Financial instruments in Cohesion Policy 2014-2020: Ex-ante assessments

Managing Authority training, June 2014

This training has been organised by EIPA-Ecorys-PwC under the Framework Contract Nr 2013.CE.16 B.AT 044.

Introduction

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Agenda – Morning session

09:00 - 09:15 - Welcome and introduction (DG REGIO)

09:15 - 09:45 - Ex-ante assessment methodology for financial instruments overview

09:45 - 11:00 - General methodology (Article 37 a-c)

- *Analysis of market failures, suboptimal investment conditions and investment needs*
- *Assessment of the value added of the financial instrument*
- *Additional public and private resources to be potentially raised by the financial instrument*

11:00 - 11:15 - Short coffee break

11:15 - 13:00 – General methodology (Article 37 d-e)

- *Lessons learnt*
- *Proposed investment strategy*

13:00 - 14:00 - Lunch break

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Agenda – Afternoon session

14:00-14:30– General methodology (Article 37 f-g)

- *Re-cap of the morning session*
- *Expected results and provisions for the update and review of the ex-ante assessment*

14:30-15:00 – Sector-specific methodologies

- *Integrated territorial development including financial instruments for urban development*

15:00 - 15:30

- *Low-carbon*

15:30-16:00

- *RDI and SMEs*

16:00 – 16:15

- *Concluding remarks*
- *Q&As*

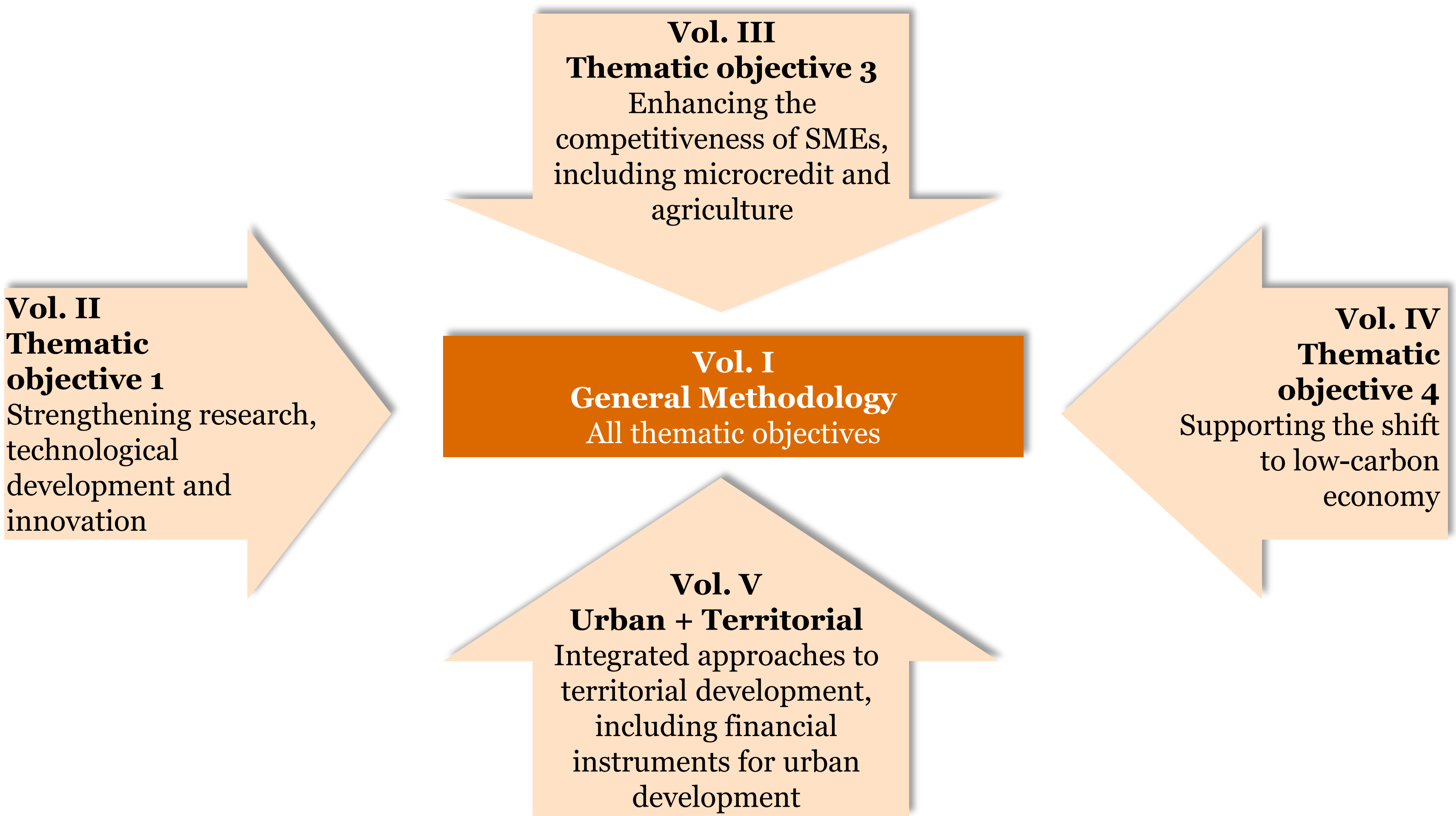
Objectives

Good understanding of the ex-ante assessment process and its main elements in order to:

- Present the ex-ante assessment to the monitoring committee in a clear and understandable way.
- Take an informed decision on the contribution of Programme resources to a financial instrument.

Ex-ante assessment methodology for financial instruments: Overview

The ex-ante assessment methodology encompasses five volumes (plus a Quick Guide)



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The rationale and the objectives of the ex-ante assessment

Why?

To promote the use of sound evidence-based decision making by MAs when designing and implementing FI.

What?

Provide evidence of:

- ✓ Adequacy of the envisaged FI against an identified market failure or suboptimal investment situation;
- ✓ Expected contribution to the achievement of the Programme and the ESIF objectives.

When?

No formal deadline but to be completed before the MA decides to make Programme contributions to an FI.

It can be prepared along an iterative process as well as in stages.

A coherent document encompassing all the elements of the ex-ante assessment must be submitted to the monitoring committee.

The successful completion of an ex-ante assessment should allow Managing Authorities (MAs) to tackle high-priority market gaps in accordance with Programmes and priority axis.

