advancing with ESIF financial instruments

Stocktaking study of ex-ante assessments:

Summary report covering financial instruments using the European Regional Development Fund and Cohesion Fund in the 2014-2020 programming period

European Commission

European Investment Bank
The EU bank

Summary

The obligation to conduct an ex-ante assessment prior to committing funds to a financial instrument is a new requirement introduced for the 2014-2020 programming period. Ex-ante assessments are intended to establish evidence of market failures (or sub-optimal investment situations), to estimate the level and scope of public investment funding needed and private financing that could be mobilised. Furthermore, ex-ante assessments are considered as a useful tool to support informed decision making by managing authorities on the implementation of financial instruments.

Against this background, a review of 132 ex-ante assessments was undertaken for 131 European Regional Development Fund (ERDF)/ Cohesion Fund (CF) Operational Programmes[1] during 2018. This review report highlights key trends and common findings that were identified. It also summarises outcomes from ex-ante assessments.

Summaries and, in many cases the full ex-ante assessments, were provided to *fi-compass* following a request issued to ERDF/CF managing authorities. These documents are available on the website of *fi-compass: https://www.fi-compass.eu/resources/ex-ante-assessment-summary*

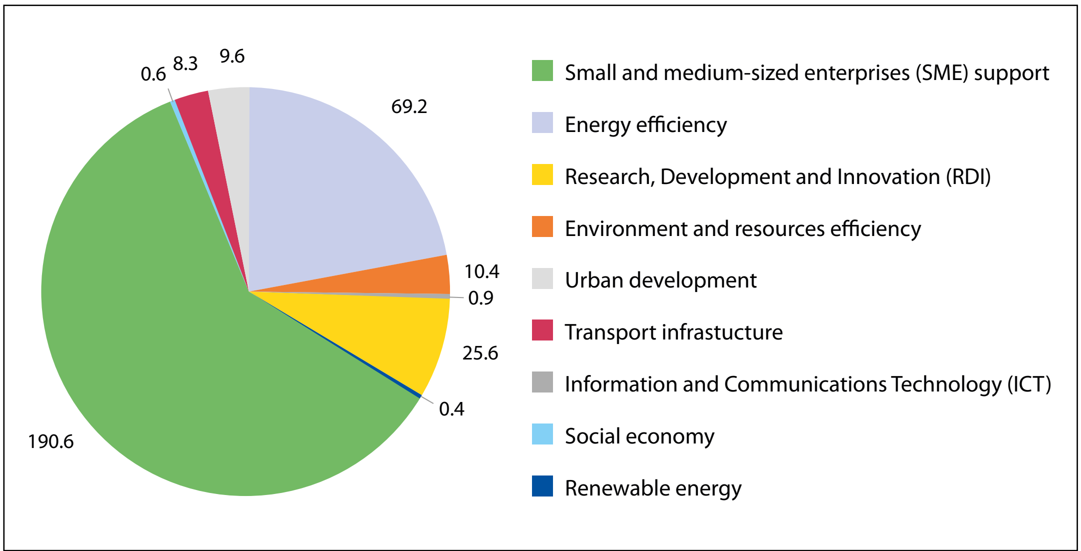
1 Some ex-ante assessments addressed multiple Operational Programmes and sometimes more than one ex-ante assessment was undertaken under the same Operational Programme.

KEY FINDINGS

Funding gaps

- Funding gaps have been quantified in almost all ex-ante assessments. The reported total funding gap amount ranged from EUR 420 to 515 billion, with the range between minimum and maximum funding gap amounts being significant in some sectors. The funding gaps identified in a number of cases do not have a reference period, which made it difficult to compare them with amounts allocated to the ERDF/CF financial instrument.

Figure 1: Funding gap amount per sector (EUR billion)

