KEY FINDINGS

- All MAs (except Estonia) produced formal investment strategies and the majority linked into the available evidence and used any gap analysis as the rationale for what the FIs should seek to address.
- Most strategies were amended during the programming period with the typical change being the level of funds committed. The reasons for change included the impact of the crisis, a need for simplification and new EC guidance.
- In each case, steps were taken to ensure investments adhered to the strategy, typically through the use of controls and the establishment of a monitoring committee to oversee investment decisions.
- The majority of MAs considered the investment strategy fully delivered OP objectives. The key lesson was to ensure the strategy was sufficiently flexible to adapt to changing conditions.
- A number of MAs highlighted the need for an enhanced legislative framework to support the implementation of the investment strategy.

4.2.1. Context

The investment strategy forms a key link between the assessment of a market gap and the FIs put in place to address that gap. However, the 2007-13 regulations said little about what an investment strategy should contain; they simply stated that it should be part of the funding agreement between

the MA/Member State and the fund. Following criticism from the ECA,[118] a COCOF note elaborated on this and included mention of an 'underlying' and 'coherent' investment strategy.[119]

4.2.2. Content of investment strategies

Among the case studies, all MAs except one produced an 'official' **investment strategy**; in Estonia, the focus of the FI was taken instead from the OP. The level of detail and content in each of the investment strategies varies between the MAs surveyed. **Thüringen**, for example, had an extensive and detailed strategy, covering all aspects of the FIs from objectives through to implementation and then closure, while for **Slovenia** the strategy was more limited, covering only the target groups.

The majority of investment strategies link to the available evidence; **where a gap analysis exists, many of the strategies used the assessment as the rationale for what the FIs should seek to address** (Andalucía, Bulgaria, Italy, Pomorskie).

Identification of target recipient was the most common element in the strategies and was considered in all of them. Other elements were covered to varying degrees. Specific details on the size and scale of each fund were included in several (Italy, Thüringen). Others had a particular focus on **ensuring synergy with the OPs** (Andalucía, Pomorskie, Thüringen).

In both JESSICA funds, a particular focus was on what potential urban development projects existed and could be targeted by the FIs (Andalucía, Pomorskie). The strategies for **Andalucía** and **Thüringen** outlined the specific governance arrangements of the fund.

4.2.3. Amendments to the investment strategy

Almost all strategies underwent some form of change during the planning period. Only the strategies for the **Estonia** and **Slovenia** case study OPs remained unchanged. The most common change concerned the budget of the funds either retaining the existing total, but changing the overall configuration (Bulgaria, Italy, Pomorskie), or increasing the overall amount (Andalucía).

There were a variety of reasons behind such amendments. The most common was **the impact of the economic crisis** as market outlooks rapidly changed and there was the need to ensure that the FIs complemented other crisis measures (Andalucía, Bulgaria, Pomorskie).

Other changes occurred because of the publication of COCOF guidance (on working capital loans) and related information from the EC (Bulgaria, Italy, Romania) or due to changes in other aspects of the OP, which in turn affected the FIs (Andalucía JESSICA, Romania). **Pomorskie JEREMIE** sought changes to simplify the investment strategy in contrast to **Bulgaria** which added greater detail during the planning stage.

4.2.4. Adherence to the investment strategies

Each MA surveyed took steps to ensure that investment decisions were in line with the strategy. A common method **was the establishment of monitoring groups which could provide technical oversight for investment decisions** (Andalucía JEREMIE and JESSICA, Bulgaria, Italy, Slovenia). These were complemented by controls and reporting requirements, with all MAs stating they implemented

[118] ECA (2012) *Op. cit.*
[119] European Commission (2011a) *Op. Cit.*

some form of checks to ensure the strategy was followed. **Italy** arranged **pre-screenings of applications to prevent irrelevant requests for funding** from going through the full process, while **Slovenia** focused on **establishing close communication and relationship-building between the MA, holding fund manager and other financial intermediaries**.

In other cases, guidance was produced to assist in the implementation of the strategy, such as in **Thüringen** with the establishment of funding guidelines or **Estonia** and the mapping of implementation procedures. In the instances of EIB-led FIs, the JESSICA and JEREMIE instruments in **Pomorskie** and **Andalucía** used contractual agreements that ensured investment decisions were made in line with the strategy.

In general, MAs considered that their investment strategies were adhered to. However, while some (Italy, Thüringen, Pomorskie) indicated the strategy was followed very closely, others (Andalucía, Bulgaria, Estonia, Slovenia) stated that the strategies were required to be flexible during implementation and adapt to circumstances.

In the case of **Bulgaria**, poor performance led to the termination of two financial products – a growth fund and a mezzanine fund, the addition of new products and the reallocation of resources between them. In **Estonia**, minor changes were made during the implementation process (the maximum interest rate chargeable was lowered and the renovation loan was dovetailed with other forms of support – notably grants to cover 'pre-renovation' costs). The brief investment strategy prepared in **Slovenia** allowed for significant flexibility and it evolved during the lifetime of the OP. Initially there had been only specific NHF guarantee fund, but a holding fund model was introduced also comprising specific funds offering venture capital and microfinance products. In addition, towards the end of the programme, resources were redistributed between the specific funds due to poor absorption. For the JEREMIE instrument in **Andalucía**, the challenging economic environment affected the strategy with modifications required to align with new government priorities. This resulted in the creation of additional funds for the sustainable construction and energy sectors.

4.2.5. Performance of investment strategy in meeting OP objectives

The majority of MAs surveyed (Bulgaria, Estonia, Italy, Pomorskie, Thüringen, Slovenia) stated the investment strategy addressed the objectives of OP completely. Respondents in **Slovenia** noted that the OP focus on technically innovative SMEs was fully targeted by the strategy and the investment strategy allowed for significant flexibility. In **Romania** the MA was content with progress in implementing FIs, but wanted also to view the performance against OP indicators to determine how well the strategy addressed the objectives. The flexibility offered by a variety of different funds in **Bulgaria** was considered to enable it to meet the OP objectives through combined loan and equity products. However, these are subjective views and in practice it is difficult to marshal objective evidence about how well the investment strategy met OP objectives. This is partly due to timing – ex post evaluations are ongoing – but, and perhaps more fundamentally, due to the absence of hard data available to make a clear assessment.

In the **Andalucía** cases, while the investment strategy was fully aligned with the OP objectives and the HF model offered significant flexibility, **the crisis had a damaging effect on the financing environment and limited the impact of the investment strategy on improving SME access to finance**.

4.2.6. Main lessons from the implementation of the investment strategy

As part of the study, respondents were asked to identify the main lessons arising from their experience of implementing an investment strategy. These are summarised below. On the one hand, many emphasise the need for 'robustness' in the ex-ante assessment and the need for sufficient time and capacity to be given to develop an appropriate strategy, but there is clearly also a need for flexibility to adapt to changing circumstances.

Table 13: Main lessons from implementing investment strategies

Lesson Learned	Member State/Region
• The importance of robust evidence-based decision making when designing and implementing the strategy	Bulgaria, Italy, Pomorskie, Romania
• Focus on producing robust ex-ante assessments and use this to set realistic indicators	Bulgaria, Pomorskie, Romania
• Ensure that the design of investment strategy is flexible	Bulgaria, Italy, Slovenia
• Need for expanded legislative framework to support implementation	Andalucía, Bulgaria, Thüringen
• Align private sector goals more closely with public priorities	Thüringen
• Dedicate significant time to the development of the investment strategy	Pomorskie
• Ensure sufficient capacity and knowledge exists to implement the investment strategy effectively	Andalucía, Slovenia
• Make better use of technical assistance to effectively monitor and evaluate the implementation of the strategy	Slovenia

Source: Case study interviews.

4.3. STRUCTURES AND OPTIONS, FUND MANAGERS AND FINANCIAL INTERMEDIARIES

KEY FINDINGS

- The General Regulation allows for a range of implementation options and structures to be adopted; the rules are enabling rather than restrictive and the approaches adopted are extremely diverse.
- The main reason for using holding funds was MA's expertise and capacity, those with less experience often relying on the EIB Group to deliver the HF, and those who had previous experience of HFs opting to use them again, for the sake of lower administrative burden (for the MA) and greater flexibility.
- Experience and expertise were the main criteria when selecting HF managers, with many MAs seeking to learn from them.
- The main disadvantages of HF models are the additional expense, complicated audit and reporting requirements and lack of guidance on operating HF models.
- MAs using HF were positive about the experience and considered that the smooth and flexible process justified the additional cost.
- Some MAs used specific funds without a holding fund (NHF) and were satisfied with this structure. Perceived advantages of NHFs are the scope to focus and the possibility of increased leverage.
- Perceived disadvantages of NHFs are less flexibility and longer setup times.

4.3.1. Context

For 2007-13, the Structural Funds Regulations gave MAs several options to set-up an FI (see Figure 7):

- to make a direct contribution to a specific fund without using a holding fund;
- to contribute to a holding fund, the management of which is put out to public tender in accordance with the relevant public procurement law;
- to contribute to a holding fund and contract the management of the HF to a national financial institution without tender under national law (if compatible with the Treaty) – this is often referred to as 'entrustment' and the roles and responsibilities of existing financial institutions in economic development (such as promotional or business development banks) meant that many such domestic bodies were involved as holding fund managers;
- to contribute to a HF and contract the management to the EIF or EIB.

As noted above, in practice, the Regulations are enabling rather than constraining in terms of governance arrangements, but the distinction between holding funds and specific funds (NHF) is in practice less clear-cut than it might at first appear. For example, as mentioned, in Estonia, KredEx is listed as a specific fund in the 2015 Summary Report, but does not itself administer the loan products, which are run by financial intermediaries. Similarly, in Thüringen, TAB is listed as a specific fund (NHF) but loans are actually offered through local banks to final recipients. By contrast, in Hungary, each agreement with a bank to operate a co-financed financial product is counted as a financial instrument, with the result that many hundred FIs are listed for Hungary (although there are only a few distinct financial products). In short, depending on the governance structure and the type of financial product offered, the financial intermediary actually offering financial products to final recipients may be the same as the specific fund manager listed in the Summary Report (typically this is the case for equity products) or may have been contracted to operate a given product (especially loans and guarantee) by the specific fund manager.

4.3.2. Rationale for using a holding fund and selecting fund managers

For the MAs surveyed, **a key factor behind the use of an HF was expertise and capacity.** MAs which implemented FIs with involvement of the EIB Group (Andalucía, Bulgaria, Pomorskie, Romania), all cited **the expertise of the EIB as a factor in choosing a holding fund model**. **Bulgaria** felt that using a holding fund would facilitate learning from the EIF and access to external expertise.

Related to this, MAs in **Estonia** and **Slovenia** opted for holding funds due to previous experience – the HF model had been used to good effect nationally and they sought to replicate this in Cohesion policy.[120] **Estonia** stated that this model was already known to final recipients and target groups and would result in higher take up. All MAs using HF mentioned the flexibility and simplicity offered by a holding fund model (Andalucía, Bulgaria, Estonia, Pomorskie, Romania, Slovenia).

Like the decision to use a HF, the rationale for the selection of a HF manager was based on experience and expertise (Andalucía, Bulgaria, Estonia, Pomorskie, Romania, Slovenia). Both **Bulgaria** and **Romania** used EIF because of its specialist knowledge. **Estonia** directly appointed KredEx, a publicly-owned financial institution with significant experience in delivering FIs, a strong existing network and specialist market knowledge for the area in which the FI would operate – renovation. This is similar to **Slovenia**, where the Slovene Enterprise Fund (a publicly-owned entity, supporting SMEs) was directly appointed, building upon existing structures. The rationale was to keep the HF within a public body to exploit the relationship and close communication that was already established.

[120] As mentioned, the FI in OP Estonia Living Environment is not listed as a holding fund in the 2015 Summary Report, but rather as a specific instrument (NHF).

4.3.3. Did the additional costs involved in using holding funds represent good value for money?

All MAs who used a HF were positive about the value for money offered by this model. In **Bulgaria** this was viewed as a very cost effective approach, especially given that this was the first experience with using Structural Funds; the MA would have required significant time, experience and funds to find and hire suitable experts, and develop the necessary administrative capacity to manage FIs independently.

Estonia drew attention to their mid-term evaluation in 2009 which showed very positive results, noting that at two percent, management costs came well under the permitted four percent. For **Andalucía JEREMIE**, the real value of the HF was perceived to come from the learning it stimulated and the professionalism of the HF manager. In **Slovenia**, the 0.5 percent management cost rate was said to have been set too low – far lower than the corresponding rate for a private sector manager, and the MA considered that there were considerable achievements with limited resources.

4.3.4. Satisfaction with the HF model and HF manager agreement process

All MAs which implemented the HF Model were either 'entirely satisfied' (Andalucía JESSICA, Bulgaria, Pomorskie JESSICA, Romania, Slovenia**)** or 'fairly satisfied' (Andalucía JEREMIE, Estonia, Pomorskie JEREMIE) due to the advantages listed below and the perceived performance of the HF overall.

Table 14: Perceived advantages and disadvantages of using a HF

		Member State/Region
Advantages	HF provides access to the external expertise of the manager	Andalucía JESSICA, Bulgaria, Pomorskie JEREMIE and JESSICA, Romania, Slovenia
	It entails less administrative burden to both MA and SMEs	Bulgaria
	A HF provides flexibility – it is straightforward to reallocate resources to higher performing funds, and it allows risk sharing	Andalucía JESSICA, Bulgaria, Slovenia
	The HF provides a learning opportunity and knowledge transfer from the manager	Andalucía JEREMIE
	A HF is a simple approach	Slovenia
Disadvantages	Slow transfer of information due to lengthy checks of the HF Manager. Information moves more freely when FIs are implemented directly	Bulgaria
	Complex process for the writing of the funding agreement – difficult to find an agreement to cover all eventualities. Difficult negotiations between MA and prospective HFM	Pomorskie JEREMIE
	Complicated reporting, monitoring and auditing procedures	Bulgaria
	Expensive model – although it was high quality, the cost was also high	Pomorskie JESSICA
	Lack of sufficient knowledge transfer	Bulgaria
	Some of the HFM decisions were not in line with the MA's thinking i.e. use of non-tailored sub-funds	Romania
	Lack of sufficient guidance from the EC on the management verifications to be performed, as well as on the selection procedures of the intermediaries	Bulgaria

Source: Case study interviews.

Similarly, regarding the funding agreement process, all the MAs which implemented the HF Model were either 'entirely satisfied' (Andalucía JEREMIE and JESSICA, Bulgaria, Romania, Slovenia) or 'fairly satisfied' (Estonia, Pomorskie JEREMIE and JESSICA). One reason given for not being entirely satisfied was lengthy negotiations with the EC (Estonia). Under the **Pomorskie JEREMIE** fund writing a comprehensive agreement with the HF Manager and the MA, especially without the necessary experience, was found to be somewhat challenging. In the **Pomorskie JESSICA fund,** the MA stated that the negotiations with the HF Manager led to compromises and as a result they were not entirely satisfied. Initially, **Slovenia** had to clarify certain elements with the EC but after this it was a very smooth process – the use of a public entity proved to be very straightforward with no issues over profit.

4.3.5. Process for selecting specific fund managers

All MAs surveyed used an open call for tender in some form with the exception of **Thüringen** which appointed the specific fund manager for both funds (TAB) directly. Those MAs who delivered FIs with the EIB Group (Andalucía, Bulgaria, Pomorskie, Romania), all stated that the EIB/EIF ran the call in line with EU regulations and applied technical criteria pre-approved by the OP Monitoring Committee. In some cases, a public procurement process was used along with direct appointments (Bulgaria, Italy).

In **Estonia**, Kredex was directly appointed by the MA and is listed in the 2015 Summary Report as a specific fund manager (but see discussion above); local commercial banks were used to offer the loans to final recipients and were selected in line with the following criteria:

- rating at least Baa 3 (Moody's) or BBB (Fitch or Standard & Poor's);
- response to National Credit Institutions Act and possession of license;
- budget in excess of EEK15 billion (c. EUR 959 million);
- at least one year of experience with financing renovation loans of apartment buildings; and
- acceptance of loan-maturity for 20 years.

This process was considered vital in regard to State aid rules as it ensured the banks passed on the advantages to final recipients.

For **Andalucía JEREMIE**, three calls were run: in 2009, public institutions applied and were selected; in 2012, a call was run for the VC product, eventually signing deals with three VC funds; and in 2014, a call was issued for two financial intermediaries to manage new construction and energy funds.

