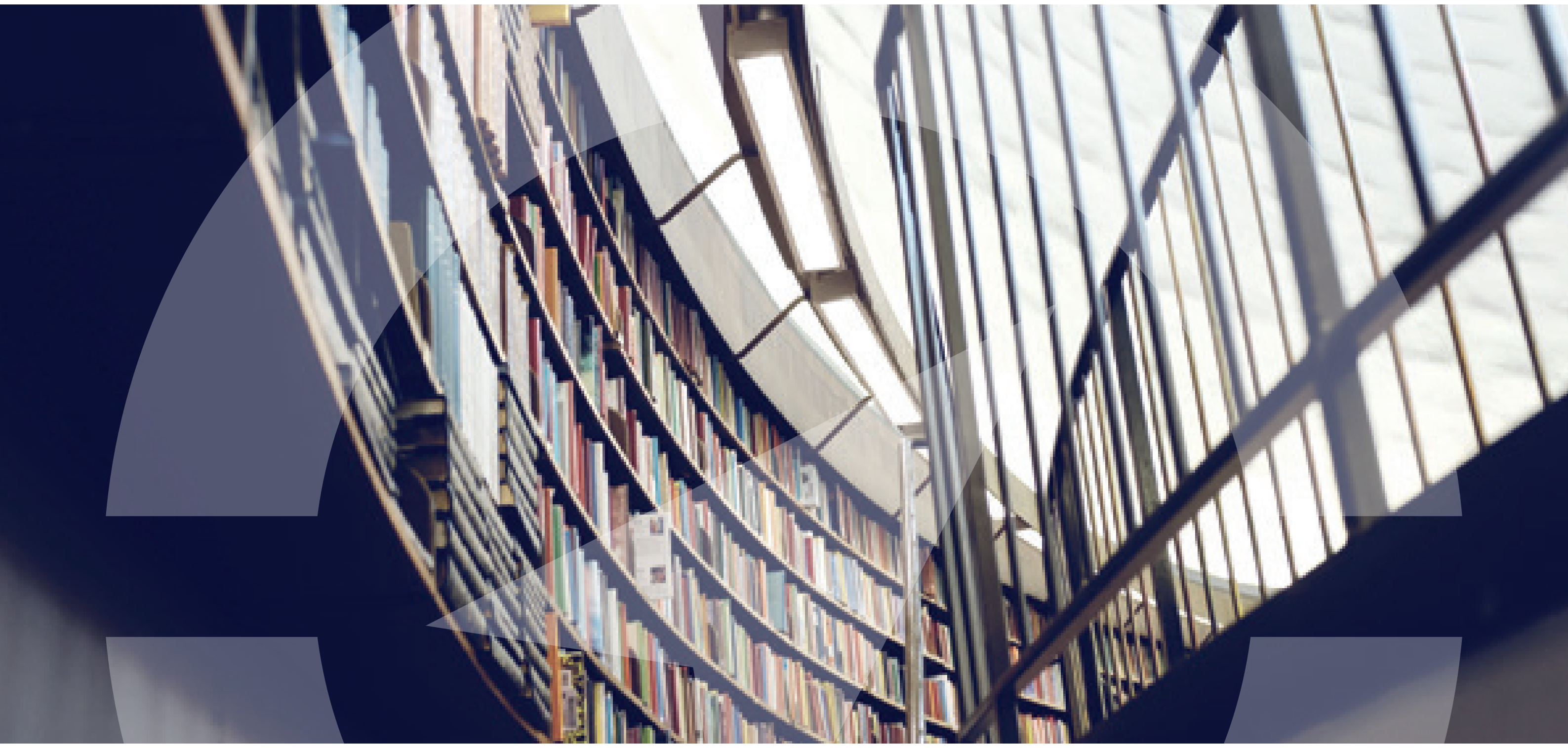

Ex-ante assessment for ESIF financial instruments

Quick reference guide

European Commission

European Investment Bank
The EU bank

General methodology

covering all thematic objectives

'Please note that this version of the methodology reflects the current state of the Regulations as of May 2014.

The author reserves the right to update this document according to the evolution of the relevant regulatory framework.

Version 1.0 - May 2014

DISCLAIMER

This study was commissioned by the EIB, co-financed by DG REGIO and assigned to the consortium led by PwC."

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Glossary and definitions

ABER	Block exemption Regulation for Agriculture
CEI	Call for Expression of Interest
CPR	Common Provisions Regulation
de minimis	See below under 'State aid'
DG REGIO	Directorate General for Regional and Urban Policy of the EC
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission ('the Commission')
EIB	European Investment Bank
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI Funds or ESIF	European Structural and Investment Funds for the programming period 2014-2020. This includes: European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD), and European Maritime and Fisheries Fund (EMFF)
ESIF Policies	Policies making use of the ESI Funds
EU	European Union
Ex-ante assessment	As in Article 37 (2) of the CPR. MS/MA are required to conduct ex-ante assessments before supporting financial instruments, including: rationale/additionality against existing market gaps and demand/supply, potential private sector involvement, target final recipients, products and indicators
Ex-ante evaluation	Ex-ante evaluation required for Programmes in line with Article 55 of the CPR
Final recipient	Legal or natural person that receives financial support from a financial instrument as described in Article 2 (12) of the CPR
Financial Instruments (FIs)	As in Article 2 (11) of the CPR, the definition of financial instruments as laid down in the Financial Regulation[1] shall apply mutatis mutandis to ESI Funds, except where otherwise provided in the CPR. In this context, financial instruments means Union measures of financial support provided on a complementary basis from the budget to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants.

1 *Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).*

FRR	Fair rate of return for entrepreneurial activities in a certain sector in a certain country
Focus Area	EAFRD proposes 6 priorities with 18 focus areas, between 2 and 5 for each priority
Fund of funds	Means a fund set up with the objective of contributing support from a Programme or Programmes to several financial instruments. Where financial instruments are implemented through a fund of funds, the body implementing the fund of funds shall be considered the only beneficiary in the meaning of Article 2 (27) of the CPR.
Funding agreement	Contract governing the terms and conditions for contribution from Programmes to financial instruments. This shall be established between a MA and the body that implements the FoF or the financial intermediary, between a FoF and the financial intermediary or between the MA and the financial instrument, as described in Article 38 (7) of the CPR.
GBER	General Block Exemption Regulation
Leverage effect	According to Article 140 of the Financial Regulation and Article 223 of its Rules of Application "*Financial instruments shall aim at achieving a leverage effect of the Union contribution by mobilising a global investment exceeding the size of the Union contribution. The leverage effect of Union funds shall be equal to the amount of finance to eligible final recipients divided by the amount of the Union contribution*"
Managing authority (MA)	Managing authority, as defined in the Regulations regarding ESI Funds
MFF	Multi-annual Financial Framework of the EU (2007 – 2013, 2014-2020)
MFI	A microfinance institution (MFI) is an organization that provides financial services targeted to a clientele poorer and more vulnerable than traditional bank clients.
MS	Member State
Multiplier ratio	An appropriate multiplier ratio shall be established through a prudent ex-ante risk assessment for the specific guarantee product to be offered, in addition to the ex-ante assessment in accordance with Article 37 (2) of the CPR, taking into account the specific market conditions, the investment strategy of the financial instrument, and the principles of economy and efficiency. Such ex-ante risk assessment may be reviewed where it is justified by subsequent market conditions
Other Revolving Instruments	Defined in the context of these ToR to refer to funds which are similar to the FIs, for the eligible sectors, but which are not established under Title IV of the CPR

Pari passu	Situation where a transaction is made under the exact same terms and conditions by public and private investors, with private investor contribution which has economic significance and with simultaneous interventions by both types of investors
Programme	Means 'Programme' as described in Article 2 (6) of the CPR
SME	Small and medium-sized enterprises as per European Commission Recommendation 2003/361/EC
State aid	'State aid' means aid falling under Article 107 (1) of the Treaty, which shall be deemed for the purposes of this Regulation, to also include *de minimis* aid within the meaning of Commission Regulation (EC) No 1407/213 of 18 December 2013 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid[2], Commission Regulation (EC) No 1408/2013 of 18 December 2013 on the application of Articles 87 and 88 of the EC Treaty to *de minimis* aid in the sector of agricultural production[3] and Commission Regulation (EC) No 875/2007 of 24 July 2007 or its successor Regulation on the application of Articles 87 and 88 of the EC Treaty to *de minimis* aid in the fisheries sector and amending Regulation (EC) No 1860/2004[4].
Structural Funds (SFs)	EU Structural Funds for the programming period 2007-2013 and 2014-2020 (ERDF and ESF)
SWOT Analysis	Analysis of Strengths-Weaknesses-Opportunities-Threats
Technical support	Grants for technical support, which are combined with a financial instrument (FI) in a single operation are provided for the preparation of the prospective investment (please refer to Article 37 (7), (9) of the CPR).
TFEU	Treaty on the Functioning of the European Union
Thematic objectives	Objectives supported by each ESI Fund in accordance with its mission to contribute to the Union strategy for smart, sustainable and inclusive growth (see Article 9 of the CPR)
Union priorities for rural development	For the EU rural development policy (EAFRD) 'Thematic objectives' are translated into Union priorities for rural development as defined by Article 5 of the specific EAFRD proposal for a new Regulation [COM(2011) 627 final/2]. So, the term 'Thematic objectives' will also cover the Union priorities for rural development.

2 *OJ L 379, 28.12.2006, p. 5.*

3 *OJ L 337, 21.12.2007, p. 35.*

4 *OJ L 193, 25.7.2007, p. 6.*

1. Introduction

Article 174 of the Treaty on the Functioning of the European Union (TFEU) defines the EU objective to reduce disparities between the levels of development in the European regions and strengthen the economic, social and territorial cohesion of the EU. For the 2014-2020 programming period, European Structural and Investment Funds (ESIF) Policy plays a decisive role in reaching the objectives set up in the Europe 2020 strategy for a smart, sustainable and inclusive growth, while promoting harmonious development of the Union and reducing regional disparities.[5] The financial constraints for public administrations will further increase the orientation of the 2014-2020 ESIF Policy on results and will require a higher efficiency in the use of public funding.