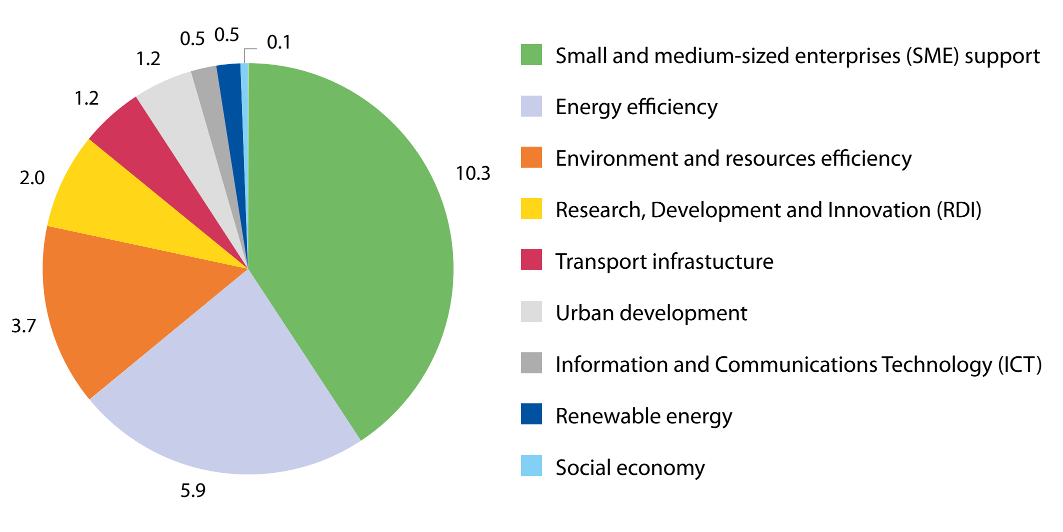


- There were significant differences in the methodologies used to identify and quantify funding gaps across sectors and products. This explains the significant difference in size of funding gaps across similar territories or sectors. Often there was insufficient statistical data available to cover particular sectors.
- The majority of ex-ante assessments have been undertaken in the sectors of SME support and energy efficiency. The other sectors are less common and no assessment was undertaken for the sector of climate change adaptation.

Proposed amounts for financial instruments

- The total amount of Operational Programme resources proposed in ex-ante assessments to be allocated to the ERDF/CF financial instruments was over EUR 25.5 billion. Regarding the allocations of these financial instruments, there was a correlation between the countries with the highest ERDF and CF contributions and the highest amounts of allocations to financial instruments. Compared to the total Operational Programme contributions, there was no clear trend across countries.
- The sectors where the largest contributions to the ERDF/CF financial instruments were proposed are SME support and energy efficiency. Debt instruments, loans and guarantees, were the main financial products considered. Significant contributions to equity instruments were only considered for SME support.
- In most sectors, especially SME support and energy efficiency, ERDF/CF financial instruments were only covering a small share of the funding gaps identified.

Figure 2: Allocation to the ERDF/CF financial instruments by sector in billion EUR



Market failure

- Market failures were very much dependent on the sector and the Member State. Many of the ex-ante assessments that were reviewed identified market failures that go beyond the standard categories noted in the *Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period* (published in the *fi-compass* website's library).
- A significant amount of market failures were identified on the supply side. Such situations arose when: banks and other financial intermediaries were not providing suitable financing conditions for final recipients (e.g. interest rate, tenor or collateral requirements); or due to limited understanding by banks and other financial intermediaries about some businesses. There were also weaknesses on the demand side, such as the insufficient ability of the project promotor to prepare bankable projects or to request more sophisticated financial products.
- Many of the market failures identified were outside the scope of what can be realistically addressed by ERDF/CF financial instruments, such as regulatory barriers or the lack of bankable business models.

Potential to raise additional resources

- The main additional resources were public contributions and expected contributions from financial intermediaries. The list of additional resources was often only generic and not based on consultation with potential co-investors.
- Clarity on the additional resources and potential co-investors can only be reached when the instrument has been designed in the investment strategy and sufficient soft-market testing has been undertaken.

State aid route proposed and rationale

- The majority of proposed ERDF/CF financial instruments provide aid to final recipients and only 20% mention a market conform approach.
- The most common State aid regimes were *de minimis and General block exemption Regulation (GBER)*. Only a very few cases identified the need for notification.

Barriers to implementation

- The main barriers for the implementation of ERDF/CF financial instruments that were identified, are general regulatory barriers that are affecting all sectors or the specific sector in question.
- Furthermore, regulatory uncertainty or difficulties in combining grants and financial instruments from different EU programmes and funds were mentioned as impediments.
- Overall, factors hindering implementation were often only mentioned in general terms in ex-ante assessments and are not specific enough to provide guidance to ERDF/CF managing authorities.

Conditions for review

- Conditions for review were formulated only in general terms in ex-ante assessments and therefore do not provide sufficient guidance to managing authorities.
- Review conditions should be better linked to the specific instrument or sector and incorporate external factors, like the economic context. The performance of a given financial instrument should also be assessed.

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