In the case of **Thüringen**, the specific fund manager was chosen without any formal selection procedure. The chosen fund was well connected to the target market, had the required experience and was a publicly operated body with affordable fees.

4.3.6. Satisfaction with the approach of only using specific funds

Thüringen and Italy both used specific funds exclusively and were entirely satisfied with this approach. **Italy** noted that no issues had emerged from this structure and **Thüringen** argued that this is the most straightforward approach for a clear target group.

Of the responses received, all MAs were positive regarding the fund managers agreement process with four stating that they were 'entirely satisfied' (Andalucía JESSICA, Romania, Slovenia, Thüringen) and one 'fairly satisfied' (Andalucía JEREMIE). This was due to the advantages stated above and general satisfaction that the process went smoothly.

Table 15: Perceived advantages and disadvantages of using specific funds, i.e. not using an HF

		Case study
Advantages	Helps to increase leverage	Bulgaria
	Enables risk sharing with the private sector	Estonia
	Directly entrusting a fund manager can be a quicker process	Italy
	The fund manager takes on a significant element of the administrative burden	Estonia
	When there is good communication with intermediaries this is a very simple process	Slovenia
Disadvantages	Less guidance from the EC on the working of the relationship with fund managers	Bulgaria
	The involvement of private banks who seek to profit from participation	Estonia
	There is the potential for lengthy preparation and negotiations	Andalucía JEREMIE and JESSICA
	Less flexibility when compared with the HF model	Andalucía JEREMIE

Source: Case study interviews.

4.4. MANAGING FUNDING FLOWS FROM THE OP

KEY FINDINGS

- Where gap analyses were carried out, they provided the rationale for the level of funds to be committed to FIs and where not, MAs took advantage of fund manager market experience to gauge demand and the appropriate size of the OP contribution.
- Most MAs considered that concerns related to automatic decommitment had not played a role in determining resources for FIs, although two highlighted this as a factor.
- All MAs surveyed were positive about the approach taken to managing funding flows, with the successful absorption of funds given as the key reason for this satisfaction (although in some cases absorption rates are rather modest).

4.4.1. Context

There were few constraints imposed by the Structural Funds Regulations on how financial flows should take place, and this was an issue that was criticised by the ECA. Specifically, Member States that had used HFs were not subject to automatic decommitment during the life of the OP when HF disbursements had not taken place.[121] Decommitment rules in 2007-13 meant that Member States had either two or three years[122] to use the budget commitments for payment of initial and annual pre-financing and interim payments or to submit a payment application. If this did not take place, the EC decommitted the funds. An important regulatory change for 2014-20 is the phasing of payments to FIs in line with progress in disbursement.

MAs committed OP contributions to FIs on the basis of different types of evidence. Where gap analyses were carried out, this provided the rationale for committing funds to the FIs (Bulgaria, Italy,

[121] ECA (2012) *Op. cit*. While the ECA report specifically refers to HFs, this was also the case for FIs that had been implemented without a HF.
[122] Funds committed by Member States whose GDP from 2001 to 2003 was below 85 percent of the EU25 for the same period were decommitted after three years instead of two.

Pomorskie JEREMIE). Other MAs (Slovenia, Thüringen) took advantage of fund manager expertise and market knowledge when agreeing how much to commit. For the **Pomorskie JESSICA** and **Romania**, the decision was taken by the Programme Monitoring Committee.

In some cases decisions were made mid-programming period, using the performance of the FIs to gauge what could be absorbed (Italy, Slovenia). For **Estonia**, the mid-term evaluation provided the basis for committing more funds to the FI.

4.4.2. Role of potential decommitment

MAs differed over the role potential decommitment played on funding volumes but for the majority, **concerns about automatic decommitment** were said to have had no impact (Andalucía, Estonia, Pomorskie, Slovenia and Thüringen).

Italy stated that it was given some consideration, particularly regarding the redistribution of funds between instruments – this has some significance as **Italy** decommitted funds from a financial instrument during the programming period. **Romania** also stated that possible **decommitment played a key role – amounts committed were partly decided on the basis of seeking to avoid decommitments.**

4.4.3. Satisfaction with approach to committing funds

All MAs surveyed were positive about the approach taken to committing funds, with five stating they were 'entirely satisfied' (Andalucía JESSICA, Bulgaria, Pomorskie JESSICA, Romania, Thüringen) and five 'fairly satisfied' (Estonia, Andalucía JEREMIE, Italy, Pomorskie JEREMIE, Slovenia). **The most common reason for this satisfaction was the successful absorption of funds**, sometimes leading to increased commitments (**Estonia, Slovenia, Thüringen**).

Where the MA was not completely satisfied, the reasons given included the negotiation process with the EC taking too long (Estonia), and, in **Italy**, the slow uptake of funds. Another issue cited by **Estonia** was that due to the small amount of funds provided, the total commitment was quickly absorbed and due to slow recycling, it will be a long time before funding will be available again.

4.5. CO-FINANCING AND THE USE OF PRIVATE SECTOR CAPITAL

KEY FINDINGS

- Respondents from all case study MAs reported that their FIs had attracted private sector capital, with risk capital instruments being the most common instrument involving private sector investment; however, the precise nature of and level at which private funds were attracted is not always clear.
- In contrast to the ECA findings, in most case studies, respondents considered that the attraction of private sector finance had been successful, with only one MA stating they failed to attract the level of investment they anticipated; however, it is difficult to obtain hard information on private sector funding.
- The capacity of FIs more widely to attract private investment was generally viewed positively. However, one MA stated that this capability is limited due to private sector firms being deterred by complex EU regulations and requirements.

- Most MAs surveyed felt there was no potential conflict of interest with private sector involvement in Cohesion policy. One MA highlighted the need for private sector expertise in Cohesion policy.

4.5.1. Context

Co-financing refers to the public contribution to FIs from the Member State/regional level, and also any private sector contribution (at the level of the OP). All Structural Fund resources are required to be co-financed by other public or private resources for MAs to be able to spend Structural Funds.

One of the perceived benefits of FIs is their capacity to attract private contributions, thereby increasing the sums available for investment. This contribution may take place at the level of the HF (if there is one), the specific fund or the final recipients. The potential to bring in additional private capital has been one of the main elements of added value reported by MAs using FIs in 2007-13. While attracting private sector participation is one of the main areas where added value can be identified, it has often been difficult to do, particularly during the economic crisis.

4.5.2. Success of attracting private finance

All of the MAs surveyed stated that they had attracted private sector capital under their OPs for some FIs. However, the means through which private capital was brought in, and at what level, differs between MAs. Risk capital instruments were the most common means of private sector involvement, with five MAs using them (Andalucía, Bulgaria, Pomorskie, Romania, Slovenia, Thüringen).

Private sector co-finance was not attracted at the OP level in any case study. **Andalucía JEREMIE, Bulgaria, Pomorskie, Slovenia** and **Thüringen** all brought in private capital at the level of the FIs, whereas **Andalucía JESSICA, Estonia** and **Italy** sought private sectors funds at the level of final recipients. Often the involvement of the private sector was brought about through the activities of the financial intermediaries, using existing market networks and raising the profile of the funds (Bulgaria, Romania, Slovenia).

The majority of respondents considered that they had been very successful in attracting private finance (Andalucía, Bulgaria, Estonia, Pomorskie, Romania, Slovenia, Thüringen), but hard data are difficult to obtain and interpret. **Bulgaria** stated that it envisaged EUR 2.57 of private finance for every EUR 1 of public funds spent, but it is unclear how this has been calculated. **Andalucía's JESSICA** instrument was viewed to be relatively successful, given the limited experience of public-private partnerships, particularly in the area of urban development. **Pomorskie** had similar comments, citing that other regions did not have the same level of success for their JESSICA instruments in attracting private sector capital. However for the **Pomorskie JEREMIE** instrument, the attempt to bring in private co-finance was considered unsuccessful, due to an underdeveloped market in the region.

The potential of FIs to help develop private investment is generally viewed positively. In **Bulgaria** it was noted that the venture capital fund found it difficult to raise private capital owing to tough market conditions and the country's financial stability. Under the **JEREMIE Andalucía,** the capacity to generate private contributions was considered dependent on the development and maturity of the private investment market, and it was noted that **it can take time for financial institutions to recognise the instrument as viable and build relationships with the management team**. In **Romania** it was considered that the capacity to attract private funding is high

due to established relationships with firms and the backing of the JEREMIE guarantee. Similarly, in **Slovenia** it was highlighted that **public risk sharing can yield significant additional investment**. However, **Thüringen** MA considered that Structural Fund co-financed **FIs have limited capacity to attract private sector investment due to the complexity of EU rules and requirements.**

4.5.3. Potential conflicts of interest with private sector involvement in Cohesion policy

The majority of MAs surveyed felt there was no potential conflict of interest with private sector involvement in Cohesion policy, with only respondents in **Pomorskie JEREMIE** acknowledging that the private sector profit motives would dissuade them from investing as part of Cohesion Policy. They consider that incentives need to be enhanced to strengthen private investment. In **Andalucía** it was noted that the objectives of policymakers and private sector actors differ, and there will always be a need to ensure these concerns are aligned, although no conflict has yet been witnessed.

Several MAs (Andalucía, Bulgaria, Italy, Romania) stated that **the rules and requirements are an effective safeguard against any conflict of interest becoming an issue.** Also, the various checks put in place by the regulations, throughout selection and implementation, should allow for any conflict of interest to be checked and addressed many times.

In **Slovenia** the MA recognised that a different 'mind-set' exists in the private sector but stated that for successful implementation of FIs, such a mind-set is required. **There is a need to harness private sector expertise and while there should not be sole reliance on the private sector, it can help to deliver the goals of Cohesion policy.**

4.6. MANAGEMENT COSTS AND FEES

KEY FINDINGS

- MAs used different methods for setting management costs and fees, depending upon the FI structure and existing national rules. For those who implemented FIs with the EIB, fees were agreed in line with EU regulations, following negotiations with the EIB Group.
- Where a tender was used, the fees were set following the standard public procurement process.
- MAs were positive about the value for money offered by FIs with many citing how fees were often below market rates and contained a performance component, ensuring the funds were disbursed; however, complete hard information on actual management fees and costs is difficult to obtain.
- It was considered problematic to compare the costs of FIs to grants, due to the variety of different structures and configurations FIs may have. However, FIs were stated to be more cost effective in the long term due to the possibility of recycled funds and the reduced administrative burden on the MA.

4.6.1. Context

The Implementing Regulation for 2007-13 included some guidance on management costs and fees (Article 43), but during the period concerns were raised about transparency and the lack of clarity over whether management costs were based on fund size, investment size or tied to financial

performance of the investments.[123] In 2010, amendments to the General Regulation clarified the need to keep management fees in line with market practices. Importantly, for 2014-20 there are more detailed rules and guidance on the maximum levels of fees and costs.[124]

4.6.2. Method for setting holding fund management and individual fund manager fees

The methods for setting HF management fees differ somewhat depending on the structure of the FIs and existing national rules. For those FIs which involved the EIB Group (Andalucía, Bulgaria, Pomorskie, Romania) **the fees were set in line with EU regulation thresholds and agreed following negotiations with the EIB/EIF**.

Where a tender was used for a specific fund manager (Estonia, Italy), **the fees were set out in the tender following the routine public procurement process**. For **Slovenia**, the rate of management fees were set by the Slovenian Government legal team, establishing them well under the EU regulatory requirements.

For those FIs which had involved the EIB Group, the fees for specific-funds were agreed as a result of negotiations and set out in the funding agreement. **The fees for each specific instrument were then scrutinised during the selection of financial intermediaries.**

In all cases, fees were set in the first instance adhering to EU limits and then based on current market rates. EU ceilings were the first and main criterion for **Thüringen.** The setting of fees differed somewhat depending on the type of instruments with a set management amount and then various variable performance components. Again, these were set by typical market rates.

4.6.3. Total paid in management fees for holding funds and funds

Most MAs were unable to provide the total figures for management fees paid in 2007-13, with some yet to be calculated and others not able to be disclosed at this stage (Andalucía JESSICA, Estonia, Italy, Pomorskie JESSICA and JEREMIE, Romania, Slovenia).

The information was available in three cases as follows:

- **Bulgaria**: EUR 16.4 million (4.7 percent of FI payments to funds)
- **Andalucía JEREMIE**: c. EUR 1.5 million at HF level; EUR 6 million at financial intermediary level (2.2 percent of payments to funds)
- **Thüringen:** c. EUR 2.4 million (2.3 percent of payments to funds)

4.6.4. Management fees/'value for money'

All MAs were positive about the value for money offered by FIs, with four considering them 'very good value' (Andalucía JESSICA, Bulgaria, Italy, Slovenia) and five stating they were 'fairly good value' (Andalucía JEREMIE, Estonia, Pomorskie JEREMIE and JESSICA, Romania). However, the absence of hard data on the actual cost in some cases somewhat undermines the claims of value for money.

[123] Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Op. cit.*, CSES (2007) *Comparative Study of Venture Capital and Loan Funds Supported by the Structural Funds, Final Report*, August 2007, http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/2007_venture.pdf (accessed July 2014).
[124] European Commission (2015d) Guidance for Member States on Article 42(1)(d) CPR – Eligible management costs and fees, 26/11/2015: http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_ms_eligible_costs_fees.pdf (accessed December 2015).

Satisfaction with management fees was mainly based on the view that they **were favourable both when compared to the market rate and the upper EU regulatory limits** (Andalucía JEREMIE, Bulgaria, Estonia, Italy).[125] Another reason was that the costs had a significant performance component, resulting in keeping costs in line with absorption (Andalucía JESSICA, Bulgaria).

Others stated that **the expertise and market knowledge of the fund managers, in addition to the good level of performance of the FIs, made the private sector involvement worth the expense**. (Estonia, Pomorskie JEREMIE, Romania, Slovenia).

The **Slovenia** MA considered that their HF manager should have received a greater sum than was set by their legal department as this would have enabled them to improve capacity. Also, **Andalucía JEREMIE** stated that **the payment of management fees should be seen as an investment,** as the public structure is established and will remain to support business development after the Structural Funds programming period ends.

4.6.5. Comparisons of costs for FIs and for grants

The MAs held differing opinions on whether grants or FIs were most cost effective and generally it was felt that costs were difficult to compare due to different types of instrument and the different time periods over which they operate. **Pomorskie JESSICA** considered that grant support was less expensive upfront and while others stated the same (Andalucía JEREMIE and JESSICA, Bulgaria, Italy, Slovenia), they considered that the repayable nature of FIs allowed them to reach far more final recipients than grants can. As such, they considered that **FIs are cost effective in the long term.**

Alternatively, some MAs (Estonia, Thüringen) were of the opinion that FIs were cheaper to operate. In **Estonia**, this was because much of the work was carried out by banks, which would undertake it more cost-effectively. This view was shared in **Thüringen** where the MA noted that the checks on final recipients would be carried out by local banks, removing a resource-intensive element from the MA compared with grants.

4.7. VERIFICATION

KEY FINDINGS

- All MAs conducted document-based checks on the expenditure of FIs with varying levels of on-the-spot checks. Some on-the-spot checks were conducted at the level of the fund manager with others verifying the final recipient.
- It was generally considered that the checks of FIs created a high administrative burden.
- Despite the additional work required, MAs stated they were satisfied with the level of checks of FIs; the extra scrutiny providing confidence that the funds were being spent correctly.
- Nevertheless, an important issue is that decisions on financial products are taken at some distance from the MA (which ultimately remains responsible) with the risk of 'objective drift' between the aims of the OP and actual implementation of financial products by financial intermediaries.

[125] See Art. 43(4) (b) of Regulation 1828/2006: '3% of the capital contributed from the operational programme or the holding fund to the financial engineering instrument'.

- A number of lessons were identified, including: the need for capacity building at the level of the MA; more guidance to decipher the complex requirements; and the need to plan verifications early in order to prevent irregularities.

4.7.1. Context

Verification is the internal system of checks to ensure that projects selected for funding by the FI comply with the criteria applied by the fund, the operational programme and national and EU regulations. Verification checks may include:

- document-based checks;
- on-the-spot checks (sometimes for all projects, for example where there are relatively few final recipients);
- sampling among projects, sometime using risk analysis (where there are a high number of final recipients); or
- 'extraordinary' or ad hoc checks.

Two types of verification systems can be identified:[126]

- the 'cascade model', in which only the level directly below the certain entity is typically checked, but not the levels lower in the hierarchy; or
- the 'ladder model', in which the entity typically checks all the lower levels of the hierarchy.