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What Managing Authorities need to know before starting the assessment

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
Financial Instruments	• ESI funds may be used to support financial instruments under one or more Programmes **Consistency check:** Programme **Preliminary step:** Ex-ante assessment

What Managing Authorities need to know before starting the assessment

Decision to set up a financial instrument (FI) does not happen in isolation and must fit the priorities set by the Programme. Important to take into account:

- Consistency with Thematic objectives and Programme priorities
- Financial consistency
- Governance consistency
- Consistency with other regions

It is possible to distinguish two building blocks, the first focusing on the market assessment…

Building block 1: Market assessment

Article 37(2)(a)	Article 37(2)(b)	Article 37(2)(c)	Article 37(2)(d)
Market failure, suboptimal investment situations and investment needs	**Value added**	**Additional resources to be potentially raised**	**Lessons learnt**

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.

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… and the second focusing on the delivery and management of the envisaged FI

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 37(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 37(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 37(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.

Focus on the content of the Delegated Regulation of 3 March 2014

Article	Title	Reference in the CPR
Article 8	**Specific rules on guarantees delivered through financial instruments**	Article 38(4) (Third subparagraph)
Article 13	**Thresholds for management costs and fees**	Article 42(5) and (6)

The Delegated Act also includes provisions for:

- Purchase of land
- Combination of technical support with FIs
- Role, liabilities and responsibility of bodies implementing FIs and criteria for their selection
- Management of FIs set up at national, regional, transnational of cross-border level
- Withdrawal of payments to financial instruments
- Capitalisation of annual instalments for interest subsidies and guarantee fee subsidies
- Criteria for determining management costs and fees on the basis of performance
- Reimbursement of capitalised management costs and fees for equity-based FIs and micro-credit

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.

Analysis of market failures, suboptimal investment situations and investment needs

Market problems 1	Market failure and suboptimal investment 2	Investment gap 3
Identify the market problems existing in the country or region in which the FI has to be established.	Establish the evidence of market failure, by analysing the gap between supply and demand, and identify suboptimal investment situations.	Quantify the investment gap to the extent possible.