In this context, financial instruments (FIs) can play an important role in the achievement of ESIF Policy objectives. According to the Financial Regulation[6], FIs are defined as:

"Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk sharing instruments, and may, where appropriate, be combined with grants."[7]

For the 2014-2020 programming period the relevant regulatory provisions for FIs are listed in the Common Provisions Regulation (CPR) which contains a distinct section on the specificities governing the use of FIs – Title IV (Articles 37 to 46)[8]. Additional requirements surrounding the implementation of FIs are listed in Delegated Acts and Implementing Acts.

5 *Communication from the Commission, Europe 2020 A strategy for smart, sustainable and inclusive growth, COM(2010) 2020 final, Brussels, 3.3.2010.*

6 *Article 2 (p) Regulation (EU, Euratom) no 966/2012 of 25 October 2012 on the financial rules applicable to the general budget of the Union.*

7 *Please note that this definition of FIs includes mezzanine finance within the term quasi-equity.*

8 *Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December.*

One of the new regulatory provisions is the requirement in Article 37 (2) of the CPR for an ex-ante assessment to be undertaken by the responsible Member State (MS)/managing authority (MA) before committing ESIF Programme resources to the use of an FI.

The main novelties of the CPR include:

- Common provisions for all ESI Funds to increase consistency and exploit synergies among the different Funds;
- Increased emphasis on a strategic approach that relies upon Partnership Agreements;
- Wider scope to apply FIs (i.e. the application of FIs cover all thematic objectives foreseen in the 2014-2020 ESIF Policy framework); and
- Specific requirement for an ex-ante assessment for FIs.

Rationale behind the development of an ex-ante assessment methodology

Following the requirements of Article 37 (2) of the CPR, the ex-ante assessment methodology is intended as a toolbox encompassing good practices and providing practical guidance to MAs in the preparation and completion of the ex-ante assessment of the FI envisaged in the Programme(s).

Volume I presents the general methodology covering all thematic objectives.

Volume I is complemented by, and should be used in conjunction with, four other Volumes dedicated to specific thematic objectives/domains. The inter-relationship between the Volumes is shown in Figure 1 below:

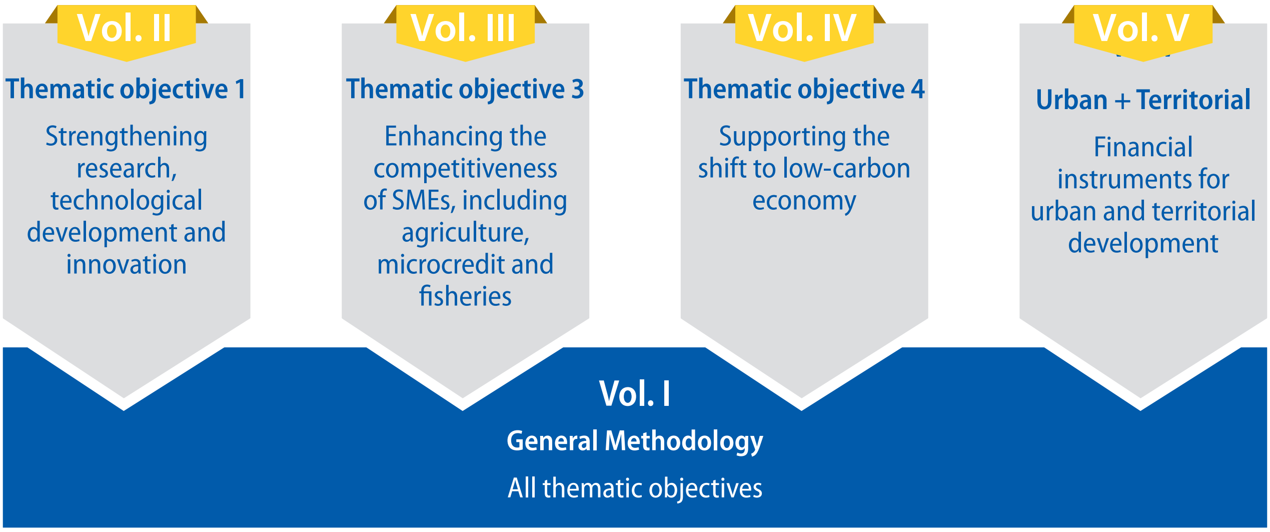


Figure 1: Inter-relationship between the five Volumes of the ex-ante assessment methodology

What is the purpose of the quick reference guide?

This document is a quick reference guide that provides a compact and accessible explanatory overview of the scope and content of the ex-ante assessment and the main methodological steps to comply with the requirements of Article 37 (2) of the CPR. While largely following the structure of the General Methodology (Vol. I), this quick reference guide has been developed to help MAs intending to implement FIs to readily access the information they need on different aspects of the ex-ante assessment without necessarily delving into the greater level of detail or examples encompassed in the five Volumes of the general and specific methodologies.

The chapters of this quick guide covering the methodological steps to complete the ex-ante assessment have a standardised structure for the reader to follow. Each section includes a reference to the relevant clause in Article 37 (2), a brief overview of its rationale, the main methodological steps suggested to follow for the assessment and the expected outcomes. Finally, each chapter contains the prompting question, "Have you considered?" containing a set of key points so that the reader may "check-off" in the vacant column which parts of the assessment they have considered and completed. A full checklist, combining all elements of the assessment, is available in Chapter 6.

MAs seeking a greater level of detail on specific components of the ex-ante assessment are advised to use this quick reference guide in conjunction with the five Volumes of the ex-ante assessment methodology. Where appropriate the quick reference guide encourages the reader to consult the more detailed guidance that has been developed.

2. Scope and purpose of the ex-ante assessment

The overall objective of the ex-ante assessment is to promote the use of sound evidence-based decision making by MAs when designing and implementing FIs. The ex-ante assessment requires MAs to provide evidence of the adequacy of the envisaged FI against an identified market failure or suboptimal investment situation and to ensure that the FI will contribute to the achievement of the Programme and the ESIF objectives. The successful completion of an ex-ante assessment should allow MAs to tackle high-priority market gaps and to define the priorities for the allocation of public resources in accordance with Programmes and priority axis.

Importantly, there is no formal deadline for the completion of the ex-ante assessment before the adoption of the Programme itself, however it must be completed before the MA decides to make Programme contributions to an FI.

Article 37 (2) of the CPR articulates the required content of an ex-ante assessment around seven main groups outlined in Table 1 below.

Article 37 (2) requirements	Description
a) Analysis of market failures, suboptimal investment situations and investment needs	• Identification of the main reasons, type and size of market failure and sub-optimal investment situations with a good practice methodology to make sure the FI resources are used where they make a difference; • FI needs to contribute to the strategy and to the expected results of the relevant Programme(s) by bridging a viability gap or a financing gap.
b) Value added of the financial instruments	• Check the value added of the FI; • Consistency with other forms of public intervention addressing the same market failure to limit overlap and avoid conflicting targets; • Possible State aid implications including the proportionality of the envis-aged intervention to the identified market needs; • Measures to minimise market distortion resulting from the FI.

c) Additional public and private resources	• Estimate of additional public and private resources to be potentially raised by the FI; • Co-financing down to the level of the final recipient; • Expected leverage effect[9]; • If relevant, an assessment of the need for and level of preferential remuneration to attract counterpart resources from private investors.
d) Lessons learnt	• Analysis of lessons learnt from similar or instruments considered relevant in the past; • Analysis of ex-ante assessments carried out by the MS in the past; • Application of these lessons to make sure that the FI builds on existing and acquired knowledge.
e) Proposed investment strategy	• Thematic and geographical coverage of the FI; • Ensure that within the meaning of Article 38, the most appropriate implementation option is chosen in regard to the country/regional situation; • Financial products to be offered to ensure an adequate response to market needs; • Final recipients targeted; • If relevant, envisaged combination with grant support to maximise efficiency and ensure minimum intensity of the support element/element of subsidy.
f) Expected results	• Specification of the expected results and outputs of the FI within the priority of the Programme(s); • Definition of reference and target values based on the specific contribution of the FI to the priority of the Programme results and outputs indicators.
g) Provisions allowing the ex-ante assessment to be reviewed	• Rationale for the revision of the ex-ante assessment; • Practical and methodological procedures to update the ex-ante assessment; • Steps to adapt the FI implementation.

Table 1: Article 37 (2) requirements contained in the CPR

As required by Article 37 (3), MAs are asked to submit to the monitoring committee a coherent document encompassing all the seven elements listed above however these can be prepared along an iterative process as well as in stages.

A possible approach that may assist MAs is to distinguish a first logical building block focusing on the "Market assessment" covering points from (a) to (d) while those from (e) to (g) form part of a building block called "Delivery and management".

9 *According to Article 140 of the Financial Regulation and Article 223 of its Rules of Application, the leverage effect of Union funds shall be equal to the amount of finance to eligible final recipients divided by the amount of the Union contribution.*

3. What managing authorities need to know before starting the ex-ante assessment

The decision to set up an FI does not happen in isolation and it needs to fit into the priorities set by the Programme. As a result, before conducting an ex-ante assessment for the envisaged FI, MAs need to ensure consistency with the Programme. There are several dimensions of consistency to be taken into account:

- **Consistency with Thematic objectives and Programme priorities -** the FI should fit into the intervention logic established by each Programme to contribute to the Europe 2020 priorities and the selected thematic objectives or policy areas. The use of an FI should then be consistent with the ex-ante evaluation(s) of the corresponding Programme(s) and the expected outputs and results of each concerned priority axis or focus areas;
- **Financial consistency -** in the case where the FI is funded through contributions from multiple priority axes, focus areas or Programmes, the balance between the different financial contributions and their distinction has to be reflected in the investment orientations of the FI;
- **Governance consistency -** with the governance of the Programme and assessment of the relevance of the involvement of national and regional stakeholders. In the case of an FI with contributions from different Programmes, a strong collaboration between the different participating MAs is needed and the governance of the FI has to be adapted accordingly;
- **Consistency with other regions** – a coordinated approach to avoid potential duplication, benefit from differing competences, help identifying good practices as well as achieving critical mass and economies of scale. While each case needs to be assessed on own merits, there should be consolidation of resources into national, supra-regional or EU-level instruments, where appropriate.

Programme

- Strategy for the Programme's contribution to EU strategy for smart sustainable and inclusive growth;
- Priorities based on an identification of regional and, where appropriate, national needs;
- Amount of the total financial appropriation of the support from each of the Funds and the national co- financing.

Consistency check: Partnership Agreement, coherence among different priority axes and among different objectives within each priority axis.