4.7.2. Types of checks undertaken

All MAs carry out document and on-the-spot checks; several use sampling where there is a high number of final recipients. The extent to which checks are carried out at the level of the final recipient (i.e. SMEs in individual projects) is variable (see Table 16 below).

Table 16: Types of checks

MA	Document based checks	On the spot checks of final beneficiary	Sampling of final recipient
Bulgaria	√	√	√
Thüringen	√	√	√
Estonia	√	√	
Andalucía JEREMIE	√	√	√
Andalucía JESSICA	√	√	
Italy	√	√	√
Pomorskie JEREMIE	√	√	√
Pomorskie JESSICA	√	√	
Romania	No information available		
Slovenia	√	√	

Source: Case study interviews.

[126] Michie R., Wishlade F. and Gloazzo C. (2014) *Op. cit.*

Table 17: Comments on Checks and Verifications

MA	Comment
Bulgaria	Sometimes for all projects, for example where there are relatively few final recipients, and on a sample basis where the number of transactions is too high.
Thüringen	Dynamik Fund: Checks conducted on five percent of final recipients. Invest Fund: 100 percent checked as the funding entailed a mix of grants and loans. In addition to this, each final recipient has to provide a report of expenditure to their local bank.
Estonia	Reporting was considered burdensome for everybody. During the implementation phase the multi-partner scheme requires many different audits. Too high burden and administrative costs.
Andalucía JEREMIE	Checks are done on a sample by the fund managers.
Andalucía JESSICA	Checks selected based on a sampling method.
Italy	For loans, on-the-spot checks are conducted thoroughly on a constant basis, because they also follow the logic of accompanying the recipient at different stages, for guarantees, because of the huge number of applicants just a sample of final recipients is controlled.
Pomorskie JEREMIE	The holding fund manager carries out 'on the spot' checks and samples of projects and SMEs. The MA prefers not to do checks at SME level but it has done so on a limited number of occasions. The EC has also visited final recipients.
Pomorskie JESSICA	Final recipients are checked in line with the investment agreement provisions, the schedule and public procurement rules.
Romania	A 'cascade' model is used: the final recipient is only verified by the financial intermediaries.
Slovenia	SEF checked investment and decisions made in line with the regulations. Not carried out by the MA – only conducted informal checks, visits/meetings with VC companies.

Source: Case study interviews.

4.7.3. Response to difficulties

Several actions were taken by MAs in response to the high administrative burden imposed by the level of checks required for FIs:

- seeking additional guidance from the EC, as EU rules were unclear (Andalucía JEREMIE) or for particular (new) types of FI such as equity (Slovenia);
- preparing documentation and working closely with the State aid department, MA and HF (Slovenia);
- providing support to build capacity at the level of the HF manager (Pomorskie JEREMIE).

4.7.4. Satisfaction with checks and verifications

In terms of levels of satisfaction reported, all MAs were entirely or fairly satisfied. The high level of checks performed was considered to provide a degree of confidence that funds are being used correctly (Italy, Pomorskie JESSICA). Nevertheless, the verifications required (e.g. compared to domestic instruments) and the burden this imposes (on all levels involved), and the potential disincentive to participate was highlighted frequently (Andalucía JESSICA, Bulgaria, Pomorskie JEREMIE). **Slovenia** stressed the need for greater capacity required to increase the level of checks carried out, which they consider is important to improve data and control. In **Romania** the MA suggested an integrated and centralised system that would also be adopted by banks.

4.7.5. Lessons on checks and verifications from 2007-13

In terms of lessons drawn from 2007-13 relating to checks and verifications, **a strong need was identified for clear and proportionate management and control rules from the outset of the period with a well-defined scope**, and avoiding the creation of obligations that are difficult to enforce or which interfere with the routine operation of FIs (Andalucía JEREMIE, Bulgaria, Italy, Romania, Thüringen). In particular, the control rules represent a major administrative burden for beneficiaries and financial intermediaries. **The rules are found to be complex, difficult to enforce** (e.g. requiring beneficiaries to maintain a separate accounting system, the demands of monitoring and reporting), unclear (leading to legal insecurity) and are ultimately discouraging participation by financial intermediaries (Andalucía JEREMIE). Much of this stems from the tensions inherent in the delegation of responsibility to financial intermediaries that are subject to a commercial legal framework in providing financial services that do not align well with the control obligations derived from the public administrative law requirements of EU legislation and are more geared towards traditional grants/subsidies (Andalucía JEREMIE). In this regard, the MA in **Slovenia** suggested that **MAs should carry out a greater number of checks in future, imposing less of a burden on HF managers.**

There is also an identified **need for improved coordination among the different bodies performing controls, and a need for greater simplification** e.g. through overheads eligibility, reporting standards for certain sectors, etc. (Italy). **Pomorskie JEREMIE** identifies as a key lesson the need to adhere to market rules and original agreements, without introducing new obligations for beneficiaries. It was difficult to carry out checks once an agreement had been made with the final recipient, and challenging to apply obligations once the agreement is reached (especially as the money is only loaned not granted and will have to be returned). This difficulty was exacerbated when changes to the system introduced new monitoring and reporting obligations and increased demands on final recipients. **Pomorskie JESSICA** found that the fact that the reporting system was designed at a very early stage enabled the MA of the regional OP to prevent the occurrence of irregularities.

4.8. MONITORING AND REPORTING

KEY FINDINGS

- MAs differed in their views on EU-level monitoring requirements with the annual reporting process found to be sufficient by some, but many highlighting that the EC requirements were not particularly detailed nor offered useful information to support effective implementation.
- Similarly, MAs held mixed views on the effectiveness of internal monitoring. Half of the MAs felt that sufficient arrangements existed, while others stated that the monitoring could be further enhanced, stressing a need for greater contact between the MA and HF managers.
- A number of difficulties were encountered for the monitoring of FIs, such as systems not capable of gathering necessary data, delays in receiving data due to reporting routes and problems arising from the different working methods of financial intermediaries.
- Despite the challenges listed, around half of the MAs reported that FIs are being monitored more effectively than grants, as their complexity demands more rigorous monitoring.

4.8.1. Context

As discussed above, the first reporting exercise on FIs setup in the 2007-13 period was carried out on a voluntary basis by managing authorities in 2011. At the end of 2011, the General Regulation was

amended to introduce an obligation for Member States to formally report on FIs within the Annual Implementation Reports by 30 June each year. Article 67 of the amended Regulation introduces some compulsory elements that must be reported and a number of optional data categories.

The identification of suitable indicators for FIs has been problematic. Indeed, as early as 2007, an evaluation of co-financed FIs raised questions over monitoring, and the usefulness/appropriateness of the indicators used. For example, the evaluation pointed out the potential mismatch between funds investing in technology-based businesses designed to provide long-term returns and high-quality jobs, and ERDF measures on job creation during the programming period.[127] Another report noted the difficulty for MAs of reconciling FIs with the targets and indicators set out in the OPs. Some MAs have been investigating more suitable indicators to use with FIs in 2014-20.[128]

Effective monitoring of the implementation of FIs is required both for the internal assurance of probity and effectiveness, and to ensure that the required reporting to national government and the EC is accurate and based on the best possible data. Article 44 of the 2007-13 General Regulation requires that HFs report to Member States or MAs, and monitor the implementation of investments in accordance with applicable rules. This requires effective methods for monitoring at the level of the final recipients of funding, with data being provided to the specific fund or HF manager. This data then needs to be aggregated for reporting to the MA or EC. Additionally, authorities may also require the reporting of all or selected data depending on the country-specific governance systems.

For 2014-20, much more stringent monitoring and reporting requirements have been imposed from the outset.[129]

4.8.2. Monitoring at EU-level

MAs held mixed views on EU-level monitoring requirements. The annual reporting process was considered 'adequate' by several (Andalucía JEREMIE, Italy, Romania, Thüringen). **Andalucía JESSICA** MA was very positive in particular about the EIB's role in terms of their responsibility for coordination of monitoring and meeting monitoring and reporting deadlines. However, t**here was also criticism of EU-level monitoring, particularly the late introduction of reporting obligations and the associated reporting templates** (Bulgaria, Italy), which in some cases necessitated retrospective changes to systems already in place and imposed a new administrative burden (Estonia). **Several MAs pointed out that EC reporting requirements are not very detailed and do not provide information that is useful in terms of effective implementation** (Estonia, Pomorskie JEREMIE and JESSICA, Slovenia).

4.8.3. Internal monitoring

Internal monitoring procedures were considered effective by about half the case study MAs (Andalucía JEREMIE and JESSICA, Bulgaria, Italy, Pomorskie JEREMIE, Thüringen). For **Pomorskie**, the MA of the Regional OP has developed its own monitoring system to meet its own needs to track and assess the performance of FIs. The data produced are much more detailed and track development and trends.

[127] CSES (2007) *Op. cit.*
[128] Michie R. and Wishlade F. (2011) *Op. cit*.
[129] CPR, Article 46.

Other MAs considered that monitoring could go further, for example at the level of the HF (Slovenia), where a need was identified for more frequent contact between MA and HF through meetings and reports. This would require an increase in capacity and greater resources being allocated to monitoring from technical assistance. **A need for additional expertise was also identified** in **Romania**, where overall monitoring is done by the MA and the technical monitoring by the HF (EIF). This is regarded as a very technical area and the MA often does not have the necessary expertise.

4.8.4. Difficulties encountered

A range of challenges relating to monitoring were identified by the MAs.

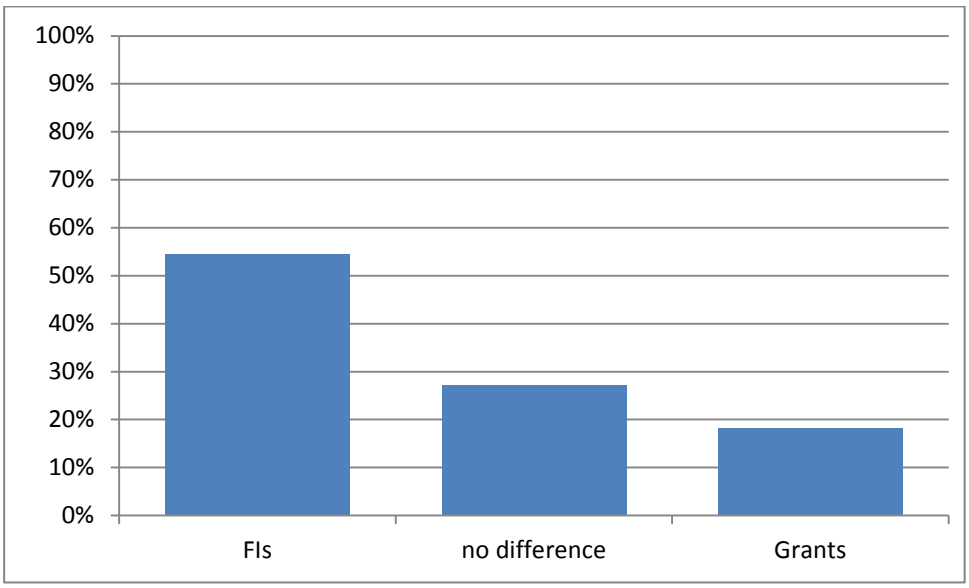
- **Staff turnover at MA**: The Romanian MA for the Economic Competitiveness OP experienced 47 percent staff turnover during 2007-13.[130]
- **Data time lags**: there have been significant time lags in receiving data on individual SME transactions due to reporting routes and different levels of data checks (Bulgaria).
- **Monitoring systems unable to collect the required data**: official monitoring systems were not designed to collect the information required (Italy); in **Pomorskie JEREMIE**, it was found difficult to obtain data where the MA is quite distant from the actual operations, such as when monitoring the performance of counter-guarantee instruments.
- **Delegation of responsibility to financial intermediaries** which may have different working methods (Andalucía JESSICA).
- **Reporting**: preparing the annual reports for the EC was challenging (Slovenia).
- **EU driven administrative burden vs interests of beneficiaries**: the integration of EU requirements with domestic audit requirements and the interests of SMEs was found to be challenging (Thüringen).

4.8.5. Monitoring – FIs vs grants

Despite the challenges discussed in the section above, **about half of MAs reported that FIs are being monitored more effectively than grants**. This may be because the **project cycle is longer** compared to grants (e.g. due to grace periods for loan repayments) (Andalucía JEREMIE), due to the repayable element (Slovenia) or because FIs are **far more complex and more innovative** than traditional grants so the monitoring has to be more rigorous (Andalucía JESSICA, Italy). However, this may reflect concerns about the effectiveness of monitoring grants rather than the fact that monitoring of FIs is particularly thorough (Slovenia). It also means that while this close monitoring may be beneficial from an internal, MA perspective, **it may have a negative impact on the overall attractiveness of FIs, as close monitoring of SMEs can be a disincentive** (Pomorskie JEREMIE).

[130] METIS (2014) Co-financing salaries, bonuses, top-ups from Structural Funds during the 2007-2013 period, report for the European Commission (p. 60), http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/financing_salaries/financing_salaries_study.pdf (accessed 9 December 2015).

Figure 17: Which type of support can be monitored more effectively?



Source: MA case study interviews.

No significant difference between the monitoring of FIs and grants were reported by **Pomorskie JESSICA, Romania or Thüringen**. In **Bulgaria**, it was considered that grants are being monitored more closely and effectively than FIs due to the repayable nature of FI support, and the fact that the beneficiaries are the financial intermediaries, not the final recipients. It is mainly a responsibility of the financial intermediaries to monitor the correct use of the funds given to the final recipients in the form of loans or equity.

4.9.DEFAULTS, RETURNS, REUSE OF FUNDS, EXITS AND CLOSURE

KEY FINDINGS

- Only one MA set target default rates with no targets set in the other MAs. In some cases close monitoring of defaults existed to minimise this risk.
- At this stage, very little data are available on returns on investment. However, all case study MAs stated they had received returns on investments in final recipients with some of the returns being reinvested (these are not always correctly accounted for in the Annual Implementation Reports, sometime resulting in levels of investment that appear to be higher than the OP contribution).
- Most MAs have not explicitly specified mechanisms to deal with exits from FIs.
- Among the case study MAs, only one has closed a fund and this was due to delays and issues with private sector investors.
- Discussions are ongoing among the case study MAs on the re-use of returned resources in the 2014-20 programme. Such plans do not at present seem to be very refined.
- Over-capitalised funds will be regularised at closure, but an amendment to the closure provisions enables investments in final recipients until late 2016/early 2017 under the 2007-13 programmes.

4.9.1. Context

Closure of a fund takes place at the end of its lifetime, or before, if it is under-performing. This requires a number of processes including the tasks necessary to stop the operation, liquidation of assets, ownership transfer, transferring of funds, ensuring eligibility of expenditure, etc. *Exits*, on the other hand, refer to the termination of specific cases (e.g. when a loan is repaid in full (or is defaulted on), or when the stock in an equity investment is sold). Important issues include the criteria for exits and expected outcomes (rules, time, returns, default rate, etc.), and the process (tasks necessary for exit, destination of funds, vehicles for exits, etc.). A study commissioned in 2012 by the European Parliament[131] identified room for improvement in the areas of setting up clear exit strategies and winding-up provisions.

It is important to consider the whole life-cycle of each fund and each transaction at planning stage, and to incorporate information on processes and rules for exit and closure policy in funding agreements. Due to underperformance, for example, because of the impact of the economic crisis, some regions have faced the need for an extraordinary closure of certain funds, which in general was not envisaged in the design and implementation of the instruments, so the rules and procedures have not been clear. This emphasises the need to specify clear rules/criteria in case of underperformance and defaults of the fund and extraordinary exits out of the fund, in the instrument design.

Defaults on repayable instruments are to be expected and target rates may be set. An interesting issue is to whether such rates were set and how – and the implications of this for the level of risk being undertaken by the specific fund.

4.9.2. Defaults

Target default rates were only set (and amended during the implementation period) in **Romania**. **No targets were set** in **Andalucía, Italy, Pomorskie, Slovenia** and **Thüringen.** Nevertheless, in **Andalucía JEREMIE** there is close monitoring at each governing board meeting and instructions are given based on risk. In **Thüringen**, the risk of defaults was considered to be minimised by strict solvency checks/credit assessments. There is a lack of data on default rates, but low rates were reported in **Bulgaria** (two percent), Estonia (exact rate not specified)[132] and **Thüringen** (there were no defaults in the Dynamik Fund in **Thüringen**, and only a few in the Invest Fund).

The issue of defaults raises a fundamental issue related to the rationale of FIs and their risk profile. On the one hand, an intended benefit of FIs is that they are repaid, providing a sustainable legacy to be reinvested in other firms in the future. On the other hand, FIs can be regarded, essentially, as an alternative delivery mode to grants – this might justify more risk (and by implication more defaults) in the sense that grants are always 'foregone', but FIs invested even in risky investments may be repaid. This in turn has implications for how FIs might be viewed in the context of sound financial management since grants will always involve a 'loss'. A related aspect is the relationship with private markets – FIs are intended to fill a gap in private sector provision, implying that FIs should be supporting projects that the market will not – indeed, if co-financed FIs simply support projects that the market would alone, then this raises issues of crowding out and the distortion (rather than development) of the private market.

[131] Spence J., Smith J. and Dardier P. (2012) *Op. cit.*
[132] Association for the Conservation of Energy (2013) *Financing energy efficiency in buildings: an international review of best practice and innovation*, Report to World Energy Council, London, p. 28.

4.9.3. Returns on investment

Very little data are available on returns on investment in most cases, and what data are available are partial (see Table 18).

Table 18: Returns on investment

Member State/ Region	Returns?	Comment
Bulgaria	Yes	Partial exit from the Seed instrument – circa EUR 20,000; returns from the PRSK – circa EUR 10 million.
Thüringen	Yes	
Estonia	Yes	Returns on the energy efficiency investments supported have been considered very high in relation to the capital costs and relatively higher than compared to initial forecast.
Andalucía JEREMIE	Yes	Returned funds around EUR 40 million.
Andalucía JESSICA	Yes	There are returns in both funds (urban & energy), but loans are relative long-term (urban up to 15 years with grace periods; energy (FIDAE) average loan period 8-9 years).
Pomorskie JEREMIE	Limited	Returns limited so far but the main aim is to address market needs.
Pomorskie JESSICA	Yes	By the end of 2015, the RPO MA anticipates that approximately EUR 2 million will have been repaid.
Slovenia	Mixed	No returns from VC, but there have been from guarantees. Returns have been recycled so these figures are not available at this stage.

Source: Case study interviews.

4.9.4. Re-using funds

Discussions are ongoing among the case study MAs on the re-use of returned resources in 2014-20. Expectations are that returned funding will be used again for the same instrument (e.g. Andalucía JEREMIE, Italy, Thüringen). Indeed, the re-use of returned resources has been an important motivation for introducing FIs in 2007-13. In **Italy**, there are ongoing discussions on whether resources will be re-used for the same instrument or other types of contributions. The funding agreements, which follow EC Regulations, contain specific clauses on this, which offer some room for manoeuvre on how to reuse the funds. Also in **Andalucía JESSICA** (energy and urban), the funds are returned to the HF and the MA has responsibility for deciding how to invest them. In **Andalucía JEREMIE**, the funding agreement states that when the fund is wound up, the remaining capital would be at the disposal of the regional government and should be transferred to the regional treasury. According to the MA, a new instrument may be created to reuse the returns in the future. Importantly, the Structural Funds Regulations specify that returns must be re-used for the same purpose in the same region.[133] Case study research suggests that plans for the re-use of funds are not very refined.

4.9.5. Exit and closure of FIs

Most MAs have not specified explicitly mechanisms to deal with exits. In **Slovenia**, contracts contain limited clauses on exits, while in **Andalucía JEREMIE**, the funding agreement states that the exit policy should be defined in the terms of reference of the FIs and negotiated with the Management Board.

[133] Regulation No 1083/2006 (the 'General Regulation'), Article 78(7).

Among the case study OPs, only one fund was reported as having been closed. This was in **Bulgaria,** where **the Growth Fund (a specific fund within a holding fund) was terminated due to delay and problems with ensuring financing from private investors.** However, related, in **Slovenia** the agreement with one VC company was ended due to their poor understanding of equity market, resulting in a lack of investments made, while in **Pomorskie JEREMIE**, the MA has cut back significantly on the funding associated with two underperforming agreements (out of forty). In **Italy**, decommitment of some of the resources allocated to FIs is anticipated at the end of 2015 due mainly to a slow take-off of the OP and issues associated with the eligibility of large enterprises, as well as an overestimation of the need for such measures.

Over-capitalised funds will be regularised at closure, but an amendment to the closure provisions enables investments in final recipients until late 2016/early 2017 under the 2007-13 programmes.[134]

4.10. AUDIT AND CONTROL – VIEWS OF THE AUDIT AUTHORITIES[135]

KEY FINDINGS

- Amongst the case study OPs, there were few specific provisions on FIs in the OP audit strategies, with only two MAs including detailed measures.
- This is similar to the coverage in the AA's Annual Report and Opinions prepared for the EC, with two AAs covering FIs separately and others only making reference to FIs but not addressing them specifically.
- Most AAs considered that the audit of FIs presents specific challenges, with many issues stemming from lack of experience, insufficient preparation and the complexity of FIs.
- The AAs differed over whether or not audits were more challenging for different types of financial product, with four considering there was little difference. One highlighted the difficulty of auditing VC elements which proved more complex.
- A number of reasons for irregularities were identified by the AAs, ranging from the legislative framework being unsuitable for the audit of FIs to insufficient communication between all relevant parties, resulting in failures to carry out sufficiently detailed verification checks.
- Most AAs felt there was some difference in irregularities between FIs and grants and that this was to be expected given the different process and audit trail required to set up FIs.
- The case study AAs held differing opinions over the level of control gained from the audit of FIs. The majority felt it was more or less the same when compared to grants with others considering there was more control and others believing less.
- The majority of AAs felt FIs to be more costly to audit, with one AA noting that the audits themselves do not require much more time or resources, but the preparation required in advance of auditing FIs is significantly greater than for grants.

[134] European Commission (2015e) Commission Decision amending Decision C (2013) 1573, C (2015)2771 final, 30.4.2015.
[135] This is based on interviews with the Audit Authorities for the case study OPs. However, it did not prove possible to conduct an interview with the AA for Pomorskie.

4.10.1. OP audit strategy for FIs

For several AAs (Andalucía, Estonia, Romania, Slovenia, Thüringen) **there was very little provision for FIs covered in the OP audit strategy**. References were made to FIs but no specific provisions were included. The **Romanian** AA stated that FIs were not explicitly covered as it was not justified, due to the AA's limited function for FIs, beyond standard audits. The same opinion was held in **Estonia,** as the AA would not be checking final beneficiaries.

However, **Bulgaria** and **Italy** included some specific measures for FIs in the OP audit strategy. For **Italy** this included two specific sets of check-lists for FIs: (i) a check-list for the setting-up of the FI; and (ii) a check-list for the implementation of the FI. In the case of **Bulgaria,** the strategy outlined the planned audit of operations for the funds transferred to HF each year and system audits covering the setup of the HF, and design and implementation process for the financial products.

The way in which FIs have been covered in the AA's Annual Reports and Opinions prepared for the EC is similar to the coverage in the OP audit strategies. **Bulgaria** and **Italy** have covered FIs separately, and **Andalucía**, **Estonia**, **Romania** and **Slovenia** make reference to FIs but do not address them specifically. It was felt there was little need due to the limited audit activity in this area. None of the Annual Report and Opinions were available at this stage. Only **Thüringen** stated that there was no specific reference in the audit strategy but separate reporting in what was sent to the EC.

4.10.2. Specific issues or challenges in the audit of financial instruments

Most AAs agreed that the audit of FIs presents a number of different challenges. Both **Bulgaria** and **Thüringen** AAs highlighted the issue of the significant work required while preparing an additional management and control system (MCS) for FIs, in order to include additional levels for the HF manager and financial intermediaries. **Andalucía** AA stated that the main challenge was the lack of previous experience in auditing FIs and a limited understanding of the EU regulatory framework, with the COCOF guidance notes not providing enough clarity. In **Italy** and **Slovenia** AAs considered that **the audit of FIs is significantly more complex due to the different stages of the FI life-cycle and various types of financial product**. **Slovenia** AA also agreed that the legislative framework was insufficiently clear for FIs.

In **Estonia** and **Romania,** AAs stated that they encountered no specific issues with the audit of FIs.

4.10.3. Challenges for auditing different types of FI

The AAs differed over whether or not audits were more challenging for different types of financial product. **Estonia, Andalucía, Thüringen** and **Romania** AAs all stated that there were no specific challenges.

For **Bulgaria** AA, the challenge came from auditing FIs that targeted SMEs at different stages of their lifecycle, with those in the start-up stage proving somewhat more difficult than more mature SMEs.

In **Slovenia** the AA noted significant differences for the audit of various types of financial product. VC elements proved more complex but there was less activity (in implementation) compared to guarantees (only one public tender).**Although the audit of guarantees is less complex, the greater number of public tenders and multiple final recipients made it more time-consuming.**

4.10.4. Main causes of irregularities for financial instruments

The main causes identified for irregularities were:

- the legislation for management and control of EU funds is not tailored for FIs and is insufficiently detailed (Andalucía, Bulgaria, Romania, Slovenia);
- the complex management and control system with many actors and different rules (Bulgaria);
- insufficient communication and coordination in the process of delivery of FIs and lack of significant experience in programming, management and control of FIs (Romania);
- lack of transfer of know-how between the EIF and the MA (Bulgaria);
- issues at the set-up stage – not amending relevant documents (funding agreements, investment strategy, planned activities) for each different FI (Italy); and
- failure to carry out sufficient verification checks; the checks are too narrow and too few are conducted (Slovenia).

4.10.5. Differences of irregularities between other types of expenditures

Some AAs stated that there was no real difference between the irregularities of other types of expenditure and FIs (Estonia, Romania).

The differences identified relate to the main causes of irregularities for FIs above – for example, the complex MCS which does not exist for other types of expenditure (Bulgaria, Slovenia). In **Italy** the AA noted that the differences are to be expected, because the process necessary for setting up a financial instrument does not occur for other types of interventions, and involves a specific audit trail.

AAs were divided over examining spending at the level of the final recipients, with four stating they carried out checks at this level (**Bulgaria, Estonia, Italy, Thüringen).** Three stated that they did not (**Andalucía, Romania, Slovenia**), these AAs carrying out the checks at the level of the financial intermediaries.

4.10.6. Comparison of auditing financial instruments with other types of expenditure

AAs differed in their views on the level of control of FIs. **Italy, Romania, Slovenia** and **Thüringen** AAs felt it was the same; AAs in **Bulgaria** and **Estonia** felt they had less control, and only the AA in **Andalucía** believed there was more.

In **Bulgaria** the AA stated that the controls in place at the different levels are less intense and not so detailed compared to the controls implemented by the MA for other types of expenditure. Andalucía felt there was more control because the audits are conducted once over a longer period, as it is necessary to audit the setting-up of the fund, as well as the closure to determine that the balance (of eligible expenditure) is correct.

AAs held differing opinions over the cost/resources implications of auditing FIs compared to other expenditure. AAs in **Andalucía, Bulgaria** and **Slovenia** stated that is more costly, while in **Estonia, Italy** and **Romania,** AAs felt it was the same. **Thüringen** considered the cost to be lower.

The reason for the FIs' audits being more costly was the lack of experience with the complex regulatory framework. In **Andalucía** the AA stated that systems audits took double the time of the audit of grants and the **Slovenia** AA noted that audits for FIs required significantly more advance preparation.

4.10.7. Lessons learned for the audit of financial instruments

The lessons identified by AAs were:

- There is a need for improved accountability of the EIF as a fund manager, as it cannot be audited by national AAs – the audit can only be conducted by the EC (Bulgaria, Romania).
- Information and experience should be shared between all management levels through exchange of know-how, detailed reports for weaknesses, trainings for all actors, joint technical meetings, which could involve all stakeholders in the process, including representatives of the EIF, other financial stakeholders, etc. (Andalucía, Bulgaria, Estonia, Slovenia).
- The AA should participate as an observer on the Investment Board of the holding fund in order to plan effectively (Bulgaria).
- There should be a common audit approach for the different instruments at EU level (Estonia).
- There is a need for more timely provision of guidance (Italy, Romania).
- The need for better publicity of FIs (Romania); this largely reflected the need (as perceived by the audit authority) to publicise FIs in order to generate sufficient interest and ensure absorption.

4.11. EVALUATION

KEY FINDINGS

- Most case study MAs agreed that FIs can contribute more than grants to better Cohesion policy performance.
- A number of benefits were reported by MAs in the use of FIs over grants, including: the capacity to support more firms; closer ongoing relationships with enterprises; and the application of market-based principles to implementation.
- MAs also noted that grants are able to reach certain types of projects that FIs cannot.
- Key lessons from evaluations are the need for flexibility in the design of FIs and the importance of stability and clarity in the legislative framework.
- Improved administrative capacity was listed as of particular importance to the successful implementation of FIs.

4.11.1. Context

Evaluation of FIs is usually a part of the overall evaluation of OPs, given the scale of the FIs within such programmes. Whilst such evaluations vary in format and objectives, the scale and nature of FIs suggests that dedicated evaluations of FIs should be undertaken to ensure effective and efficient implementation and to ensure that the FIs are correctly targeted. Evaluations should be expected to provide feedback on operational, performance and absorption issues also in view of future programming.

4.11.2. Ability to use Cohesion policy funds

In terms of the ability to use Cohesion policy funds, many MAs stated that, for a number of reasons, they favoured the use of FIs over grants (especially for SME support), although it was recognised that different instruments have their place. The following benefits were highlighted:

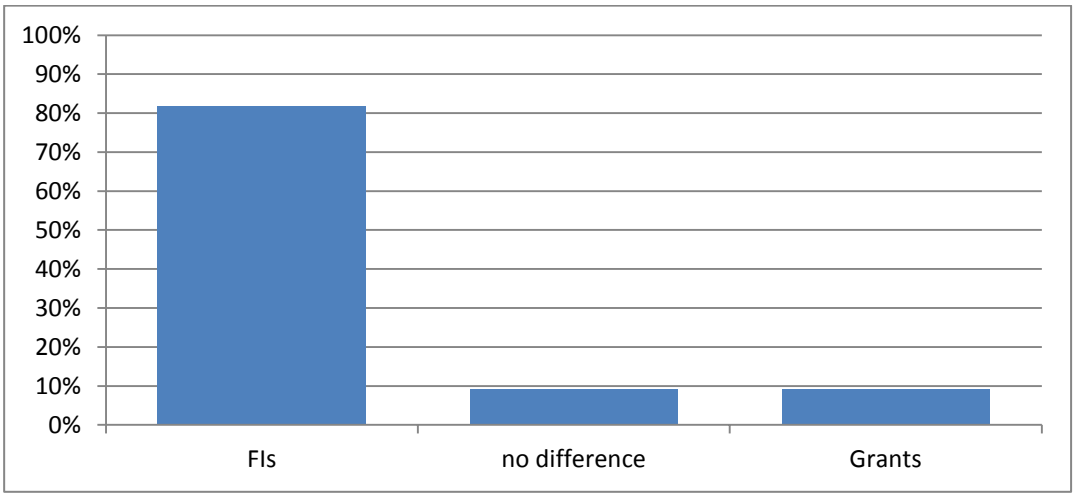
- FIs, unlike grants, are repayable, and therefore offer the capacity to support more firms (Bulgaria, Andalucía JEREMIE).
- FIs address different needs than grants and are complementary to them (Bulgaria).
- FIs are particularly suitable for economically viable projects (Andalucía JESSICA).
- It is possible to combine instruments (Andalucía JESSICA) (although it is not yet clear how this will work in practice).
- FIs entail ongoing closer relations with enterprises and thus can build their awareness and competitiveness better than grants (Italy). Related to this, FIs are more likely than grants to be spent on items to improve productivity/revenue (Slovenia) and promote a serious approach in participating businesses (Romania).
- FIs introduce market-based principles to implementation (Pomorskie JEREMIE).

However, as stated above, the use of FIs is most valued in certain areas and for certain target groups (such as SMEs and energy efficiency (Estonia)), and it was considered that not all areas are realistically capable of using FIs due to nature of the services and length of time of the processes (Estonia). For example, other types of projects are more effectively supported through grants (culture, health) (Pomorskie JESSICA). The **Thüringen** MA noted that both grants and FIs have advantages and disadvantages, not least that firms usually prefer grants, and they are easier to administer.