Preliminary step: Ex-ante evaluation

1

Financial Instruments

- ESI funds may be used to support financial instruments under one or more Programmes

Consistency check: Programme

Preliminary step: Ex-ante assessment

2

Figure 2: Consistency among the envisaged FI and the priority axis under the Programme

4. Building block 1: Market assessment

Building block 1: Market assessment *includes the analysis of market failures, suboptimal investment situations and investment needs, the assessment of the value added of the envisaged FI, an estimate of additional public and private resources, which could be potentially raised by the FI, and lessons learnt from past experience in the implementation of similar instruments and in carrying out ex-ante assessments for FIs. After completing this first building block, MAs should have acquired a good understanding of the market conditions in which the FI will have to operate.*

Building block 1: Market assessment

Article 37(2)(a) Market failure, suboptimal investment situations and investment needs	**Article 37(2)(b)** Value added	**Article 37(2)(c)** Additional resources to be potentially raised	**Article 37(2)(d)** Lessons learned
Cross-reference: Article 37(2)(g) Market conditions can change and may need to be revised during the ex-ante assessment and during the implementation of the FI.	**Cross-reference: Article 37(2)(c)** State aid implications refer to other components including market failure, suboptimal investment situation, investment need, mechanism of preferential remuneration.	**Cross-reference: Article 37(2)(b)** The capacity to attract additional resources is part of the value added of a FI.	**Cross-reference: Article 37(2)(a), (b), (c), (e) and (f)** Lessons learned can be drawn from different types of experiences and can therefore refer to both market assessment and delivery and management.
1	2	3	4

4.1 Analysis of market failures, suboptimal investment situations and investment needs

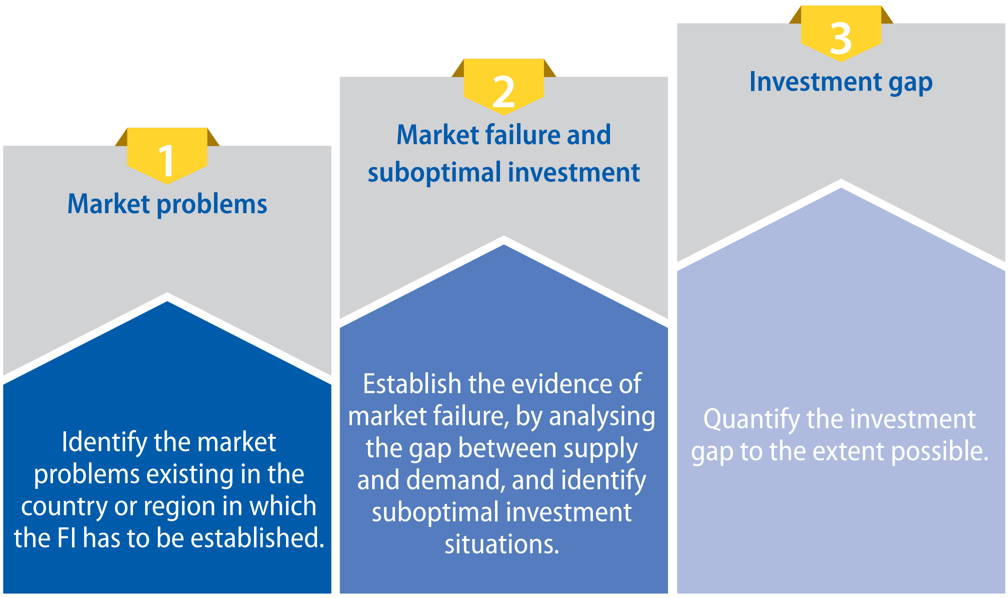
What does the Regulation require?

Article 37 (2) (a) of the CPR requires the analysis of market failures, suboptimal investment situations and investment needs under the policy areas, Thematic objectives or investment priorities to be addressed by the envisaged FI.

Rationale

'The demonstrated presence of market failure or suboptimal investment situations and the resulting unmet investment needs is an essential component to justify public intervention in the market. Using this intervention logic, FIs should be implemented to support investments that are expected to be financially viable but are unable to raise sufficient funding on the market. This may be due to insufficient availability of funding (e.g. high risk of the sector or low profitability expectations) or due to the high costs associated with the available funding sources.

Main methodological steps



Identification of market problems

The first step of the analysis is to identify what market problems exist in the country or region where the envisaged FI is to be implemented, possibly through a mapping exercise. In doing this, it is important to distinguish between **market failure** and **suboptimal investment** situations. The concept of market failure refers to non-functioning aspects of the market which result in an inefficient allocation of resources and entail the underproduction or overproduction of certain goods and services. On the other hand, suboptimal investment situations concern the underperformance of investment activities.

To reduce the complexity, the ex-ante assessment should limit its focus to those issues closely related to Programme priorities and market segments concerned by the envisaged FI. For instance, if the FI targets the lack of affordable housing, the analysis could focus on issues related to demand in different segments of the housing market, while a detailed assessment of the whole real estate sector is not deemed necessary.

MAs should note that there is no "one size fits all" approach to assess the existence of market failures and the elements to be included in the analysis will vary according to the Thematic objective targeted by the FI. Therefore guidance on conducting the analysis of market failures, suboptimal investment situations and investment needs is one of the key sections in which the sector-specific Volumes of the ex-ante assessment methodology provide a significant level of added detail based on good practice.

Demand and supply analysis

The second step of the analysis is to calculate the investment gap i.e. the imbalance between supply and demand for investment in the market segment under consideration. To undertake this gap analysis, MAs may need to use one or a number of operational tools to gather data from multiple sources such as literature review/data gathering; interviews; surveys.

However, MAs should bear in mind that sometimes even with careful preparation not all information needed will be available in the ex-ante assessment phase. As a result, data collection will be an iterative process, combining the different sources of information to achieve an educated guess or expert's judgement.

An illustrative and non-exhaustive list of possible considerations for the analysis of the level of demand and supply is listed below.

Demand analysis

Assessing the level of demand targeted by the envisaged FI could imply analysing:

- The level of financing needed per potential final recipient or the volume of financing needed for the envisaged objective;
- The potential number of applications for funding under the envisaged FI or the potential number of projects needed to achieve the envisaged objective.

The latter aspect may be particularly complex to assess since it will have to focus on unmet demand, which, by definition, is difficult to capture. The following elements need to be taken into account, where access to finance (financing gap) seems to be an issue and is envisaged as the focus of the FI:

- Rejected transactions, the cases in which the public or private finance provider decided to not make an offer to the applicant as well as those in which the offer was rejected by the applicant for various reasons, for instance high cost;
- Lack of applications, the cases in which the potential final recipient did not apply for financing because he or she considered that the chances of obtaining it were too limited. As this component includes perception factors and is linked to issues of financial exclusion, a quantitative measurement is not always considered and data may not be available. The lack of information may contribute to the lack of applications as well.

However, MAs should be aware that estimating the potential demand for investment in the specific sector or market segment to be targeted by the FI can prove challenging, mainly due to data availability and quality issues. Some useful methods to overcome the challenges are described in the different Volumes.

Supply analysis

The demand analysis described above needs to be complemented by an inventory of the available supply of financing for the specific sector or market segment to be targeted by the FI. This should include:

- A description of the public and private finance providers active on the market (this should also include grants targeting the same sector and the existing FIs[10] co-financed from SF which are generating revolving funds);
- An evaluation of the possible re-use of future resources paid back to the financial instrument for which the ex-ante assessment is carried out. This will be especially relevant in the situation where the long-term investment needs identified can be addressed by short-term financial products. The possibility of reusing resources paid back should be reflected in the analysis of investment needs and in the investment strategy;
- Types of financial products provided by the different actors;
- Targeted final recipients.

Quantification of investment needs

Combining the results of demand and supply analysis will facilitate the quantification of the existing market failure and the investment gap to be covered by the envisaged FI, as shown in Figure 3 below.

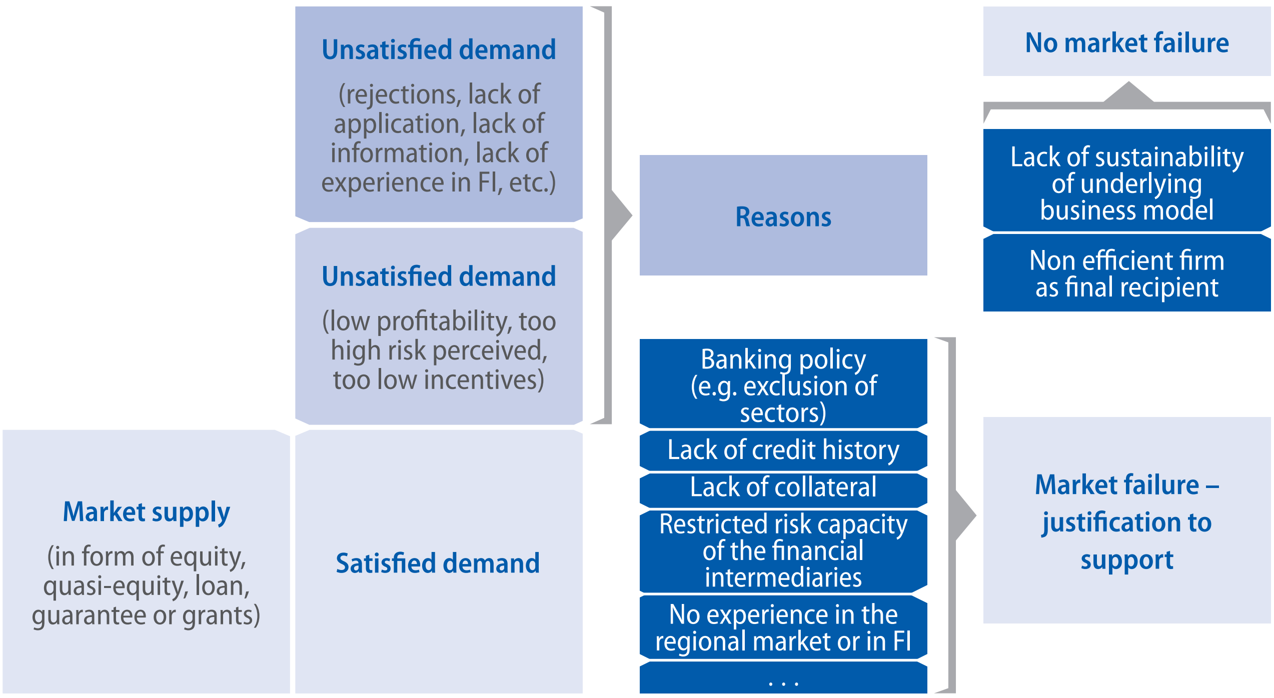


Figure 3: Calculation of unsatisfied demand and estimation of the level of market failure

10 *Please note that in the previous programming period financial instruments were called* financial engineering instruments.