4.11.3. Contribution to better performance

Most MAs agreed that FIs can be better suited than grants to contributing to better Cohesion policy performance, with the caveats stated above (that FIs are better suited for certain types of project and target groups, and grant support will also be required to address different needs/the needs of particular regions or target groups). The contribution of FIs was particularly valued in the area of SME support (especially during the crisis; in **Andalucía JEREMIE** they helped to reactivate priority sectors – sustainable construction and energy – of industries that struggled significantly). Furthermore, under **Andalucía JEREMIE**, the additionality of FIs has been found to be very high, and it is estimated that some 70-80 percent of projects would not have been implemented without it. In contrast, grants were found to provide a higher incentive for private firms to engage and therefore contribute to better policy performance than loans in **Thüringen.**

Figure 18: Which type of support is more suited to contribute to better Cohesion policy performance?



Source: Case study interviews.

4.11.4. Lessons learned

The MAs highlighted a number of lessons learned from the 2007-13 programming period:

- **The need for flexibility**

  It was recognised that FIs need regular adjustment to market conditions and SMEs' needs (Bulgaria, Andalucía JESSICA, Estonia, Pomorskie JESSICA, Romania); the holding fund structure has been found helpful in this regard, to enable flexibility and efficiency for FI management (Andalucía JESSICA, Bulgaria, Pomorskie JEREMIE, Slovenia). The need for additional flexibility to transfer allocations across intermediaries if implementation/performance is not progressing as planned was highlighted in Andalucía JEREMIE.

- **The importance of stability and clarity**

  Comprehensive, clear and precise rules from the outset were considered important, especially to ensure buy-in from financial intermediaries (Andalucía JEREMIE). Related, clear rules and guidelines for banks and recipients helped to ensure an efficient implementation of the FI in **Estonia** by making the instrument very comprehensible and user-friendly. For ease of implementation in 2014-20, there should be stability in implementation arrangements, with no unnecessary changes or the introduction of more complicated arrangements (Thüringen). In **Italy**, time pressures due to delays with the implementation of the OP meant there was reluctance to use FIs for more innovative measures. Instead, a more risk-averse approach was pursued.

- **The role of effective communication**

  The importance of communication was highlighted, both internally within FI management structures and with external stakeholders. Ongoing and close contact is required between the HF manager, fund managers, financial intermediaries and the MA to ensure a smooth and correct running of FIs (Andalucía JESSICA, Pomorskie JESSICA, Slovenia). Considerable effort was put into developing effective marketing campaigns in **Estonia**, where it was also recommended that, where there are many different partners to be negotiated with, negotiations should proceed in parallel to speed up implementation. It was also recommended that information be provided as early as possible because it might take a couple of years until the final beneficiaries become as active as expected (Estonia).

- **Capacity**

  The need to build capacity was highlighted. It is important that partners involved in implementing FIs have the necessary experience, skills and financial capacity to ensure successful implementation. Pomorskie JEREMIE, Pomorskie JESSICA and **Slovenia** recommended greater use of technical assistance throughout the setup and delivery of FIs. **Estonia** recommended that consultants be used to support applicants, as there are many documents to prepare before loan applications are finalized. Related to capacity among fund managers, **Slovenia** recommended that fees be set in accordance with ceilings in the EU regulations, not according to domestic lower limits.

- **The crucial role of effective monitoring**

  The importance of an effective monitoring system was mentioned by **Estonia** and **Pomorskie JESSICA**; the need for more checks was highlighted by **Slovenia**. However, **Pomorskie JEREMIE** warned that checks and verifications involving excessive demands on SMEs in comparison to other means of accessing finance could act as a disincentive, and that FIs should maintain a business-oriented, market-based approach and try to match market conditions.

- **A holistic approach is the key to success**

  In **Estonia**, the FI is supported by activities such as awareness raising, promotion, state and local support, and the legal and financial framework.[136] 'Soft support', guidance and advice by KredEx during the planning stages were also crucial in overcoming obstacles.

[136] AEIDL (no year), *Op. cit.*, pp. 5-6 (accessed 10 July 2015); Association for the Conservation of Energy (2013) *Op. cit.*, p. 63; Adler M. (2012) *Revolving fund for housing in Estonia* (presentation), 23 October 2012, p. 16.

5. CONCLUSIONS AND RECOMMENDATIONS

This study assesses the implementation of FIs under Cohesion policy in the 2007-13 programming period, looking specifically at the financial management and identifying good practices and lessons learned. In this chapter, the study concludes by addressing the following research questions, based on the information provided by the case studies and presented earlier in this report:

- What has been the added value of the FIs under Cohesion policy in terms of providing better safeguarding of EU financial interests as compared to other modalities under this policy?
- Has the use of FIs contributed to enhance performance of the implementation of Cohesion policy?
- What have been the roles and responsibilities of the actors involved in terms of preserving the EU's financial interests and assuring smooth and correct investment of funds?
- What are the best practices at different levels of management and how have the respective institutions addressed the difficulties and problems encountered?
- Are Member States and beneficiaries prepared to use FIs in light of the lessons of the previous OPs? To what extent are they adequately prepared to implement the legislation?

The study's findings are based on existing knowledge on the operation of FIs, as reflected in the academic literature and policy documents, as well as examining eight case studies in detail. These case studies were selected with the aim of providing a sample that reflects a range of FIs experiences. Key facts and data on the case studies were established through desk-based analysis of FIs in the case study regions, followed by semi-structured interviews with MAs and/or Intermediate Bodies and AAs responsible for the case study OPs. A comparative analysis of the case studies, focusing on the different stages in the lifecycle of FIs, provides the basis on which to draw lessons from the implementation of FIs in 2007-13 for the 2014-20 programming period.

During 2007-13 almost all Member States used FIs[137]. However, the use of FIs in terms of relative importance, the implementation model chosen and policy objectives vary widely across countries, with no clear overall pattern. Comparing the absolute volume of commitments at the national level, four Member States (Greece, Germany, Italy, United Kingdom) account for 56 percent of OP commitments to FIs in 2007-13, while Italy alone accounted for almost a quarter of the total. The differences between countries are partly attributable to country size and the overall scale of Cohesion policy funding (which itself complicates direct comparisons), but are also a reflection of policy choices and of existing domestic practice. With respect to policy objectives, most of the FIs implemented provide support for SMEs, with 879 of the co-financed specific funds aimed at business development, but only 47 FIs used for urban development and 26 for energy efficiency/renewables.

With respect to the share of OP commitments to FIs in the case studies, the highest levels were in Bulgaria (30 percent) and Italy (14 percent). The lowest shares were committed in Andalucía and Estonia (less than 6 percent).

The selected case studies suggest a more positive picture of the implementation of FIs (e.g. revolving nature) than might be expected from the available monitoring data and academic/policy literature. This could be for a number of reasons:

[137] Only three Member States did not.

- Over the 2007-13 programming period, more guidance and support became available. The case study responses might reflect the situation more towards the end of the period, rather than at the beginning, while the data for the end of the period were not yet available;
- The case study data are self-reported and might include a certain bias to emphasise positive aspects in the implementation, while potentially minimising the difficulties or politically tricky issues such as 'parking' funding in HFs to avoid decommitment;
- The overall quality of the monitoring data for the studied period is patchy and unreliable. Drawing conclusions from such poor quality data might be misleading. Rather than indicating poor performance, the data might simply reflect an absence of reliable information;
- The selection of case study regions favoured those already making some use of FIs and excluded OPs committing very small amounts since drawing wider lessons from these OPs is likely to be difficult. This might have biased the selection towards OPs with a greater capacity to implement FIs. Additionally, the geographical coverage of the study was restricted to Convergence regions (i.e. less developed regions) by the Terms of Reference.

For a number of reasons, the findings reported in this study should be treated with caution. First, this study covers implementation during the 2007-13 programming period only and many of the regulatory shortcomings identified in the study have since been addressed. Second, the impact of spending might not be fully delivered. Third, the monitoring of FIs was inconsistent and most of the data were supplied on a voluntary basis leading to some issues regarding accuracy and comprehensiveness. Fourth, as noted above, the qualitative feedback provided through the case studies is not always in line with the quantitative data. Finally, it should be noted that findings provided by case studies cannot be generalised.

The following section addresses the key research questions of this study by grouping some of them when appropriate.

Has the use of FIs contributed to enhance performance of the implementation of Cohesion policy? What has been the added value of FIs under the Cohesion policy in terms of providing better safeguarding of EU financial interests as compared to other modalities under this policy?

The overarching 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 to sustainable regional economic growth and employment.

Yet, it is extremely difficult to establish whether the EU's financial interests are better protected by repayable or non-repayable instruments as there is no specific data or indicators allowing for comparison. In addition, one should note the scarcity of data on the leverage effect that FIs were able to achieve in the 2007-13 programming period.

However, this report is based on case studies and, in most of them (e.g. Bulgaria, Andalucía JEREMIE, Andalucía JESSICA, Pomorskie JEREMIE, Slovenia, Italy, Romania), FIs are considered to enhance the performance of Cohesion policy. This is partly because of their revolving nature, seen as a key positive factor, making them very attractive to the Member States at a time of increasing budgetary constraints. However, there is scant data on the extent to which funds have revolved and few cases studied have explicit strategies for revolving funds or future use.

This positive view of overall good performance and the advantage of recyclable funding contrasts with low disbursement rates, as the data show that in some cases (e.g. Italy) the share of funds that have reached final recipients is low. Part of this share could be attributed to funds that are 'parked' in HFs to avoid decommitment before reaching final recipients. It is still early in the process to be able to assess the results as regards the recycling of funds, as discussions are ongoing among the case study MAs on the re-use of returned resources in 2014-20.

The ECA audits have shown the need to improve the relevant accounting rule to provide adequate guidance on the recognition and clearing of pre-financing together with improved supervision. The stage payments provision introduced for 2014-20 OP provides a pragmatic solution for this, by aligning commitments and payments to funds more closely with the uptake of FIs by final recipients.

Regarding private capital, this research shows that FIs attracted some private capital in most cases studied, despite the absence of any detailed information on this aspect. Some interviewees (e.g. Italy) highlighted that FIs entail closer relation with enterprises and thus can foster more competitiveness than grants. In addition, in some cases, such as Slovenia, it was reported that FIs are more likely than grants to be spent on items to improve productivity/revenue, while other interviewees (e.g. in Romania) pointed out that FIs promote a serious approach in making businesses participate.

However, it has also been observed by the ECA that other EU programmes aimed at SMEs are attracting more private capital than Cohesion policy FIs. MAs and fund managers found it challenging to attract private funding due to the complexity of EU requirements. This could be addressed by making sure that Structural Funds regulations take the specific features of FIs into account. Additionally, more systematic gap analyses, allowing for market-oriented allocation of FIs, would improve their capability to attract private capital.

One specific aspect of performance is the value for money of management cost and fees and MAs in the case studies were rather positive about it. However, concerns were raised about transparency, lack of clear rules for management cost and fees and in particular in relation to "parked" funds. As respect to the "parking" funds, the money not reaching final recipient are returned to the EU budget at programme closure, but the management costs and fees associated with the fund are not. Regarding the rules for management cost and fees, more stringent requirements are introduced with the 2014-20 CPR Regulation where the following elements should be taken into account when evaluating the management costs and fees: the OP contributions reaching final recipients, the resources returned from investments or released from guarantee contracts and the contribution of the FIs to the objectives and outputs of the programme. Although the introduction of such requirements is positive, it does not fully address the difficulties relating to assessing the value for money of management costs and fees, partly because data for these elements are not always available and reliable.

Finally, both grants and FIs are seen as having advantages and disadvantages, although it might happen – as reported by the Thüringen MA - that final recipients prefer grants, which are easier to administer. FIs are complementary as, in some of the cases studied (e.g. Bulgaria, Andalucía JEREMIE), they are seen as addressing different needs to grants. In principle, they have to be used for projects judged to be economically viable, otherwise the funds cannot be repaid. Additionally, as stated above, the use of FIs is most valued in certain areas and for certain target groups (such as SMEs and energy efficiency, as in Estonia). Some interviewees considered that not all areas are suited for making use of FIs due to the nature of the services and length of time of the processes. For example,

Pomorskie JESSICA MA indicated that other types of projects are more effectively supported through grants (in particular in the policy areas of culture and health).

What have been the roles and responsibilities of the actors involved in terms of preserving the EU's financial interest and assuring a smooth and correct investment of EU funds? What are the best practices at different levels of management and how have the respective institutions addressed the difficulties and problems encountered?

The establishment and implementation of FIs is a complex process and involves many actors and interests, which requires a high level of co-ordination and a clear legal framework to achieve the policy goals. It is now clear that political endorsement and a strong, multidisciplinary technical team are critical to the success and timely implementation of FIs. Ongoing and close contact is required for specific fund and HFMs, financial intermediaries and the OP MAs to ensure a smooth and correct running of the funds.

The widespread lack of knowledge and experience with FIs was challenging at the outset of the 2007-13 programming period: design, implementation and use of FIs were new experiences for many regions. In addition, delays resulted from the negotiation of funding agreements, as they needed to specify a high degree of detail in the practical aspects of the proposed conditions. They also involved uncertainty over terms, negotiation of terms, and legal work. Such delays are pertinent to considerations of the economy principle related to the sound financial management of EU public finances. However, the lengthy discussions were also seen, with hindsight, to have paved the way for faster implementation of the following stages.

Design

Assessing the need for FIs is a critical step in the process of implementation. However, case studies findings show that practices related to the design vary significantly and that neither gap assessments nor official investment strategy are used by all MAs.

As regards gap assessment, they were carried out by four of the eight case study OPs before the launch of the FIs (Andalucía JEREMIE and JESSICA urban, Bulgaria, Pomorskie, Romania), while elsewhere, the decision to introduce FIs was based on other considerations or more informal assessments (e.g. Andalucía JESSICA energy, Estonia, Italy, Slovenia, Thüringen). The impact of the assessments also varies across case studies: the recommendations are considered to have provided a useful reference point for the design of the FIs in Andalucía JEREMIE, whereas the assessment had very little direct impact on the introduction of the FIs in Slovenia.

All interviewees found that the gap assessment, whenever carried out, have been fairly accurate. Nonetheless, it was noted that they were conducted independently from the OPs, which led to delays and sub-optimal fund allocations from OP measures to FIs. Furthermore, whenever subsequent funding agreements came to be negotiated, significant OP constraints not addressed in the gap assessments often emerged. Lessons learned were highlighted in an EIF working paper[138] and ex-ante assessments have now become an obligatory component of the establishment of FIs in 2014-20 programming period.

[138] Kraemer-Eis H. and Lang F. (2014) *Op. cit.*

With respect to formal investment strategy, nearly all MAs produced one.[139] Most of these strategies underwent some form of change during the planning period except for the case of Estonia and Slovenia. The level of detail and content covered in each of the investment strategies varies between the MAs surveyed. Thüringen, for example, had an extensive and detailed strategy, covering all aspects of the FIs from objectives through to implementation and then closure, while the Slovenian strategy was more limited, covering only the target groups. Following criticism from the ECA, the 2011 COCOF note referred to the need for an 'underlying' and 'coherent' investment strategy to be set out.

As regards OP contribution to FIs, MAs made their decisions on the basis of different types of evidence. Where gap analyses were carried out, this provided the rationale for committing funds to the FIs (Bulgaria, Italy, Pomorskie JEREMIE). Other MAs (e.g. Slovenia, Thüringen) took advantage of fund manager expertise and market knowledge when agreeing how much to commit. For the Pomorskie JESSICA and Romania, the decision was taken by the Programme Monitoring Committee. Also, in some cases (e.g. Estonia) decisions were made mid-programming period, using the performance of the FIs to gauge what could be absorbed (Italy, Slovenia).

Generally speaking, surveyed MAs were satisfied with the initial approach taken towards the design of FIs (e.g. Estonia, Slovenia, Thüringen). When the MAs were not completely satisfied, e.g. Estonia, the reasons given included the negotiation process with the EC taking too long, and, in Italy, the slow uptake of funds. Another issue cited by Estonia was that due to the small amount of funds provided, the total commitment was quickly absorbed and that it will take long before funding will be available again due to slow recycling.

The design and form of the FIs have an impact on how the roles are distributed between the different actors. MAs have the choice either to provide contributions through a HF, which in turn comprised one or more SHF, or directly through specific funds outside holding funds (NHF). These specific funds could in turn provide one or more financial products (loans, guarantees and equity, and variants and combinations of these) to final recipients. The majority of HFs are managed either by national financial institutions or put out to public tender, rather than managed by the EIF or EIB. HFs allow greater flexibility than specific funds, because there is no need to choose at the outset the specific FIs. In addition, it can also adapt to changes in the economic conditions by allowing a reallocation between funds. However, the issue of 'parking' funds can also emerge in HFs. HFs also involve an additional layer of management costs and monitoring, and might have the effect of further distancing the MA from the reality on the ground.

Implementation

The results of the research show the increasing importance of FIs in Cohesion policy, and the development of more complex models of their implementation (e.g. a combination of instruments and implementation structure).

By end 2014, 73 HFs and 952 specific funds (438 NHF and 514 SHF) were operating. In practice, the distinction between HFs and specific funds is less clear-cut than might at first appear. The case studies revealed that, depending on the governance structure and the type of financial product offered, the financial intermediary actually offering financial products to final recipients may be the same as the specific fund manager listed in the Summary Report (typically so in the case of equity products).

[139] In the remaining one, the focus of the FIs was taken instead from the OP.

Alternatively, this may have been delegated to financial intermediaries, which then administer a given financial product (especially loans and guarantees) according to the terms set by the specific fund manager. This means that the "number" of FIs listed in the Summary Reports is of limited importance.

The major issues related to the implementation phase are the small percentage of the FIs reaching final recipients, the shortcomings of the regulatory framework, as well as a high administrative burden.

Out of EUR 17 billion of OP contributions, over EUR 16 billion had been paid into HFs or specific funds by end 2014, but only about EUR 9 billion had actually been invested in final recipients[140]. This means that, ostensibly, just over half of the sums committed at the level of the OP had actually reached the final recipients, hence their intended target, by the end of 2014. The disparity between payments to funds and those reaching final recipients is accounted for by a few Member States; in most countries using FIs, over 70 percent of payments to funds have reached final recipients.

In theory, the implementation of FIs could be procured from, or entrusted to, various types of organisation, subject to the constraints of domestic and European rules on procurement. Beyond this, however, there was comparatively little guidance on how FIs should be set up and managed. This gave rise to considerable uncertainty and delays in the implementation of FIs[141], notwithstanding clarifications issued in the form of COCOF notes.

Additionally, the perception that administrative burden was too high in the 2007-2013 programming period persists, partly due to complex management and control system required for FIs. As a response, MAs had to take several steps such as the ones listed below:

- seek additional guidance from the EC, as EU rules were unclear;
- work closely with the State aid department, MA and HF (Slovenia);
- provide support to capacity building at the level of the HF manager (Pomorskie JEREMIE).

As a result, the EC provided MAs and bodies implementing the Funds in 2014 with detailed guidance on how to implement the FIs, supplemented by the online advisory platform on FIs (fi-compass). However, not all the issues are covered in the guidance even now.

Monitoring

Effective monitoring of the implementation of FIs is required both for the internal assurance of probity and effectiveness, and to ensure that the required reporting to MAs and the EC is correct, accurate and based on reliable data sets. A range of challenges were identified by the case study MAs. These were related to staff turnover at MA (Romania), data time lags (Bulgaria), and monitoring systems that were unable to collect the required data (Italy). Difficulties were also encountered in the delegation of responsibility to financial intermediaries which may have different working methods (Andalucía JESSICA). Preparing the annual reports was challenging for some (e.g. Slovenia), while reconciliation of EU requirements with domestic audit requirements and the interests of SMEs was particularly difficult for others (e.g. Thüringen). Nevertheless, in almost all case studies, the perception

[140] E.g. small and medium-sized enterprises (SMEs), urban or energy projects

[141] Michie R. and Wishlade F. (2011) *Between Scylla and Charybdis. Navigating Financial Engineering Instruments through Structural Funds and State Aid Requirements*, IQ-Net Thematic Paper, Vol. 29. No. 2, European Policies Research Centre, University of Strathclyde, Glasgow, see: http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports(Public)/ThematicPaper29(2)Final.pdf (accessed December 2015).

is that FIs are monitored more closely and efficiently than grants and the monitoring was evaluated as good.

Data availability and quality is essential for monitoring and reporting. The new[142] requirement for reporting of Member States to the EC will have a very positive impact on data availability. It provides a positive impetus for an evidence-based monitoring approach.

However, despite the continuously increasing quality of the reports, improvement is still needed. The ECA has criticised the quality of reports, noting that, despite general guidance provided by the EC over several years, published summary reports for the last period display numerous gaps in the data available and evident misinterpretation. Moreover, one of the most problematic aspects relating to the monitoring and reporting procedures involves the identification of suitable indicators for FIs. OP indicators did not distinguish between FIs and grants, resulting in some indicators being unhelpful in assessing the progress of FIs. Common indicators would further facilitate analysing the data and, through comparative analysis, identify clear patterns that might be explained and replicated.

Finally, more precise requirements in the legislation, going beyond those existing for 2014-20 programming period could also improve the monitoring results, guiding the MAs in what could be monitored in each phase of the lifecycle of FIs, reducing double counting and misunderstandings.

Controls and audit

In order to ensure that FIs are operated in accordance with the criteria applied by the specific fund and HF, when applicable, by the OP, as well as by national legislation and EU regulations, an audit trail is put in place and controls are carried out. At national level, audits are carried out by the AA. The AA is responsible for the closure declaration and report to the EC at the end of the implementation of the OP. Almost all of the interviewed AAs, except Estonia and Romania, perceive the audit procedures as complicated and most of the AAs require further guidance on their audit strategy. The EC should provide further practical guidance on audits and could serve as a platform for sharing of know-how and best practices between all management levels.

Are Member States and beneficiaries prepared to use FIs in light of the lessons of the previous OP? To what extent are they adequately prepared to implement the legislation?

For most of the case studies, the EU rules are difficult to comply with as they come in addition to national rules. Acknowledging the need to reduce unnecessary administrative burden, to increase the clarity of indicators and to create a common audit approach would significantly reduce this burden and improve the performance and accountability of the instruments.

Despite these challenges, FIs are considered to be a powerful and useful instrument in the case studies, especially for facilitating access to finance, and many will be continued in some form in the 2014-20 OPs. The experience gained by actors at all levels and the simplification of the legal basis will be helpful in setting up new FIs more quickly than in the past.

[142] Since 2011

Challenges ahead

It is important to stress that many difficulties highlighted in this study relate solely to the provisions for 2007-13 programming period, which has been the focus of the research. In the current programming period 2014-20, the legal framework has been strengthened, with more detailed guidelines provided regarding design, allocation and implementation of FIs.

In light of the limitations on grant funding, a further increase in the use of FIs to achieve EU objectives appears inevitable. But to make further decisive progress in the FIs under Cohesion policy, it will not be enough to tackle some of the gaps in guidance and improve implementation. There is also a need for a new approach to allocation, use and accountability of the FIs, based on performance and best practices.

Flexibility in achieving policy goals

Flexibility applied in the use of FIs is essential in achieving the more global Cohesion policy objectives. Half of the case studies recognised that FIs need regular adjustment to market conditions and SMEs' needs; the HF structure has been found helpful to enable flexibility and efficiency for FI management. More flexibility in the implementation process would enable transfer of funds where most needed, reflecting the market conditions in a timely and efficient manner. A focus on HF rather than specific funds might help in this respect.

More flexibility for the re-investment of the recycled returns could also enable Member States/regions to reflect on the period specific economic conditions and potentially achieve long-term policy objectives.

Supporting local objectives and processes

OPs should reflect – in line with the smart specialisation principle - the needs of local businesses and the economy rather than designing rules through lengthy and costly administrative procedures and negotiations. The rules should encourage growth while providing detailed guidance and access to best practices in order to allow for a smooth implementation of the FIs. European Institutions could do more to provide research on FIs and share lessons learned from best practices, building on the fi-compass advisory platform.

Capacity building

The need to build capacity was highlighted in the case studies. It is important that partners involved in implementing FIs have the necessary experience, skills and financial capacity to ensure successful implementation, potentially including greater use of technical assistance throughout the set-up and delivery of FIs. In this respect, the EC could play an important role, collecting and sharing the best practices in its fi-compass. Information and support to MAs in understanding and implementing more complex instruments should also be provided. Additionally, the results of the AIRs should be studied in detail to establish EU patterns that could identify FIs implementation strengths and ways for improvement.

Wider lessons for the use of FIs at EU level

Generally speaking, FIs provide an attractive route for the implementation of EU policy objectives, especially in a context of economic crisis and limited public funds. Their revolving nature and the involvement of private sector capital and expertise can add significant value to the delivery of economic development goals. However, it is important to also recognise that FIs is a broad term to cover a wide range of different types of instruments, following different intervention rationales and

implementation mechanisms. Assessing the performance of these instruments and deciding on their use for specific projects thus needs a more detailed case-by-case analysis, linked to the assessed needs of a specific regional economy and/or target group.

The analysis of FIs in the context of Cohesion policy shows that FIs are not a panacea, neither in this context nor in the wider implementation of EU policy objectives. They are only able to provide a specific intervention to match an identified specific need. They can be administratively difficult and some challenges remain, including how to best attract private investors. The prerequisite for implementing FIs in an effective and efficient manner remains the technical capacity to implement, including making an accurate assessment of the needs to be met, facilitated by a regulatory framework which provides legal certainty while retaining a high degree of flexibility at the local level.

The analysis of FIs raises some fundamental questions about their use at EU-level: how to ensure that there is sufficient local flexibility while also delivering on EU-wide objectives? How to ensure there is sufficient control, auditing and monitoring without adding an excessive administrative burden that deters private investors? How can funds be disbursed quickly and efficiently while minimising error rates? How can it be ensured that those with a low capacity to implement but high levels of economic development needs can benefit from FIs?

These questions do not necessarily have definitive answers but often represent trade-offs between different objectives, which require political decisions. However, to help to deliver the benefits of FIs, a high level of support can empower all public administrations to develop, over time, the capacity to implement such, by their very nature, complex policy instruments.

REFERENCES

- Achleitner A., Braun R., Bender M. and Geidner A. (2009) *Community Development Venture Capital: Concept and Status Quo in Germany*. International Journal of Entrepreneurship and Innovation Management (IJEIM), Vol. 9, No. 4, 2009, pp. 437-52.
- Adler M. (2012) *Revolving fund for housing in Estonia* (presentation), 23 October 2012
- AEIDL (no year) Tartu, Estonia. Rejuvenating an ageing city, http://www.aeidl.eu/images/stories/50bestpractices/ee_tartu_case-study.pdf. (accessed 13 June 2015)
- Appleyard L. (2013) T*he Geographies of Access to Enterprise Finance: The Case of the West Midlands, UK*, Regional Studies, Vol. 47, No. 6, pp. 868-79.
- Association for the Conservation of Energy (2013) *Financing energy efficiency in buildings: an international review of best practice and innovation*. Report to World Energy Council, London, http://www.eceee.org/all-news/press/2013/2013-10-22/WEC-EEC-Final (accessed 12 September)
- Baldock R. and North D. (2012) *The Role of UK Government Equity Funds in Addressing the Finance Gap facing SMEs with Growth Potential*, Paper for the Institute for Small Business and Entrepreneurship Conference, 7-8 November 2012, Dublin.
- Banca d'Italia (2011) *I confidi e il credito alle piccole imprese durante la crisi, Questioni di Economia e Finanza*. Occasional papers, No. 105, 2011.Berggren B. and Silver L. (2012) *Financing Entrepreneurship in Different Regions: the failure to decentralise financing to regional centres in Sweden*, Journal of Small business and Enterprise Development, Vol. 17, No. 2.
- Brown J. and Petersen B. (2010) P*ublic entrants, public equity finance and creative destruction*, Journal of Banking & Finance, Vol. 34, No.5, pp. 1077-88.
- Brown R., Mason C. and Mawson S. (2014) *Increasing 'The Vital 6 Percent': Designing Effective Public Policy to Support High Growth Firms*, Nesta Working Paper, 14 (01), NESTA.
- Bruhn-Leon B., Eriksson P. and Kraemer-Eis H. (2012) *Progress for Microfinance in Europe*. Working paper 2012/13. EIF Research and Market Analysis, European Investment Fund, Luxembourg.
- Centre for Strategy and Evaluation Services (CSES) (2008) *Evaluation of ERDF Supported Venture Capital and Loan Funds,* http://www.scotland.gov.uk/resource/doc/209231/0055411.pdf (accessed 15 June 2015).
- Commission Decision amending Decision C (2013)1573 on the approval of the guidelines on the closure of operational programmes adopted for assistance from the European Regional Development Fund, the European Social Fund and the Cohesion Fund (2007—2013), C(2015) 2771 final, Brussels, 30.4.2015, http://ec.europa.eu/regional_policy/sources/docoffic/official/guidelines/closure_2007_2013/annexe_guidelines_closure_20072013_en.pdf (accessed 9 December 2015).
- Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund, OJ L138/5 13.5.2014.
- Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of

Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund OJ L 317/24 30.11.2011.

- Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 OJ L 210 31.7.2006.
- Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities OJ L 248/1 16.9.2002.
- Cowling M. and Siepel J. (2012) *Public intervention in UK small firm credit markets: Value-for-money or waste of scarce resources?*, Technovation No. 33, 2013, pp. 265-66.
- Cowling M. (2012) *Financial engineering Literature review – Credit rationing, equity gaps', and policy solutions for financing entrepreneurial business in Europe: Theory, tests, evidence and the design and effectiveness of policy instruments*. Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-13. A report to the European Commission Directorate-General Regional Policy. http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/expert_innovation/literature_review_financial_engineering.doc (accessed 5 June 2015).
- Cressy R. (2002) *Funding Gaps: a symposium*. The Economic Journal, Vol. 112, No. 477, pp. F1-F16.
- CSES (2007) *Comparative Study of Venture Capital and Loan Funds Supported by the Structural Funds*, Final Report, 2007. http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/2007_venture.pdf (accessed 12 June 2015).
- Dhéret C., Martens H. and Zuleeg F. (2012) *Can Public Private Partnerships (PPPs) lever investment to get Europe out of economic crisis?* EPC Issue Paper No.71, 2012
- European Commission (2007) *COCOF/07/0018/01-EN Note of the Commission services on Financial Engineering in the 2007-13 programming Period*. Final version 16/07/2007.
- European Commission (2008) *COCOF 08/0002/03-EN Guidance note on financial engineering.* Final version of 22/12/2008.
- European Commission (2011a) *COCOF_10-0014-04-EN Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006.* Final version 21/02/2011.
- European Commission (2011b) *Commission staff Working Paper analysis of errors in Cohesion Policy for the years 2006-2009_Actions taken by the Commission and the way forward.* Brussels, 5.10.2011.
- European Commission (2012a) *COCOF_10-0014-05-EN Revised Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006*. Revised version 08/02/2012.
- European Commission (2012b) *Financial instruments in Cohesion policy*, European Commission Staff Working Document, SWD (2012) 36 final: Brussels, 27.2.2012.
- European Commission (2012c) *Factsheet: Financial instruments in Cohesion policy 2014-20*, DG Regional Policy, Brussels.
- European Commission (2014a) *Guidance for Member States on Financial Instruments – Glossary*, https://www.fi-compass.eu/sites/default/files/publications/EC_Guidance-Member-States-FI-Gossary_0.pdf (accessed 3 November 2015)
- European Commission (2014b) Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006, see http://ec.europa.eu/regional_policy/sources/thefunds/instruments/doc/summary_data_fei_2013.pdf (accessed 10 December 2015).