The analysis for the existence of market failure/suboptimal investment conditions and, to the extent possible, their quantification, permits the calculation of the size of the investment gap to be filled by the FI. This can result from the following:

1. A **viability gap** – in the case where the business plan of a project or of a group of projects demonstrates returns below market level.11 The viability gap is a cross-cutting issue which tends to be independent from the financial structuring of the project. As a matter of fact it can occur in sectors where project finance is the most common financial structure (e.g. energy, transport, urban development) but also where equity investments prevail (e.g. investment in SMEs and start-ups).

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

3. A **combination of viability and financing gaps**.

Outcomes

After the assessment of market failures, suboptimal investment conditions and investment needs, MAs should be able to demonstrate the rationale for the envisaged FI's intervention in the targeted sector.

Have you considered?	
Key checklist points	**(Yes/No)**
Identification of market problems existing in the country or region in which the FI is to be established.	
Analysis of the gap between supply and demand of financing and/or of the suboptimal investment situation.	
Quantification of the investment needs (to the extent possible).	

11 The project or the portfolio of projects are intrinsically less profitable because they are perceived as too risky or not generating sufficient returns (e.g. as located in an under-developed area). The returns are compared with a fair rate of return (FRR) and should not be due to poorly structured underlying investments.

4.2 Assessment of the value added of the financial instrument

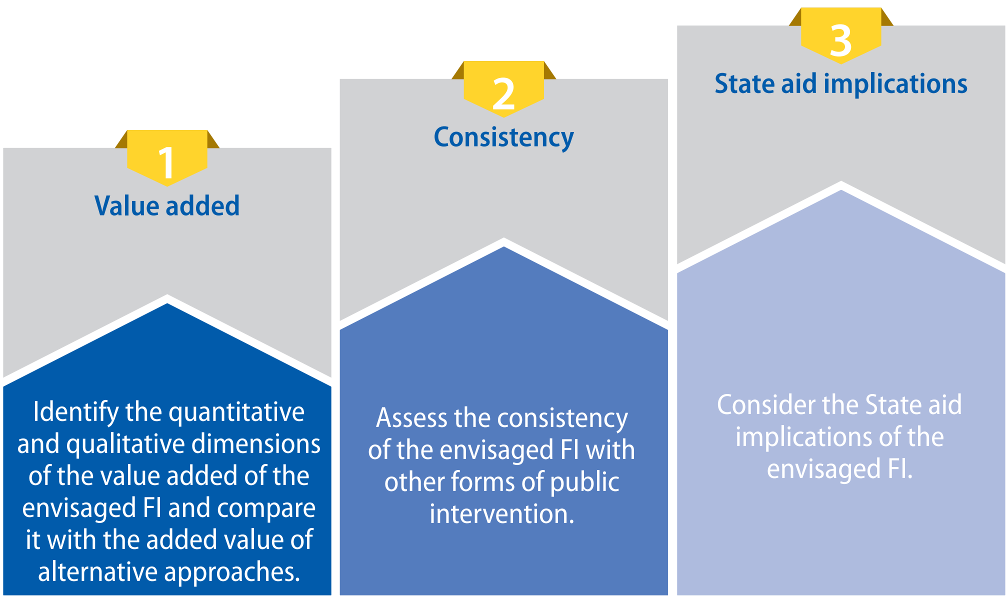
What does the Regulation require?

Article 37 (2) (b) CPR requires MAs to assess the value added of the FI considered, the consistency with other forms of public intervention in the same market, possible State aid implications and the proportionality of the envisaged FI and measures to minimise market distortion. These last two elements are important components of the State aid assessment.

Rationale

The identified market failure or suboptimal investment situation and the corresponding investment needs can be addressed in several ways, particularly FIs and grants. The analysis of the value added implies comparing the envisaged FI with other possible FIs, grants and other possible support mechanisms. This will allow demonstrating that the envisaged FI has a higher added value than possible alternatives, thus being the most efficient use of ESIF resources.

Main methodological steps



Identification and estimation of the quantitative dimensions of value added

As a first step, the ex-ante assessment should analyse the quantitative dimension of the value added by the envisaged FI. This analysis has to examine:

- The leverage of the EU (i.e. ESIF) contribution of additional contributions to the investment at all levels down to the final recipient. The higher the leverage achieved by the FI the higher its value added;
- The intensity of subsidy of the FI. The lower the intensity of subsidy for a given project or group of projects the higher its value added;
- The revolving effect allowing the recycling of funds; and
- Additional contributions coming from the final recipients, since these are excluded from the calculation of leverage.

Identification and estimation of the qualitative dimensions of value added

After the quantitative dimension has been addressed, the ex-ante assessment should identify the qualitative value added of the envisaged FI. Examples of qualitative categories of the value added may include:

- Providing a financial product which exactly matches the market gap without distorting the competition;
- Developing a new financial product type through the form of the envisaged FI that has not been provided previously (e.g. microcredit);
- Supporting the building of or strengthening of the capacity of a sector, (e.g. a nascent urban development fund sector);
- Giving preference to an FI which provides liquidity in the form of pre-financing of investment;
- Giving preference to a revolving long-term support scheme (e.g. for objectives such as seed support for SMEs this could be desirable because the future generation of SMEs should also have the opportunity to be supported);
- Overcoming a specific market failure (e.g. lending capacity of the financial sector, which gives preference to a specific group of support schemes); and
- Attract additional sources of expertise and know-how in delivering support to final recipients.

Consistency with other forms of public intervention

Closely linked to the assessment of the value added is the need to ensure consistency with other forms of public interventions, including grants and interventions at other political levels.

The main assessment with respect to consistency is about conflicting elements or overlaps with other forms of public interventions in the very same market segment, including:

- Policy orientations and legislative/regulatory background, such as:
  - Laws enforcing the objective of the envisaged FI which may make the FI redundant;
  - Laws ruling out the objective of the FI.
- Fiscal interventions, such as
  - Tax reductions or exemptions;
  - State transfers;
  - Transfers of the social security system.[12]
- Other public financial interventions, such as
  - Grant programmes;
  - Other FIs;
  - Activities from other sources of budget and other levels of administration.
  - Support offered by MA from any existing revolving funds

Added care should also be taken to ensure the consistency between the support planned from the new FI to be implemented and the support offered by MA from any existing revolving funds.

State aid implications

EU funds managed in a shared way are considered part of the national or regional budgets and as such are potentially subject to State aid control; while EU funds that do not draw from national or regional resources, and thus are not part of their budgets, fall outside of the scope of State aid control.

12 E.g. subsidies for heating costs. – During the State aid assessment one takes tax reliefs into account when the break-even point for the investment is estimated.

The need for the ex-ante assessment to consider State aid implications is mentioned several times in Article 37, in particular in (1), 2 (b), (3), (5), (6) and (7) of the CPR. More precisely, the ex-ante assessment shall provide evidence that the envisaged FI is either:

- Market-conform; or
- Covered by a *de minimis* Regulation (specific *de minimis* rules for primary production in agriculture and for fishery apply), which means that the support is presumed not to affect competition and trade between MS; or
- Covered by a block exemption Regulation (GBER, ABER) which defines categories of State aid that are presumed to be compatible and hence are exempt from the notification requirement; or
- Exempt from notification procedures, if the envisaged FI is set up as an off-the-shelf instrument, since the design of such instruments ensure that they do not need to be notified to the Commission; or
- Not covered by a block exemption Regulation and hence requires a State aid notification under the appropriate State aid legal base and approval by the Commission before implementation so as to confirm the compatibility of the aid with the internal market.

Common assessment principles for State aid assessment	Article 37 requirements for the ex-ante assessment of FIs
Contribution to a well-defined objective of common interest	**Article 37 (1) and (2) (f)** Contribution to the achievement of specific objectives set out under a priority
Need for State intervention	**Article 37 (2) (a)** Analysis of market failure or suboptimal investment situations and investment needs
Appropriateness of the aid measure	**Article 37 (2) (b) and (c)** Added value of the FI and measures to minimise market distortion
Incentive effect	**Article 37 (2) (c)** Leverage of additional resources and assessment of the need for, and the level of, preferential remuneration to attract counterpart resources from private investors
Proportionality of the aid	**Article 37 (2) (b)** Proportionality of the envisaged intervention
Avoidance of undue negative effects	**Article 37 (2) (b) and (c)** Measures to minimise market distortion
Transparency of aid	**Article 37 (2) and (b)** Depending on the support scheme the quantified value added may contribute to the assessment of the transparency

Figure 4: Elements of the State aid assessment

Readers seeking more details on the key elements of the State assessment should consult the Chapter 4.3 of the General Methodology in the first instance for more comprehensive guidance on the issue. Further guidance on sector-specific State aid implications is available in Volumes II-V of the methodology.

Outcomes

After completing the assessment of the value added of the FI, MAs should be able to demonstrate that the envisaged FI is the solution delivering the highest added value compared to other possible solutions. The MA should also be able to demonstrate that any possible State aid implications have been analysed.

Have you considered?	
Key checklist points	**(Yes/No)**
Identification of the quantitative and qualitative dimensions of the value added of the envisaged FI.	
Comparison to the added value of alternative approaches.	
Consistency of the envisaged FI with other forms of public intervention.	
State aid implications of the envisaged FI.	

4.3 Additional public and private resources to be potentially raised by the financial instrument

What does the Regulation require?