- European Commission (2014c) *Reporting Instructions for the Financial Engineering Instruments*, 20 March 2014,
- http://ec.europa.eu/employment_social/sfc2007/quick-guides/sfc2007_reporting%20instruction_fei_air_updated_version.pdf (accessed 2 June 2015)
- European Commission (2015a) Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006, situation as at 31 December 2014, hereafter referred to as the 2015 Summary Report
- European Commission (2015b) *EGESIF_15-0006-01 Guidance for Member States on Article 41 CPR - Requests for payment*. Brussels 08/06/2015.
- European Commission (2015c) *Reporting Instructions for the Financial Engineering Instruments*, 15 June 2015, http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/guidance_reporting_instruction_air2014.pdf (accessed August 2015).
- European Commission (2015d) Guidance for Member States on Article 42(1) (d) CPR – Eligible management costs and fees, 26/11/2015, http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_ms_eligible_costs_fees.pdf (accessed 11 December 2015).
- European Commission (2015e) Commission Decision amending Decision C (2013) 1573, C (2015)2771 final, 30.4.2015.
- European Commission, EIB, PWC (2014) *Ex-ante assessment methodology for financial instruments in the 2014-20 programming period. General methodology covering all thematic objectives, Quick reference guide*, http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/ex_ante_vol0.pdf (accessed 5 June 2015).
- European Court of Auditors (2010) *Annual reports concerning the financial year 2009*.
- European Court of Auditors (2011) *Annual reports concerning the financial year 2010*.
- European Court of Auditors (2012a) *Financial instruments for SMEs Co-financed by the European Regional Development Fund*. Special report No 2, 2012,
- European Court of Auditors (2012b) *Annual reports concerning the financial year 2011*.
- European Court of Auditors (2014) *Annual reports concerning the financial year 2013*.
- European Investment Bank (2011) *Ex post evaluation of Jeremie 'Evaluation Phase' as it relates to EIF. Operations Evaluation. Synthesis report*. EIB, Luxembourg.
- Kalvet T. (2012) Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-13: Year 2 – 2012. Task 1: Financial engineering (a report to the European Commission Directorate-General Regional Policy), pp. 6.
- Kalvet T., Vanags A. and Maniokas K. (2012) *Financial engineering instruments: the way forward for Cohesion policy support? Recent experience from the Baltic states.* Baltic Journal of Economics Vol. 12, No. 1, pp. 13, https://www.fi-compass.eu/sites/default/files/publications/case_study_renovation_loan_programme_estonia_0.pdf (accessed 16 June 2015)
- Kraemer-Eis H. and Lang F. (2014) *Guidelines for SME Access to Finance Market Assessments (GAFMA)*. EIF Working Paper No.22, 2014, http://www.eif.org/news_centre/publications/eif_wp_22_gafma_april14_fv.pdf (accessed 22 May 2015).
- Mason C. and Brown R. (2013) *Creating good public policy to support high-growth firms*, Small Business Economics, Vol. 40, No. 2, pp. 211-25.

- Mason C., Michie R. and Wishlade F. (2012) *Access to finance in Europe's disadvantaged regions: Can 'new' financial instruments fill the gap?,* EoRPA, Vol. 12, No. 6, European Policies Research Centre, University of Strathclyde, Glasgow.
- Mason C. (2010) *Entrepreneurial finance in a regional economy*, Venture Capital: an international journal of entrepreneurial finance, Vol. 12, No. 3, pp. 167-72.
- METIS (2014) Co-financing salaries, bonuses, top-ups from Structural Funds during the 2007-2013 period, report for the European Commission (p. 60), http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/financing_salaries/financing_salaries_study.pdf (accessed 9 December 2015).
- Meuleman M. and de Maeseneire W. (2012) *Do R&D subsidies affect SMEs' access to external financing?* Research Policy, Vol. 41, No.3, pp. 580-91.
- Michie R. and Wishlade F. (2011) *Between Scylla and Charybdis: Navigating financial engineering instruments through Structural Fund and State aid requirements*, IQ-Net Thematic Paper Vol. 2, No.29, European Policies Research Centre, University of Strathclyde, Glasgow, http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports(Public)/ThematicPaper29(2)Final.pdf (accessed 24 June 2015).
- Michie R., Wishlade F. and Gloazzo C. (2014) *Guidelines for the Implementation of Financial Instruments: Building on FIN-EN – sharing methodologies on FINancial ENgineering for enterprises*, Final report to Finlombarda SpA.
- Molino E. and Zuleeg F. (2011) *Better and different spending through a new multilevel governance approach for the EU budget*. Report for the Committee of the Regions
- Polverari L., Bachtler J. and Zwet A. (2015) *Evaluating the Effectiveness of Regional Policy*, European Policy Research Paper, No. 91, European Policies Research Centre, University of Strathclyde, Glasgow.
- Rigby J. and Ramlogan R. (2013) Access to Finance: Impacts of Publicly Supported Venture Capital and Loan Guarantees, Nesta Working Paper Vol. 2, No. 13, pp. 13-14
- Saublens C. and Walburn D. (2009) *Smaller Firms, the Equity Gap, Regional Policy and Growth: Will We Ever Learn?*, Local Economy, Vol. 24, No. 6-7), pp. 620-24.
- Spence J., Smith J. and Dardier P. (2012) *Overview of Financial instruments used in the EU Multiannual Financial Framework period 2007-13 and the Commission's proposals for 2014-20*, DG for Internal Policies: Budgetary Affairs, Brussels.
- Suu L. (2015) *Financial instruments for sustainable energy investments in residential buildings (presentation)*, 16 June 2015, pp. 16, http://www.eusew.eu/upload/events/4582_20861_lauri%20suu.pdf (accessed 12 July 2015)
- Tykvová T., Borell M. and Kroencke T. (2012) *Potential of Venture Capital in the European Union*, European Parliament, Directorate-General for Internal Policies.
- Van Ginkel J., Vyas L., Cairns R., Michie R., Granqvist K. and Atkinson S. (2013) *Financial Instruments. A Stocktaking Exercise in preparation for the 2014-20 Programming Period*. Final Report. Report for European Investment Bank.
- Veugelers R. (2011) *Mind Europe's early equity gap*, Bruegel policy contribution, Issue 2011/18. December 2011.
- Ward T. (2012) *The use of the ERDF to support financial engineering instruments: Synthesis Report. Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-13*, Report to the European Commission.
- Wernerus D. and Rusanescu R. (2014) *The Use of Financial Instruments in European Structural and Investment Funds*, European Structural and Investment Funds Journal, Vol 2(3).

- Wilson K. and Silva F. (2013) *Policies for Seed and Early Stage Finance: Findings from the 2012 OECD Financing Questionnaire*, OECD Science, Technology and Industry Policy Papers, No. 9, OECD Publishing, http://dx.doi.org/10.1787/5k3xqsf00j33-en (accessed 16 July 2015)
- Wishlade F. and Michie R. (2014) *Financial instruments in 2014-20: learning from 2007-13 and adapting to the new environment. Challenges for the New Cohesion policy 2014-20: an Academic and Policy Debate*, 2nd joint EU Cohesion policy conference, Riga, 4-6 February 2014, https://fi-compass.eu/sites/default/files/publications/Financial%20instruments%20in%202014_20_learning_from_2007-13%20_wishlade_and%20michie_0.pdf (accessed 9 December 2015)
- Wishlade, F (2015) Financial instruments in EU Cohesion policy: What do we know about the regional incidence of financial instruments and why might it matter? Paper to Regional Studies Association Annual Conference 2015, Piacenza.
- Zuleeg F. (2014) Juncker's Investment Plan: *a New Deal for the EU?*, http://www.epc.eu/prog_details.php?cat_id=4&pub_id=5112&prog_id=2 (accessed 12 August 2015).

ANNEXES

Financial instruments in the case study OPs

	OP, HOLDING FUND AND FINANCIAL INSTRUMENT	Type	Date	Fund Manager	Policy target	OP contribs paid/ commttd to HF/SHF/ NHF (7)	OP contribs invested in final recipients (17)	Number investments (12)	Management costs & fees (11)
BG	**Operational Programme Development of the Competitiveness of the Bulgarian Economy**								
BG 1	***ДЖЕРЕМИ БЪЛГАРИЯ" ЕАД, РЕПУБЛИКА БЪЛГАРИЯ***	***HF***	***2009***	***European Investment Fund***		***349.00***			***13.70***
BG 1.1	Инструмент за промотиране на предприемачеството и предоставяне на първоначално финансиране Promoting entrepreneurship and providing start-up capital	SHF	2012	*LAUNCHub, ELEVEN*	*Enterprises*	13.77	21.72	272	1.57
BG 1.2	Инструмент, предоставящ финансиране, чрез поделяне на риска Risk-Sharing Fund	SHF	2012	*Алианц Банк, Първа Инвестиционна Банка, Procredit Bank, Societe Generale, Експресбанк, Уникредит Булбанк, Райфайзенбанк, ДСК Банк*	*Enterprises*	164.00	259.09	4,984	0.22
BG 1.3	Гаранции, покриващи загуби на портфейл от заеми Loss-sharing guarantees	SHF	2011	*Cibank, Procredit Bank, Raiffeisen Bank, Unicredit Bulbank, Обединена Българска Банка*	*Enterprises*	59.11	109.67	9,356	0.00
BG 1.4	Фонд за рисков капитал Venture capital fund	SHF	2011	*NEVEQ*	*Enterprises*	2.5	1.65	4	0.20
BG 1.5	Фонд(ове) за съфинансиране Co-investment fund	SHF	2014	*Empower Capital u Black Peak Capital*	*Enterprises*	3.13	4.75	4	0.75
DE	**Operationelles Programm EFRE Thüringen 2007 bis 2013**								
DE 1	Darlehensfonds Thüringen Dynamik	NHF	2010	*Thüringer Aufbaubank, Anstalt des öffentlichen Rechts, AG Jena HRA 102084*	*Enterprises*	120.00	120.33	363	0.45
DE 2	Darlehensfonds Thüringen Invest	NHF	2008	*Thüringer Aufbaubank, Anstalt des öffentlichen Rechts, AG Jena HR 102084*	*Enterprises*	25.00	23.89	652	1.82

	OP, HOLDING FUND AND FINANCIAL INSTRUMENT	Type	Date	Fund Manager	Policy target	OP contribs paid/ commttd to HF/SHF/ NHF (7)	OP contribs invested in final recipients (17)	Number investments (12)	Management costs & fees (11)
EE	**Operational Programme for the Development of Living Environment**								
EE 1	Programme 'Renovation loan for apartment buildings', Estonia	NHF	2008	*Foundation KredEx, Estonia*	*Energy*	66.71	66.71	639	0.0
ES	**Programa Operativo FEDER de Andalucía**								
ES 1	***FONDO DE CARTERA JESSICA-FIDAE-FONDO DE INVERSIÓN EN DIVERSIFICACIÓN Y AHORRO DE ENERGÍA.***	***HF***	***2009***	***European Investment Fund***		***16.92***			***0.4***
ES 1.1	Fondo De Cartera Jessica-Fidae- Fondo De Inversión En Diversificación Y Ahorro De Energía.	SHF	2011	*European Investment Fund*	*Energy*	1.68	1.53	6	0.14
ES 2	JEREMIE DE APOYO A LAS PYMES INDUSTRIALES	NHF	2014	*Agencia IDEA*	*Enterprises*	0.79	0.98	0	0.00
ES 3	**JEREMIE-IDEA**	**HF**	**2009**	***AGENCIA IDEA***		**379.01**			**7.30**
ES 3.1	JEREMIE-IDEA	SHF	2009	*AGENCIA IDEA*	*Enterprises*	379.01	129.30	63	7.30
ES 4	***JESSICA-ANDALUCÍA***	***HF***	***2011***	***European Investment Fund***		***85.71***			***10.52***
ES 4.1	Jessica-Andalucía	SHF	2009	*European Investment Fund*	*Urban*	85.71	30.11	0	10.52
IT	**Pon Ricerca e competitivita' Riprogrammazione 03 giugno 2013**								
IT 1	Fondo FIT PIA Innovazione - Rome	NHF	2009	*MISE DGIAI ROME*	*Enterprises*	90.51	17.26	242	
IT 2	Fondo FIT PON "Legge 46/82 - Analisi fattuale" ROME	NHF	2009	*MISE DGIAI ROME*	*Enterprises*	45.00	14.60	53	
IT 3	Fondo FIT PON "Legge 46/82 – bando start-up", ROME	NHF	2009	*MISE DGIAI ROME*	*Enterprises*	5.00	1.62	9	
IT 4	Fondo FIT PON "Legge 46/82 - generalista", ROME	NHF	2009	*MISE DGIAI, ROME*	*Enterprises*	85.00	27.57	97	
IT 5	Fondo FIT PON "Legge 46/82 – sportello REACH" - Rome	NHF	2009	*MISE DGIAI - Rome*	*Enterprises*	10.00	4.00	9	
IT 6	Fondo Rotativo PON Contratti di	NHF	2012	*INVITALIA Sp.A., ROME*	*Enterprises*	95.00	17.17	11	

	OP, HOLDING FUND AND FINANCIAL INSTRUMENT	Type	Date	Fund Manager	Policy target	OP contribs paid/ commttd to HF/SHF/ NHF (7)	OP contribs invested in final recipients (17)	Number investments (12)	Management costs & fees (11)
	Sviluppo, Rome								
IT 7	Fondo Rotativo PON R&C 185N	NHF	2013	*INVITALIA Sp.A., ROME*	*Enterprises*	33.00			
IT 8	Riserva PON Ricerca e Competitività del Fondo Centrale di Garanzia - ROME	NHF	2010	*MedioCredito Centrale SpA - ROME*	*Enterprises*	550.00	271.28	19972	
PL	**Regionalny Program Operacyjny Województwa Pomorskiego**								
PL 1	***JESSICA HOLDING FUND POMORSKIE, LUXEMBOURG***	***HF***	***2010***	***European Investment Bank***		***59.02***			***2.4***
PL 1.1	Urban Development Fund, Warsaw	SHF	2011	*Bank Gospodarstwa Krajowego, Warsaw*	*Urban*	41.58	36.36	19	2.11
PL 1.2	Urban Development Fund, Warsaw (2)	SHF	2011	*Bank Ochrony Środowiska S.A., Warsaw*	*Urban*	16.45	12.37	13	1.06
PL 2	***FUNDUSZ POWIERNICZY JEREMIE WOJEWÓDZTWA POMORSKIEGO, WARSAW***	***HF***	***2009***	***Bank Gospodarstwa Krajowego (BGK) - bank państwowy, Warsaw***		***70.32***			***3.07***
PL 2.1	Bank Spółdzielczy w Czersku	SHF	2013	*Bank Spółdzielczy w Czersku*	*Enterprises*	3.67	3.67	98	0.21
PL 2.2	Bank Spółdzielczy w Czersku, Czersk	SHF	2012	*Bank Spółdzielczy w Czersku, Czersk*	*Enterprises*	1.22	1.22	69	0.07
PL 2.3	Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk (1)	SHF	2010	*Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk*	*Enterprises*	1.22	1.22	189	0.11
PL 2.4	Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk (2)	SHF	2011	*Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk*	*Enterprises*	4.89	4.89	378	0.35
PL 2.5	Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk (3)	SHF	2012	*Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk*	*Enterprises*	7.34	7.34	276	0.36
PL 2.6	Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk (4)	SHF	2014	*Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk*	*Enterprises*	4.89	4.89	321	0.11
PL 2.7	Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk (5)	SHF	2014	*Pomorski Fundusz Pożyczkowy Sp. z o.o., Gdansk*	*Enterprises*	1.29	1.03	69	0.02
PL 2.8	Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., Gdansk	SHF	2010	*Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., Gdansk*	*Enterprises*	2.94	2.94	294	0.3
PL 2.9	Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., Gdansk (2)	SHF	2012	*Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., Gdansk*	*Enterprises*	0.69	2.12	63	0.07
PL 2.10	Pomorski Regionalny Fundusz Poręczeń	SHF	2012	*Pomorski Regionalny Fundusz Poręczeń*	*Enterprises*	0.39	0.44	17	0.02

	OP, HOLDING FUND AND FINANCIAL INSTRUMENT	Type	Date	Fund Manager	Policy target	OP contribs paid/ commttd to HF/SHF/ NHF (7)	OP contribs invested in final recipients (17)	Number investments (12)	Management costs & fees (11)
	Kredytowych Sp. z o.o., Gdansk (3)			*Kredytowych Sp. z o.o., Gdansk*					
PL 2.11	Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., Gdansk (4)	SHF	2012	*Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., Gdansk*	*Enterprises*	2.94	7.15	169	0.24
PL 2.12	Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., Gdańsk (5)	SHF	2014	*Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., Gdansk*	*Enterprises*	2.94	4.78	91	0.05
PL 2.13	Regionalne Towarzystwo Inwestycyjne S.A.	SHF	2013	*Regionalne Towarzystwo Inwestycyjne S.A.*	*Enterprises*	0.61	1.96	42	0.03
PL 2.14	Regionalne Towarzystwo Inwestycyjne S.A. (2)	SHF	2013	*Regionalne Towarzystwo Inwestycyjne S.A.*	*Enterprises*	2.45	2.45	89	0.09
PL 2.15	Regionalne Towarzystwo Inwestycyjne S.A., Dzierzgon (3)	SHF	2012	*Regionalne Towarzystwo Inwestycyjne S.A., Dzierzgon*	*Enterprises*	0.49	1.34	44	0.04
PL 2.16	Regionalne Towarzystwo Inwestycyjne S.A., Dzierzgon (4)	SHF	2012	*Regionalne Towarzystwo Inwestycyjne S.A., Dzierzgon*	*Enterprises*	2.45	2.45	161	0.04
PL 2.17	Regionalne Towarzystwo Inwestycyjne S.A., Dzierzgon (5)	SHF	2012	*Regionalne Towarzystwo Inwestycyjne S.A., Dzierzgon*	*Enterprises*	0.73	1.73	31	0.00
PL 2.18	Stowarzyszenie 'Centrum Rozwoju Ekonomicznego Pasłęka'	SHF	2013	*Stowarzyszenie 'Centrum Rozwoju Ekonomicznego Pasłęka'*	*Enterprises*	2.45	2.45	87	0.12
PL 2.19	Towarzystwo Inwestycji Społeczno-Ekonomicznych S.A.	SHF	2013	*Towarzystwo Inwestycji Społeczno-Ekonomicznych S.A.*	*Enterprises*	7.34	7.34	173	0.44
PL 2.20	Towarzystwo Rozwoju Powiśla	SHF	2013	*Towarzystwo Rozwoju Powiśla*	*Enterprises*	1.22	1.22	26	0.04
PL 2.21	Towarzystwo Rozwoju Powiśla, Dzierzgon	SHF	2012	*Towarzystwo Rozwoju Powiśla, Dzierzgon*	*Enterprises*	0.49	0.03	28	0.49
PL 2.22	Black Rose Finance Sp z o.o.	SHF	2013	*Black Rose Finance Sp z o.o.*	*Enterprises*	0.49	0.49	61	0.6
PL 2.23	FM Bank PBP S.A.	SHF	2013	*FM Bank PBP S.A.*	*Enterprises*	0.98	1.22	215	0.01
PL 2.24	FM Bank S.A., Warszawa	SHF	2012	*FM Bank S.A., Warszawa*	*Enterprises*	1.29	1.62	220	0.05
PL 2.25	Idea Bank S.A.	SHF	2013	*Idea Bank S.A.*	*Enterprises*	2.45	2.45	85	0.17
PL 2.26	IKB Leasing Polska Sp. z o.o., Poznan	SHF	2012	*IKB Leasing Polska Sp. z o.o., Poznan*	*Enterprises*	1.31	1.27	75	0.11
PL 2.27	Inicjatywa Mikro Sp. z o.o.	SHF	2013	*Inicjatywa Mikro Sp. z o.o.*	*Enterprises*	2.45	2.45	121	0.21
PL 2.28	Kaszubski Fundusz Przedsiębiorczości S.A.	SHF	2013	*Kaszubski Fundusz Przedsiębiorczości S.A.*	*Enterprises*	2.08	1.84	105	0.08
PL 2.29	POLFUND Fundusz Poręczeń Kredytowych S.A.	SHF	2013	*POLFUND Fundusz Poręczeń Kredytowych S.A.*	*Enterprises*	1.71	3.67	45	0.03

	OP, HOLDING FUND AND FINANCIAL INSTRUMENT	Type	Date	Fund Manager	Policy target	OP contribs paid/ commttd to HF/SHF/ NHF (7)	OP contribs invested in final recipients (17)	Number investments (12)	Management costs & fees (11)
PL 2.30	Polska Fundacja Przedsiębiorczości, Szczecin	SHF	2010	*Polska Fundacja Przedsiębiorczości, Szczecin*	*Enterprises*	2.20	2.20	126	0.2
PL 2.31	Polska Fundacja Przedsiębiorczości, Szczecin (2)	SHF	2012	*Polska Fundacja Przedsiębiorczości, Szczecin*	*Enterprises*	4.89	4.89	251	0.36
PL 2.32	Polska Fundacja Przedsiębiorczości, Szczecin (3)	SHF	2013	*Polska Fundacja Przedsiębiorczości, Szczecin*	*Enterprises*	6.36	5.24	156	0.21
PL 2.33	JEREMIE Seed Capital Województwa Pomorskiego Fundusz Inwestycyjny Zamknięty	SHF	2014	*EQUES Investment TFIs S.A. Pomorska Spółka Zarządzająca Sp. z o.o.*	*Enterprises*	1.20	0.00	0.00	0.00
PL 3	Pomorski Fundusz Pożyczkowy Spółka z ograniczoną odpowiedzialnością, Gdańsk	NHF	2009	*Pomorski Fundusz Pożyczkowy Spółka z ograniczoną odpowiedzialnością, Gdańsk*	*Enterprises*	4.09	4.09		0.45
PL 4	Regionalne Towarzystwo Inwestycyjne Spółka Akcyjna, Dzierzgoń	NHF	2009	*Regionalne Towarzystwo Inwestycyjne Spółka Akcyjna, Dzierzgoń*	*Enterprises*	1.25	1.25		0.04
PL 5	Słupskie Stowarzyszenie Innowacji Gospodarczych i Przedsiębiorczości, Słupsk	NHF	2009	*Słupskie Stowarzyszenie Innowacji Gospodarczych i Przedsiębiorczości, Słupsk*	*Enterprises*	2.77	2.77		0.07
RO	**Sectoral Operational Programme Increase of Economic Competitiveness**								
RO 1	***EIF ACTING AS JEREMIE ROMANIA HOLDING FUND, LUXEMBOURG***	***HF***	***2008***	***European Investment Fund***		***150.00***			***6.74***
RO 1.1	First Loss Portfolio Guarantee	FI	2010	*Banca Comerciala Romana (BCR), Bucharest Raiffeisen Bank, Bucharest Unicredit Tiriac Bank, Bucharest*	*Enterprises*	62.00	55.38	2,864	0.0
RO 1.2	Portfolio risk Sharing Loan	FI	2013	*ProCredit Bank S.A., Bucharest Banca Transilvania, Bucharest BRD, Bucharest Raiffeisen, Bucharest*	*Enterprises*	74.74	59.65	742	0.0
RO 1.3	Risk Capital Fund	FI	2011	*Catalyst Romania SICAR Luxembourg*	*Enterprises*	10.56	2.60	4	0.88
SI	**Operativni program krepitve regionalnih razvojnih**								

	OP, HOLDING FUND AND FINANCIAL INSTRUMENT	Type	Date	Fund Manager	Policy target	OP contribs paid/ commttd to HF/SHF/ NHF (7)	OP contribs invested in final recipients (17)	Number investments (12)	Management costs & fees (11)
	potencialov za obdobje 2007 13								
SI 1	***PROGRAMME OF FINANCIAL ENGINEERING INSTRUMENTS (PIFI) WITHIN SLOVENE ENTERPRISE FUND (SEF), MARIBOR***	***HF***	***2009***	***Slovene Enterprise Fund***		***80.84***			***2.04***
SI 1.1	Guarantee Fund	FI		*Slovene Enterprise Fund*	*Enterprises*	44.80	69.08	2252	0.65
SI 2	Guarantee fund for bank loans with subsidy of interest rate	NHF	2009	*Slovene Enterprise Fund*	*Enterprises*	42.66	42.66	910	0.0

Source: 2015 Summary Report.

Interviews with MAs - checklist

A. *Analysis of the need for financial instruments*

A crucial issue in considering the role for FIs is whether there is a need for public policy intervention or whether the market is already providing the requisite finance of an appropriate type and scale.

Questions:

1. Was an assessment of the need for FIs (a 'gap' assessment/evaluation study) undertaken specifically for the OP? (if no, go to Q7) [NB there may have been more than one carried out within the OP e.g. if JESSICA and JEREMIE]			
2. Who undertook this assessment and how?			
3. What did it show? [is it published?]			
4. How did it feed into the FIs introduced?			
5. With hindsight, how accurate was the analysis? (tick)			
Very accurate	Fairly accurate	Fairly inaccurate	Very inaccurate
6. Please explain this rating.			
7. If no analysis was undertaken specifically for the OP, how were decisions made about how much to commit to FIs and for what purposes? With hindsight was this a good approach? Why do you say that?			

B. *Investment strategies*

The investment strategy/ies forms a key link between the assessment of a market gap and the FIs put in place to address that gap. There may be more than one investment strategy depending on the use of HFs and number of instruments.

Questions

1. What did the investment strategy/ies contain (obtain copies if possible)?	
2. Did the strategy/ies change during the planning period, and if so how and why?	
3. What steps were taken to ensure that investments took place in line with the strategy/ies?	

4. Were the investment strategies adhered to?	
5. How well did the investment strategy address the objectives of the OP? eg was it sufficiently flexible? Did it target the OP objectives adequately?	
6. What are the main lessons to emerge from the implementation of the investment strategy in 2007-13?	
7. What did the investment strategy/ies contain (obtain copies if possible)?	

C. Managing financial flows from the OP

There were few constraints posed by the Structural Funds regulations on how financial flows should take place, and this was criticised by the ECA, specifically that Member States that had implemented HFs were not subject to automatic decommitment during the life of the OP when HF disbursements had not taken place.

Questions

1. How were decisions made about how much to commit to HF / FIs funds and when?			
2. Did the need to avoid decommitments play any role in deciding the volume of funds to commit?			
3. With hindsight, how satisfied are you with the approach to committing funds? [tick]			
Entirely satisfied	Fairly satisfied	Fairly dissatisfied	Completely dissatisfied
4. Why do you say that?			

D. Structures, fund managers and financial intermediaries

In 2007-13, when choosing to set up a FI, MAs could

- to make a direct contribution to an instrument (without using a holding fund);
- to contribute to a holding fund

There were several possibilities for selecting HF managers, either:

- the award of a public contract through public procurement; or
- the award of a direct financial contribution to the EIB or to the EIF, or
- to a financial institution without a public procurement process, subject to national law compatible with the Treaty.

For FIs themselves, financial intermediaries could be appointed with or without a procurement process, depending on national legislation.

Questions

Holding Funds (where applicable)

1. What were the reasons for using a HF?			
2. How were HF managers selected? What was the rationale for this?			
3. Did the additional costs involved in using HFs represent good value for money?			
4. What are the pros and cons of this approach?			
5. With hindsight, how satisfied are you with the approach of using HFs?			
Entirely satisfied	Fairly satisfied	Fairly dissatisfied	Completely dissatisfied
6. Why do you say that?			

Selection of Fund managers

1. How were fund managers selected? What was the rationale for this approach?			
2. What are the pros and cons of this approach?			
3. *Where only specific instruments were used (i.e. no HF) ask*: With hindsight, how satisfied are you with the approach of only using specific instruments, i.e. no HF?			
Entirely satisfied	Fairly satisfied	Fairly dissatisfied	Completely dissatisfied
4. Why do you say that?			

E. Management costs and fees

The Implementing Regulation for 2007-13 included some guidance on management costs and fees, but concerns were raised about the basis for calculating fees.

Questions

1. How were management fees for holding funds determined? [Where applicable]			
2. How were management fees for specific FIs determined?			
3. How much has been paid in management fees for fund and holding funds for 2007-13?			
4. Thinking about the overall level of investment in final recipients, quality of fund management, returns to the fund, what is your view on the 'value for money' of the management fees paid?			
Very good value for money	Fairly good value for money	Fairly poor value for money	Very poor value for money
5. Why do you say that?			
6. What is your perception of these costs compared to the administration of grant support?			

F. Attracting private capital

One of the perceived benefits of FIs is their capacity to attract private contributions, thereby increasing the sums available for investment. This contribution may take place at the level of the HF (if there is one), the individual fund or the final recipients.

Questions

1. Have the FIs under the OP brought in private sector capital?	
2. If so, where and how (e.g. at the level of the OP, the funds or individual investments, for example)?	
3. What are your views on the capacity of FIs to attract private investment?	

G. Closure and exit

Closure of a FIs takes place at the end of its lifetime, or before, if it is underperforming. Exits refer to the termination of specific cases (e.g. when a loan is repaid in full (or is defaulted on), or when the stock in an equity investment is sold).

Questions

1. Have any FIs been closed due to underperformance? Expand….	
2. What mechanisms are in place to deal with exits – e.g. legacy funds?	
3. What returns have there been on investments?	
4. Was a target rate for defaults set, and if so how? Was the default rate achieved?	

H. Monitoring and reporting

The first reporting exercise on FIs set-up in the 2007-13 period was carried out on a voluntary basis by MAs in 2011. Effective monitoring of the implementation of FIs is required both for the internal assurance of probity and effectiveness as well as to ensure that the required reporting to national government and the EC is accurate and based on the best possible data.

Questions

1. What are your views on how effectively FIs have been monitored at EU level?		
2. What are your views on how effectively FIs have been monitored internally, at the level of the OP, holding fund or individual instrument?		
3. What difficulties have been encountered and how have these been addressed?		
4. Overall (EU and domestic processes) how does monitoring FIs compare with monitoring grants? Do you think that FIs have been more or less effectively monitored than grants?		
FIs have been monitored more closely and effectively than grants	There is no significant difference in the monitoring of spending on FIs and grants	FIs have been monitored more closely and effectively than grants
5. Why do you say that?		

I. Checks and verification

Verification is required to ensure that projects selected for funding by the FIs are in accordance with the criteria applied by the fund, the operational programme and national and EU regulations.

Questions

<table>
<tr><td colspan="2">1. What kind of verifications have been carried out on FIs within the OP?</td><td colspan="2"></td></tr>
<tr><td colspan="2">2. How are they carried out?</td><td colspan="2"></td></tr>
<tr><td colspan="2">3. To what extent are investments at the level of the final recipient (project or SME) checked?</td><td colspan="2"></td></tr>
<tr><td colspan="2">4. How have any difficulties and problems encountered been dealt with?</td><td colspan="2"></td></tr>
<tr><td colspan="2">5. How satisfied are you that the systems in place ensure the appropriate use of funds?</td><td colspan="2"></td></tr>
<tr><td>Entirely satisfied</td><td>Fairly satisfied</td><td>Fairly dissatisfied</td><td>Completely dissatisfied</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">a) Why do you say that?</td><td colspan="2"></td></tr>
<tr><td colspan="2">b) What lessons did you take from the 2007-13 experience?</td><td colspan="2"></td></tr>
</table>

J. Evaluation

Evaluations can be expected to provide feedback on operational, performance and absorption issues also in view of future programming.

Questions

1. What is your overall assessment of FIs compared to grants in their ability to use Cohesion funds well? [Tick]		
FIs make better use of Cohesion policy funds than grants	There is no significant difference between FIs and grants in the use made of the funds	Grants make better use of Cohesion policy funds than FIs
2. Why do you say that?		
3. Do you think that using FIs contributes to a better performance of Cohesion policy in terms of achieving objectives, obtaining results than grants? [tick]		
FIs contribute to better policy performance than grants	There is no significant difference between FIs and grants in the performance of policy	Grants contribute to better policy performance than FIs
4. Please expand		
5. What were the main lessons learned from implementing FIs in 2007-13 in terms of the smooth and correct running of funds?		
6. Aside from the new requirements under the 2014-20 Regulations, what would you choose to do differently in 2014-20 in the light of 2007-13 experiences?		

Interviews with AAs - checklist

1. What does the audit strategy for the OP say about FIs? Are any specific provisions made?		
2. Are FIs reported separately in the Annual Report and Opinion prepared for the EC? Is this report available?		
3. Are there any specific issues or challenges arising in the audit of FIs compared to other types of expenditure?		
4. Do the challenges differ between different types of FIs (e.g. for SME support or urban projects)?		
5. What are the main causes of irregularities for FIs at audit?		
6. Do these differ from those arising from other types of expenditure?		
7. Have you had occasion to examine spending beyond the level of the final beneficiary, i.e. at the level of the final recipient?		
8. What are your views on the costs/resource implications of auditing FIs? [tick]		
More costly/resource intensive than other types of expenditure	About the same as other types of expenditure	Less costly/resource intensive than other types of expenditure
9. Please explain:		
10. Do you think that FIs are subject to more or less control than other types of expenditure? [tick]		
FIs are subject to more control than other types of expenditure	Controls on FIs are about the same as on other types of expenditure	FIs are subject to less control than other types of expenditure
11. Please explain:		
12. Looking forward, do you have any lessons learned or recommendations for the audit of FIs?		

QA-02-15-847-EN-C (print)
QA-02-15-847-EN-N (PDF)

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT D
BUDGETARY AFFAIRS

Role

Policy departments are research units that provide specialised advice to committees, inter-parliamentary delegations and other parliamentary bodies.

Policy Areas

- Budgets
- Budgetary Control

Documents

Visit the European Parliament website:
http://www.europarl.europa.eu/supporting-analyses

Print ISBN 978-92-823-8171-7 doi: 10.2861/061083
PDF ISBN 978-92-823-8170-0 doi: 10.2861/477246

Publications Office