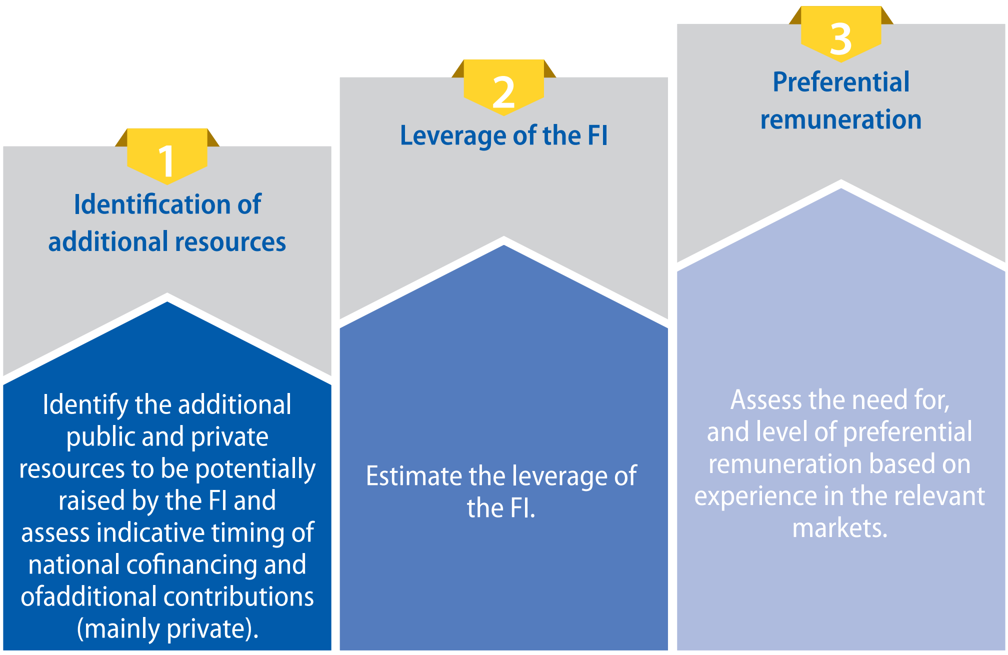
Article 37 (2) (c) of the CPR specifies that the ex-ante assessment shall include:

- An estimate of additional public and private resources to be potentially raised by the FI down to the level of the final recipient (expected leverage effect);
- An assessment of the need for, and level of, preferential remuneration to attract counterpart resources of private investors; and
- A description of the mechanisms to be used to establish the need for, and the extent of, preferential remuneration, such as a competitive or appropriately independent assessment process.

Rationale

One of the expected benefits of FIs is to attract private investment and other public funding, notably thanks to risk-sharing provisions. This is particularly relevant in the context of budgetary constraints or when private investors show restrictions on their risk appetite, their risk bearing capacity or are not fully confident in the market and would like to share risks.

Main methodological steps



Identification of public and private resources potentially raised by the FI

In order to obtain a clear picture of additional public and private resources that could be potentially raised by the FI, MAs have to take into account that such resources:

- Can come from different stakeholders;
- Can be raised at all levels of the FI down to the final recipients' level; and
- Can be financial as well as in-kind contributions.

The national co-financing to the EU Programme contribution, coming from a public budget or from a private source is considered as additional resources.

The other component of additional resources, and in some cases the largest one, are further contributions coming from outside the Programme, be they public or private, but beyond the co-financing requirement. Such public financing could come from public sources other than the ESIF and include local semi-public companies or public financial institutions. The private financing could come from financial institutions interested by the scope of the FI, its investment strategy or by some specific project financed by the envisaged FI.

However, while the combining of different ESI Funds (CF, ESF, ERDF, EARDF and EMFF) may take place deliberately to exploit the synergies of different funds and may increase the volume of the FI, this is not considered as providing additional resources.

Estimation of the leverage of the FI

According to Article 140 of the Financial Regulation[13] and Article 223 of its Rules of Application, the leverage effect of Union funds shall be equal to the amount of finance to eligible final recipients divided by the amount of the Union contribution..Importantly, the calculation of the leverage does not necessarily coincide with the consideration of the quantitative value added.

The calculation of leverage follows the rules of the Regulation meaning that: (i) own contributions from the final recipient are not taken into account; (ii) the face value of the expenditure is counted irrespective of the financial nature (e.g. repayable or non-repayable); and (iii) future investment cycles are not considered if there are any (e.g. revolving instruments).

Attracting additional private resources

To effectively attract and monitor the additional private resources, MAs should define the following elements:

- Expected leverage level and targeted private investors;
- Financial techniques to attract private investors, and, if justified, preferential remuneration for private investors including possible incentives given to them;
- Mechanisms to align private interests with the policy goals.

13 *Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).*

Assessment of the need for preferential remuneration

According to the CPR and the State aid schemes under preparation, the alignment of interest with private partners follows two concepts. The first concept is the *pari passu* approach, meaning that a private investor contributes with own funds in the same risk position as the EU contribution. A good alignment of interest will be achieved in the case where the private share is significant. According to the different co-financing rates, the definition of significance may vary.

In the second approach, the mechanism of preferential remuneration should be accompanied by measures aimed at the alignment of interests, for instance performance-based remuneration of the management, a commercial orientation of the management decisions and, where appropriate, the managers' direct participation with the FI.

The scope for preferential remuneration was already used in the 2007-2013 framework however it was limited to profit sharing. In the 2014-2020 period preferential remuneration is extended also to repaid capital[14]. MAs could, therefore, consider:

- Asymmetric profit-sharing (e.g. the hurdle rate[15] is not *pari passu* to the investors in infrastructure[16] funds, but gives preference to the private partners);
- Asymmetric loss-sharing (e.g. guarantee schemes, covering a first loss piece of the downside risk for innovation loans);
- Preferential fee payment to the managers to the extent they are also co-investors[17] within the limits established by the envisaged delegated act to the CPR (e.g. microfinance);
- Preferential exit regime (e.g. risk taking on the not sold engagements in energy efficiency funds).

14 Please refer in addition to Article 37 (2) to Article 44 (1). "The preferential remuneration shall not exceed what is necessary to create the incentives for attracting private counterpart resources and shall not over-compensate private investors, or public investors operating under the market economy principle. The alignment or interest shall be ensured through an appropriate sharing of risk and profit…" Such remuneration schemes have to be compatible with State aid rules.

15 Hurdle rate is a financial term referring to the minimum acceptable rate of return for the investor. In general, the higher the risk of the investment, the higher the required hurdle rate.

16 This is only one illustrative example, similar schemes are found in other sectors as well.

17 Co-investment of professional or commercial managers is often required to achieve some alignment of interest.

Outcomes

After completing the assessment of the additional public and private resources to be potentially raised by the FI, the MA should have a preliminary definition of the financing structure of the envisaged FI.

Have you considered?	
Key checklist points	**(Yes/No)**
Identification of additional public and private resources to be potentially raised by the envisaged FI and assessment of indicative timing of national co-financing and of additionality contributions (mainly private).	
Estimation of the leverage of the envisaged FI.	
Assessment of the need for, and level of, preferential remuneration based on a competitive or independent assessment process.	

4.4 Lessons learnt

What does the Regulation require?

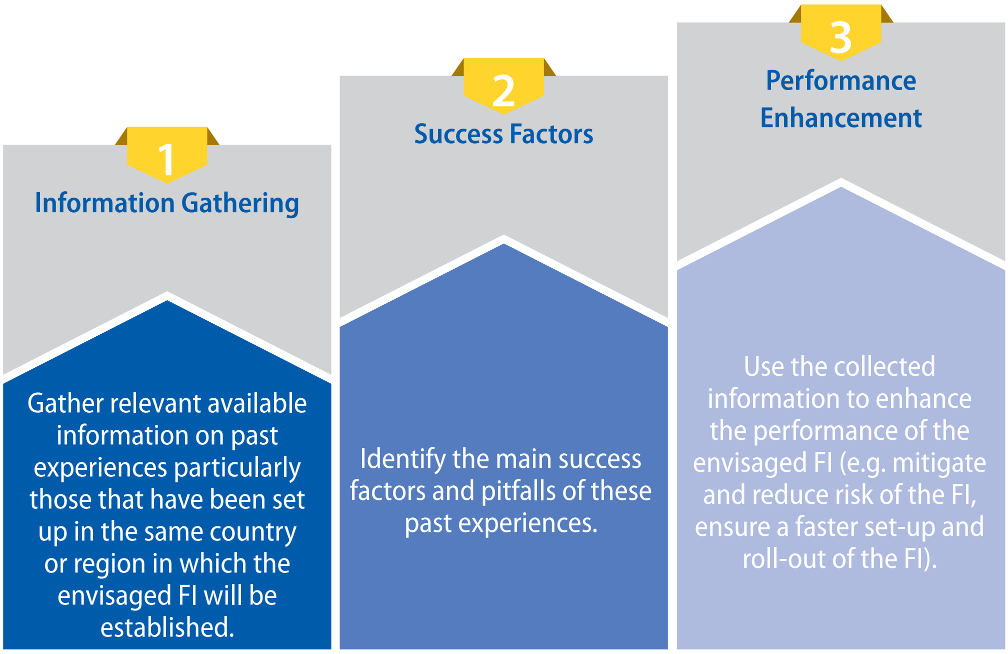
Article 37 (2) (d) of the CPR requires the ex-ante assessment to include an assessment of the following:

- Lessons learnt from similar instruments and ex-ante assessments carried out in the past;
- How these lessons will be applied going forward.

Rationale

Capturing the knowledge learnt in the course of activities is part of a continuous improvement principle. This should help MAs understand and take advantage of success factors and avoiding pitfalls encountered in past experiences.

Main methodological steps



Gather relevant information

The first necessary step would be to identify the past experiences through a thorough desk research and to select appropriate examples. This could be based on the following:

- Any FI using structural funds or involving public intervention implemented in the region/country in the past;
- Any evaluation (ex-ante, interim or ex-post) of an FI carried out in the past covering similar region(s);
- FIs implemented in any other region/country, focusing on similar sector, target market and/or financial product.

Section 6.1 of the General Methodology provides further information on possible sources for this information.

Identification of success factors and pitfalls

The ex-ante assessment should analyse the information and/or data of past experiences collected and clearly assess the key success factors and the main pitfalls of these selected past experiences at each step of the FI life cycle: design, set-up, implementation, running and winding-up. The analyses should focus on former MFF and SF schemes, but are not limited to it. Experiences from comparable instruments may provide useful information about success factors and pitfalls.

It should be noted that, since success factors and pitfalls encountered in past experiences are most likely to be sector and country-specific, additional information on this subject can be found in the sector-specific ex-ante assessment methodologies, Volumes II-V.

Use the collected information to enhance the performance of the envisaged FI

The ex-ante assessment General Methodology (Volume I) provides an example of two specific tools that might be useful for applying lessons learnt in a structured and systematic way: risk analysis and SWOT analysis.

One possible tool for a MA to apply lessons learnt would be to perform a **risk analysis** on the implementation of the FI. Lessons learnt should facilitate the identification and the assessment of risks as well as the definition of the countermeasures. The main steps of the risk analysis are listed below:

- **Risk identification:** comprises listing the different risks and dependencies associated with the implementation of the FI, i.e. any uncertain event or condition the realisation or occurrence of which may have a negative impact on the FI, such as time, cost, scope or quality;
- **Risk assessment:** the systematic and regular evaluation of the probability and potential impact of the identified risk occurring. Lessons learnt could facilitate the estimation of the probability as well as the impact of the risks. This step is essential to raise awareness among all stakeholders of the possible risks;
- **Risk response:** the definition of the appropriate required response to the risk. This could be a preventive action to avoid risk occurrence or a corrective action to reduce its impact. Three main types of risks responses can be considered:
  - Avoidance (change the initial plan);
  - Mitigation (reduce the probability or impact);
  - Acceptance (no change to the initial plans).
- **Risk monitoring and control:** comprises tracking and reviewing identified risks and associated risk response, and identifying and assessing new ones. This is an ongoing process.

Another way to take into account these lessons, to improve the setting up of the envisaged FI and to enhance its performance is to perform a SWOT[18] analysis of the envisaged FI, as shown in the figure below.

	INTERNAL	EXTERNAL
POSITIVE	**Strengths** Success factors identified in past experiences that exist and can be exploited in the country, region or target market for the envisaged FI (e.g. sufficient market depth, absorption capacity or project pipeline, well-developed financial intermediaries, familiarity with FIs, etc.). The MA will have to make sure that these factors are maintained.	**Opportunities** These are factors that may exert a positive influence on the success of the envisaged FI but are not placed under the exclusive control of the MA (e.g. potential synergies with other forms of public interventions on the same market managed by other entities or MAs). The MA shall be pro-active in promoting those opportunities and in fostering cooperation with key stakeholders.
NEGATIVE	**Weaknesses** Conditions and factors that determined a pitfall or represented an obstacle in past experiences and that can be found in the country, region or target market for the envisaged FI. The MA will need to take corrective actions to limit the risk of facing the same issues in the implementation of the FI.	**Threats** These are factors that could potentially reduce the performance of the FI but are not placed under the exclusive control of the MA (e.g. the financial crisis puts public budgets under particular stress). The MA shall bear these threats in mind when designing and implementing the FI, even though the room for manoeuvre may be very limited.

Figure 5: Example of a SWOT analysis for an FI

The SWOT analysis will enable the MA to distinguish factors placed under their control from external factors, to easily identify key success factors and main risks for the envisaged FI. Based on this analysis and on the lessons learnt, the MAs shall decide actions to enhance the implementation of FI.

It is important to remember that some of the elements of the SWOT analysis refer to lessons learnt relating to the market assessment (building block 1), while other elements are more related to the delivery and management of the FI (building block 2).

The ex-ante assessment will then assess how these lessons are/will be applied going forward.

18 SWOT: Strength – Weaknesses - Opportunities – Threats.

Outcomes

After the assessment of lessons learnt, MAs should have a clearer idea of the key risks and success factors to inform the development of the proposed investment strategy.

Have you considered?	
Key checklist points	**(Yes/No)**
Collation of relevant available information on past experiences, particularly those that have been set up in the same country or region as the envisaged FI.	
Identification of main success factors and/or pitfalls of these past experiences.	
Using the collected information to enhance the performance of the envisaged FI (e.g. risk mitigation).	

5. Building block 2: Delivery and management

Building block 2: Delivery and management ***focuses on the "implementation and delivery" of the FI and includes the development of the proposed investment strategy, specification of expected results and provisions allowing the ex-ante assessment to be reviewed and updated as required during the implementation phase if deemed necessary by the MA.***

Building block 2: Delivery and management

Article 37(2)(e) Proposed investment strategy	**Article 37(2)(f)** Expected results	**Article 37(2)(g)** Provisions for the update and review
Cross-reference to: Article 32(2)(a) and (b) Proposed investment strategy has to be consistent with the results of the market assessment and value added assessment. This will have already narrowed the options for the envisaged FI.	**Cross-reference to: Article 32(2)(a) and (e)** Expected results are directly linked to the investment needs identified in the market assessment and to the proposed investment strategy.	**Cross-reference to: Article 32(2)(a), (b), (c), (d), (e) and (f)** The context may evolve during the implementation of the FI. These changes can affect all components of the ex-ante assessment.
1	2	3

5.1 Proposed investment strategy

What does the Regulation require?

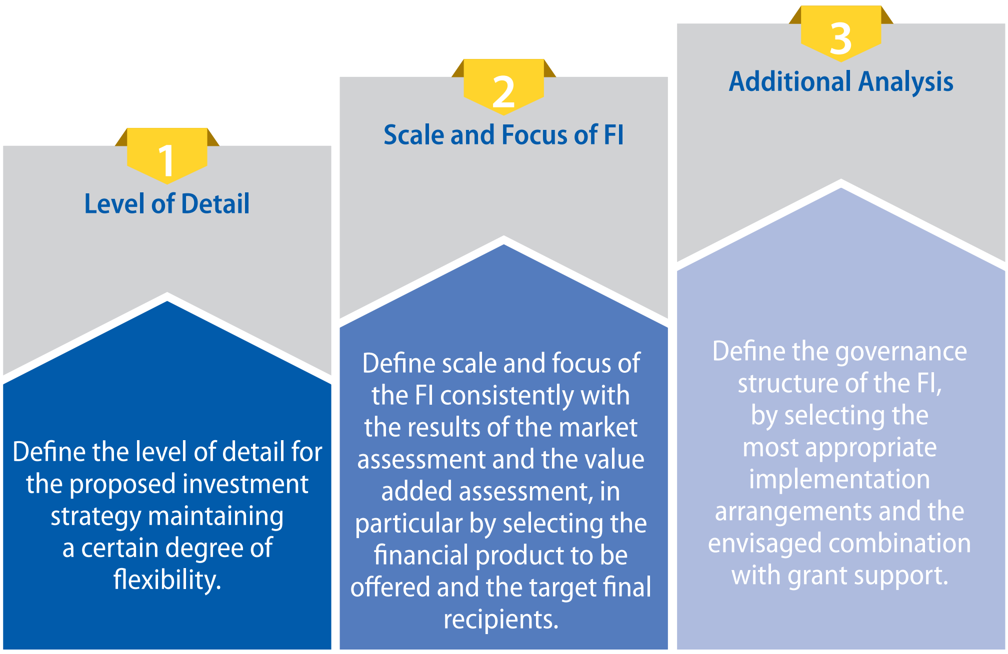
Article 37 (2) (e) CPR requires that the ex-ante assessment for the proposed investment strategy of the FI should include the following four requirements:

- An examination of the options for implementation arrangements within the meaning of Article 38;
- Offered financial products;
- Targeted final recipients;
- Envisaged combination with grant support where appropriate.

Rationale

The proposed investment strategy for the FI needs to be aligned with the outcome of the analysis of market failures and suboptimal investment situations carried out in the market assessment. This phase will lead to the identification of investment needs and, as such, the potential final recipients of the envisaged FI.

Main methodological steps



Define the level of detail of the proposed investment strategy

If an intermediary level is foreseen (i.e. fund of funds), this could be considered as a two-stage FI, where the MA firstly negotiates a funding agreement with the body implementing the fund of funds and then the body implementing fund of funds negotiates one or more funding agreements with financial intermediaries[19].

In the two-stage FI a so-called 'call for expression of interest' (CEI) should include the proposed investment strategy which should constitute the basis for negotiations with potential intermediaries. The ex-ante assessment should not aim to foreclose the CEI. The published ex-ante assessment should include for example a range for a forecasted leverage effect[20]. On the one hand, the flexibility needs to be within reasonable limits, since forecasting a too ambitious range could result in a failed round of offers and a significant loss of time to start the support scheme. On the other hand, the minimum ranges proposed should ensure that public funds are used efficiently and that the public intervention in the market is limited to the minimum required.

If a one-stage FI is envisaged in the business plan, where the MA negotiates directly with the financial intermediaries, the financial parameters and the description of the governance are much closer to a 'term sheet' of the envisaged product. The better the investment strategy can define such a term sheet the easier it will be to continue with the further implementation steps. However, it is also important to note, if a term sheet was set-up, the MA should define ranges where appropriate to reflect potential on trends and volatilities until the end of the FI implementation period.

19 *In the previous programming period the MA had the option to organise financial engineering instruments for sustainable urban development through the intermediary of a Holding Fund (HF). Holding Funds then invested the resources of Programmes in one or more Urban Development Funds (UDF), under a revolving scheme, generally providing them with equity, loans or guarantees. UDFs were financial engineering instruments investing directly in urban projects.*

20 *Analysis of already existing support schemes shows a leverage of 4, one could give a range of 3 to 6 to grater flexibility.*

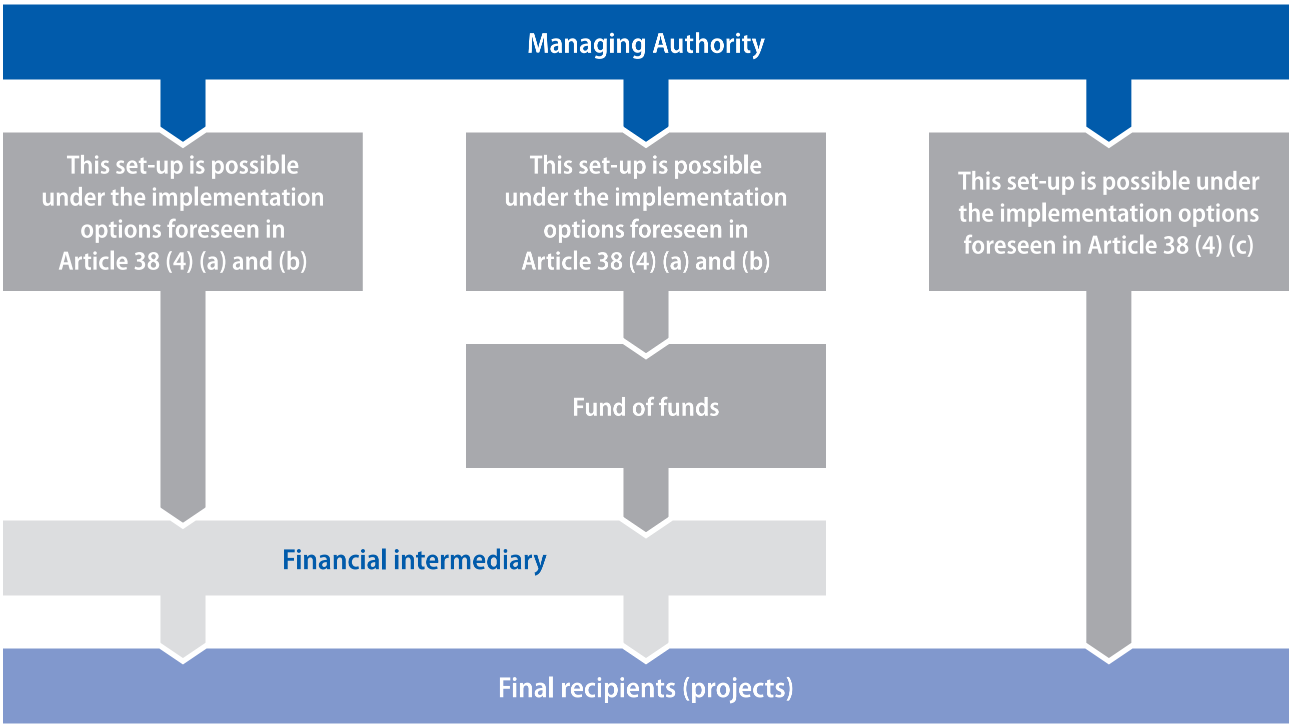


Figure 6: Flow of ESIF resources from the MA to final recipients

Phase 1: Define the scale and focus of the FI

The ex-ante assessment needs to do the following:

- Ensure consistency with the outcome of the market assessment and the value added assessment (insofar not finalised earlier);
- If a group of FIs has been identified in the assessment of value added, MAs should select the most appropriate financial product to address the market needs. However this is not always the case, as the assessment of the value added of potential FIs has possibly already shown a clear preference for one option;
- With the selected FI, check the product and adapt or work out more in detail to address the market segments (including the forecasted range of interest rate, guarantee fees, collateral, tenor/duration, grace period, premiums for voluntary repayment, waiver of availability fees); and
- Select targeted final recipients, in line with the eligibility of the Programme.

Phase 2: Define the governance structure of the FI

After ensuring that the envisaged FI is suited to the identified market needs, the ex-ante assessment has to define the governance structure that will allow the FI to meet its objectives in the most efficient way.

As a result, the following steps need to be taken:

- Analyse the pros and cons of the different options for implementation arrangements as foreseen by Article 38 of the CPR;
- Determine the envisaged co-financing structure of the FI and the possible combination with grants.

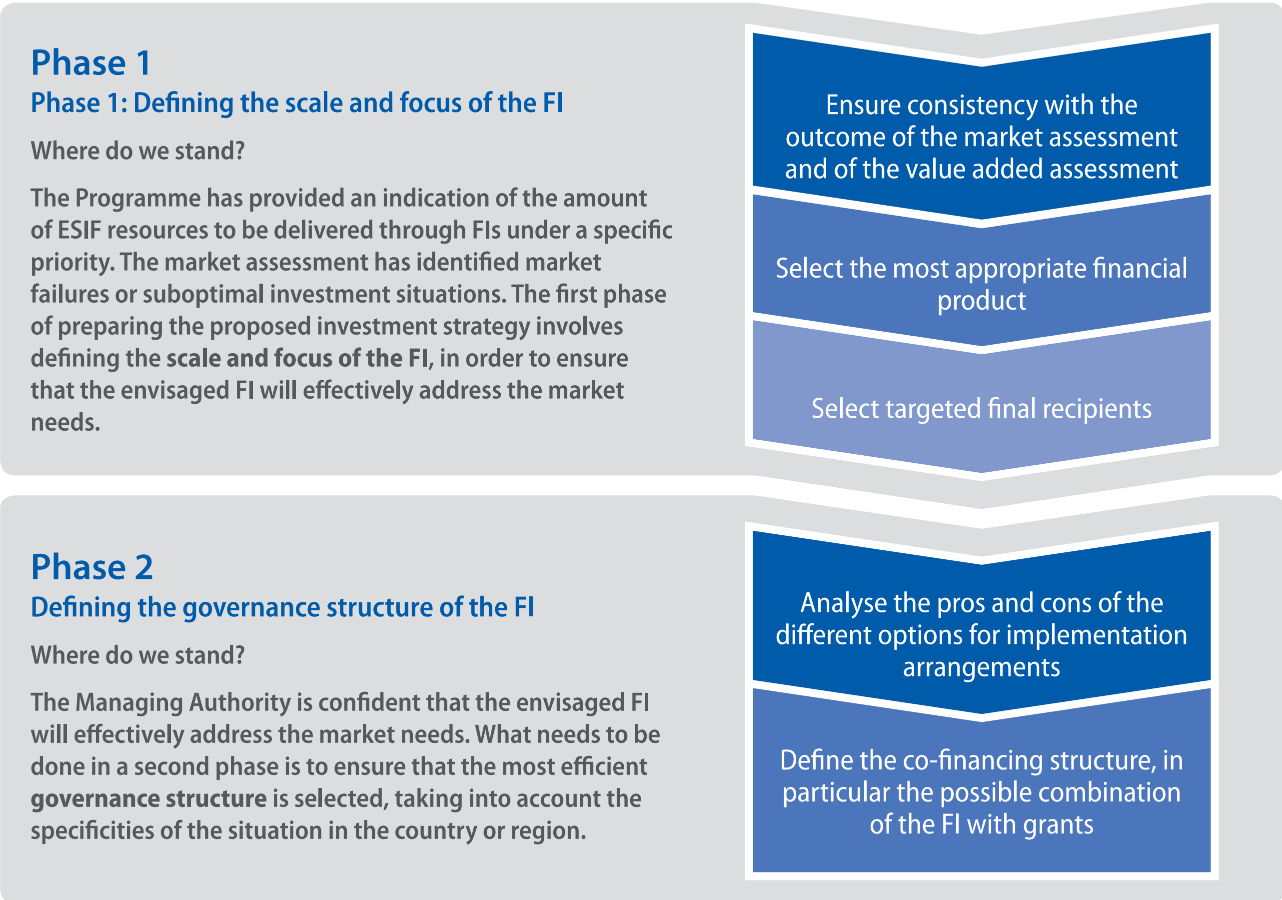


Figure 7: Process to develop the proposed investment strategy of the FI

Outcomes

After the development of the proposed investment strategy, MAs should have a preliminary definition of the scale and focus of the FI as well as the delivery mode for the envisaged FI in line with the results of the market assessment.

Have you considered?	
Key checklist points	**(Yes/No)**
Definition of the level of detail for the proposed investment strategy (maintaining a certain degree of flexibility).	
Definition of the scale and focus of the FI in line with the results of the market assessments and value added assessment.	
Selection of the financial product to be offered and the target final recipients.	
Definition of the governance structure of the FI.	
Selection of the most appropriate implementation arrangement and definition of co-financing structure (including any envisaged combination with grant support).	

5.2 Specification of expected results consistent with the relevant Programme

What does the Regulation require?

Article 37 (2) (f) CPR specifies that the ex-ante assessment shall include:

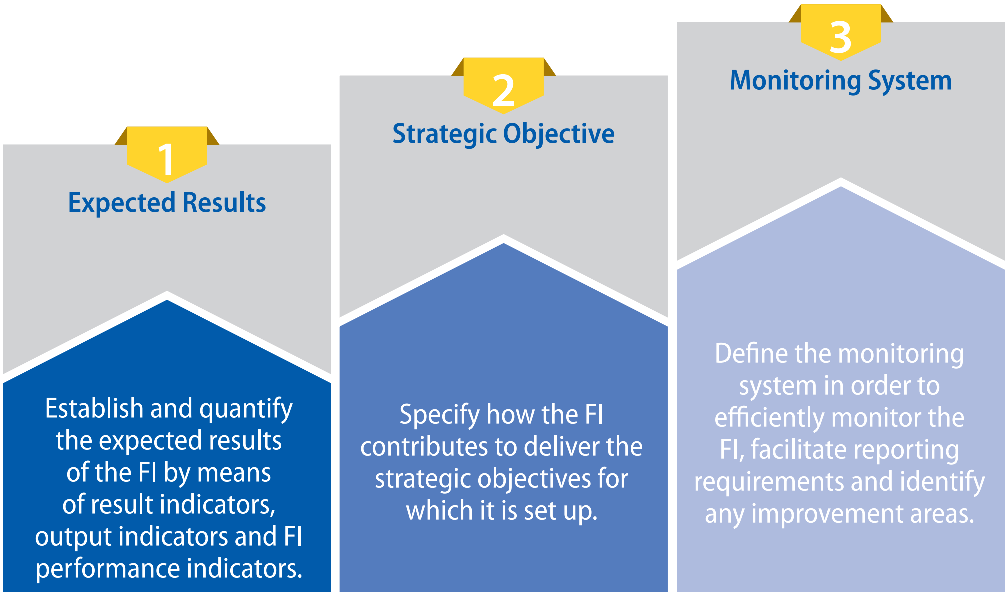
- A specification of the expected results;
- How the FI is expected to contribute to the achievement of the specific objectives and results of the relevant priority or measure including indicators for this contribution.

Rationale

Setting-up result targets and a practical monitoring process of the envisaged FI are essential for MAs to monitor FI performance and contribution to the corresponding investment priority(ies) under the ESI Funds[21] and to the overall objective(s) of the related Programme(s).

21 Corresponding to "focus areas" under the EAFRD

Main methodological steps



Establish and quantify the expected results of the FI

The expected results of the FI shall be derived from the previous parts of the ex-ante assessment, notably the market assessment, the expected value added and the proposed investment strategy. The MA should then define corresponding indicators to quantify the expected results and, at the same time, comply with the Commission requirements (see below). In addition, indicators are useful to possibly refine the FI during the implementation phase.

Depending on the needs of the MA and the applicable requirements result/output/FI performance[22] indicators should be defined:

- Output indicators: MAs should use the set of common indicators already predetermined in the fund-specific Regulations or complementary documents provided by the Commission. In the case of the EAFRD and the EMFF, the Commission provided a detailed set of measure and focus area-specific indicators, also mandatory for FIs. Indicators could cover the different forms of support to beneficiaries (including technical support) through FIs;
- Additional FI performance indicators could be defined with regard to measuring the operational efficiency of FI implementation (e.g. management costs, expected credit loss);
- Result indicators: Following the new results-oriented approach, there should be special attention paid to the definition of clear and measurable result indicators. The result indicators must be clearly interpretable, statistically validated, truly responsive and directly linked to the specific objectives of the investment priority or focus area the FI is contributing to.

22 Please note that these are not explicit requirements of the Regulation but are highly recommended as a good practice approach.

It is important to remember that the FI may contribute to deliver objectives related to different investment priorities or focus areas under one or more Programmes. In such cases, the MA has to consider that the set of indicators to be established needs to cover the monitoring requirements of all corresponding investment priorities or focus areas.

Specify how the FI will contribute to deliver its strategic objectives

As previously specified, one of the three pillars of the result orientation of the ESI Funds is a clear articulation of the objectives of Programmes with a strong intervention logic (the result orientation of Programmes). This articulation should be reflected not only in the definition of the FI (market gap assessment, proposed investment strategy) but also in the expected results and thus in the indicators.

As the FI is embedded into the architecture of the corresponding Programme, the MA should describe how the FI is expected to contribute to the achievement of the specific objectives at the level of the corresponding investment priority or focus area. If the FI is just one of a batch of different measures programmed under the corresponding investment priority or focus area, the MA should also describe the interaction of those measures and the specific role of the FI for achieving the specific objectives.

To clearly highlight the expected quantitative contribution, MAs should refer to the targeted indicators of the FI.

Define the monitoring system

Due to the specific procedures and delivery structures of the FIs, the provision of information on the use of budgetary resources from ESIF is crucial for all stakeholders of the ESIF Policy 2014-2020, as it allows them to draw conclusions about the actual performance of supported instruments and the necessary adjustments to ensure their effectiveness. Therefore, Article 46 of the CPR requires the MAs to forward to the Commission a *'special report on the activities related to financial instruments in the form of an annex to the annual implementation report'.*

The MA has firstly to ensure that the reporting requirements are met. Monitoring and reporting requirements from the body implementing the FoF/FI (invested entity, entrusted entity or MA) to the MA should be clearly defined in the funding agreement. The exceptional case is the implementation of an FI according to Article 38 (4) (c) where the MA implements directly without classical intermediary. In such a case, the MA should define the reporting needs in an internal document.

A dedicated monitoring process should be defined at FI level. The key elements of the monitoring process are illustrated in the figure below. This monitoring process should take into account the governance structure of the FI.

Figure 8: Monitoring process of the FI

The content of the required specific report is listed in Article 46 (2). Fiche No. 4B 'Reporting on financial instruments to the Commission under the annual and final implementation reports' provides-on a provisional basis-much more detailed information concerning the reporting obligations of the MA.[23]

Outcomes

After the specification of the expected results of the envisaged FI, MAs should have a good framework with which to monitor progress and assess the effectiveness of the FI.

Have you considered?	
Key checklist points	**(Yes/No)**
Set up and quantification of the expected results of the envisaged FI by means of output indicators, result indicators and FI-performance indicators as appropriate.	
Specification of how the envisaged FI will contribute to deliver the desired strategic objectives.	
Definition of the monitoring system in order to efficiently monitor the FI, facilitate reporting requirements and identify any improvement areas.	

23 Version 4 - 23 September 2013; http://ec.europa.eu/regional_policy/what/future/pdf/preparation/262709_ia_2_implementing_act_reporting_template.pdf.

5.3 Provisions for the update and review of the ex-ante assessment

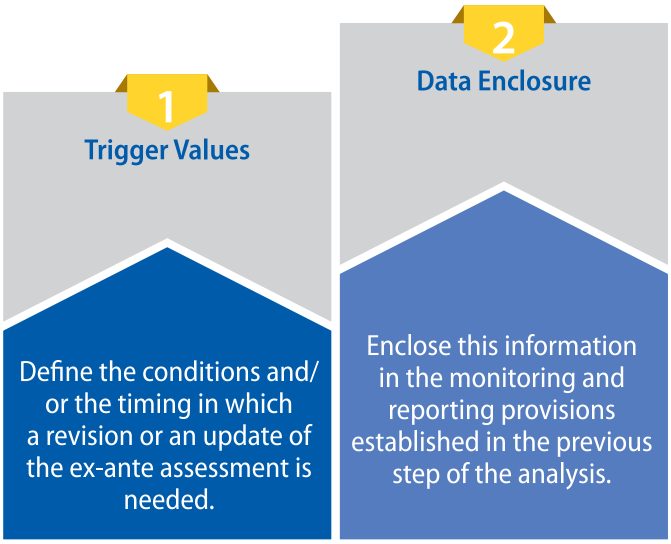
What does the Regulation require?

Article 37 (2) (g) CPR requires that the ex-ante assessment includes provisions for its revision and update, in case the MA considers that the conclusions of the ex-ante assessment no longer represent the actual market conditions and should be revised.

Rationale

Market conditions and investment trends may evolve before and during the implementation phase of the FI. As a result the ex-ante assessment may need to be revised and updated, in case the MA considers that the conclusions of the ex-ante assessment no longer represent the actual market conditions.

Main methodological steps



Define the conditions and timing triggering a revision of the ex-ante assessment

As the envisaged FI is built on support from the EU budget for well-defined objectives, one can address the update building on the results of the FI during implementation. If the expected results of the FI are not achieved, an update could be considered.[24]The main drivers to trigger an update could be:

- Poor accuracy (e.g. where there is a strong divergence between proposed targets and observed results);
- Inadequate volume (e.g. due to absorption speed under/overestimated, or due to market changes);
- Miscalculation of the risk (e.g. where the risk profile of the FI is significantly higher/lower than expected).

Enclose this information in the monitoring and reporting provisions

The volume of work for the update is difficult to predict. A drastic change to the economic environment such as a major financial crisis might cause a comprehensive update.
A more gradual change should result in a smaller update, reviewing perhaps one step of the ex-ante assessment only. It seems reasonable to update the summary findings and conclusions (Article 37 (2) bis CPR) accordingly and to explain what triggered the update and what was changed by comparison to the original assessment.

Following the conclusions of the updated ex-ante assessment, the MA should take action, if necessary, to improve the strategic fit of the FIs.

As it is always difficult to anticipate economic environments for the whole financial perspective, this update clause allows for more flexibility in the programming of the ESIF with a procedure triggered and performed in the sole capacity of the MA.

24 One could also look at a sample of the parameters considered during the ex-ante assessment. If the parameters change, an update could be initiated in case the change was deemed relevant. Many parameters for the ex-ante assessment are not automatically at hand of the MAs. So additional time and effort would be needed. The approach lined out here is based on the results. The data volume for this is smaller and most or all of it is part of the monitoring.

Outcomes

After the assessment of provisions for the update and review of the ex-ante assessment methodology, MAs should be aware of what changes in market conditions may necessitate adjustments to the ex-ante assessment.

Have you considered?	
Key checklist points	**(Yes/No)**
Definition of the conditions and/or the timing in which a revision or an update of the ex-ante assessment is needed.	
Ensure that this flexibility, and trigger points, is reflected in the monitoring and reporting provisions.	

6. Ex-ante assessment completeness checklist

The last section of this quick reference guide combines the key points from each of the ex-ante assessment methodology's seven steps. The following checklist is designed to give the MA an overview of the essential requirements carrying out the ex-ante assessment of the FI.

Again, MAs should remember that while the steps here are represented as a linear approach according to their order in Article 37 (2) of the CPR, the ex-ante assessment should be an iterative approach (please refer to Introduction). The final two points relate to the requirements of Article 37 (3) on the steps to be taken after the ex-ante assessment.

Have you considered?		
Key checklist points	CPR reference	(Yes/No)
Identification of market problems existing in the country or region in which the FI is to be established.	Art. 37 (2) (a)	
Analysis of the gap between supply and demand of financing and the identification of suboptimal investment situation.	Art. 37 (2) (a)	
Quantification of the investment (to the extent possible).	Art. 37 (2) (a)	
Identification of the quantitative and qualitative dimensions of the value added of the envisaged FI.	Art. 37 (2) (b)	
Comparison to the added value of alternative approaches.	Art. 37 (2) (b)	
Consistency of the envisaged FI with other forms of public intervention.	Art. 37 (2) (b)	
State aid implications of the envisaged FI.	Art. 37 (2) (b)	
Identification of additional public and private resources to be potentially raised by the envisaged FI and assessment of indicative timing of national co-financing and of additionality contributions (mainly private).	Art. 37 (2) (c)	
Estimation of the leverage of the envisaged FI.	Art. 37 (2) (c)	
Assessment of the need for, and level of, preferential remuneration based on experience in relevant markets.	Art. 37 (2) (c)	

Collation of relevant available information on past experiences, particularly those that have been set up in the same country or region as the envisaged FI.	Art. 37 (2) (d)	
Identification of main success factors and/or pitfalls of these past experiences.	Art. 37 (2) (d)	
Using the collected information to enhance the performance of the envisaged FI (e.g. risk mitigation).	Art. 37 (2) (d)	
Definition of the level of detail for the proposed investment strategy (maintaining a certain degree of flexibility).	Art. 37 (2) (e)	
Definition of the scale and focus of the FI in line with the results of the market assessments and value added assessment.	Art. 37 (2) (e)	
Selection of the financial product to be offered and the target final recipients.	Art. 37 (2) (e)	
Definition of the governance structure of the FI.	Art. 37 (2) (e)	
Selection of the most appropriate implementation arrangement and definition of co-financing structure (including any envisaged combination with grant support).	Art. 37 (2) (e)	
Set up and quantification of the expected results of the envisaged FI by means of output indicators, result indicators and FI-performance indicators as appropriate.	Art. 37 (2) (f)	
Specification of how the envisaged FI will contribute to deliver the desired strategic objectives.	Art. 37 (2) (f)	
Definition of the monitoring system in order to efficiently monitor the FI, facilitate reporting requirements and identify any improvement areas.	Art. 37 (2) (f)	
Definition of the conditions and/or the timing in which a revision or an update of the ex-ante assessment is needed.	Art. 37 (2) (g)	
Ensure that this flexibility, and trigger points, is reflected in the monitoring and reporting provisions.	Art. 37 (2) (g)	
The ex-ante assessment is submitted to the monitoring committee for information purposes and in accordance with Fund-specific rules.	Art. 37 (3)	
Publication of summary findings and conclusion of the ex-ante assessment within three months of their date of finalisation.	Art. 37 (3)	

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