The demonstrated presence of market failure or suboptimal investment situations and the resulting unmet investment needs is essential to justify public intervention.

FI should be implemented to support investments that are expected to be financially viable but are unable to raise sufficient funding on the market, due to:

- Insufficient availability of funding (e.g. high risk of the sector or low profitability expectations); or
- High costs associated with the available funding sources.

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Identification of market problems

Market failure: 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.

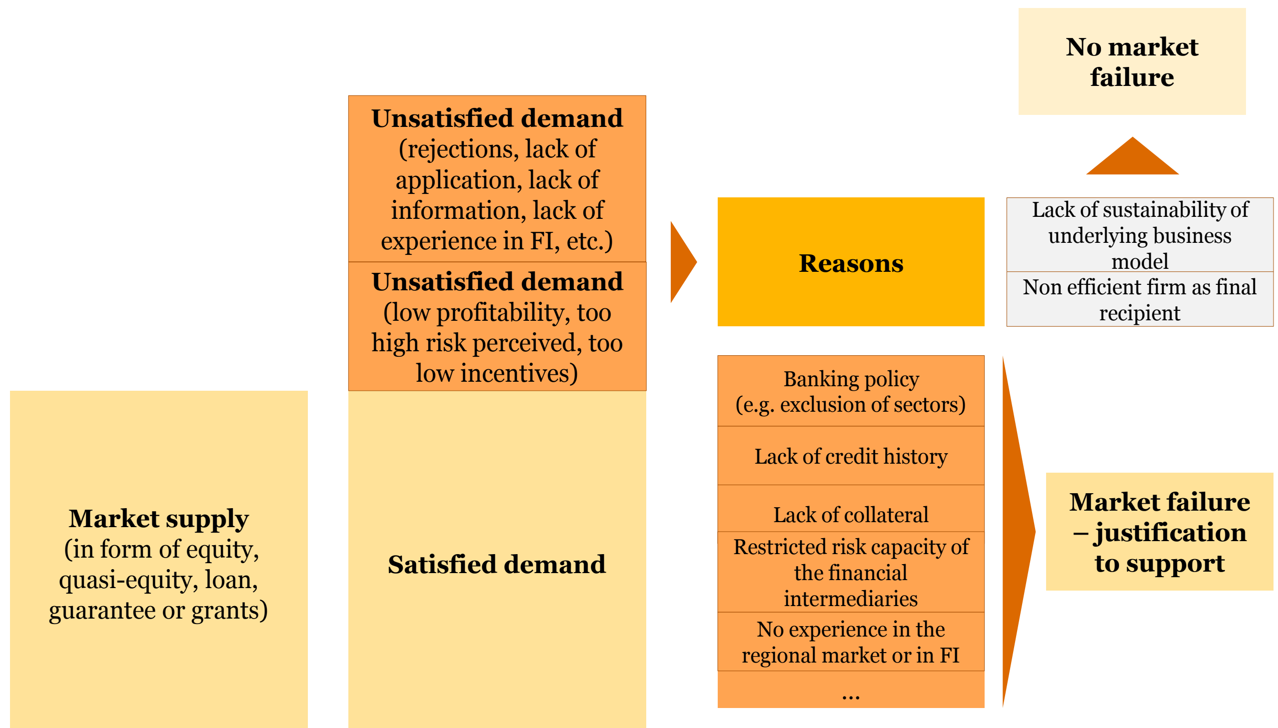
Suboptimal investment situations: underperformance of investment activities, or a situation where the existing investment activity is insufficient to achieve a policy objective.

This analysis allows the Managing Authority (MA) to determine the size of the investment gap to be filled by the FI. This can result from:

- A **viability gap** – in the case where the business plan of a project or of a group of projects demonstrates returns below market level.
- A **financing gap** – in the case where a certain sector or the economy as a whole shows evidence of unmet financing demand.
- A **combination of viability and financing gaps**.

Establishing the evidence of market failure/ suboptimal investment conditions

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.



Establishing the evidence of market failure/ suboptimal investment conditions

The analysis of the investment gap will need to come from different sources.

Literature review and data gathering include:

(i) evaluations of former or running instruments;

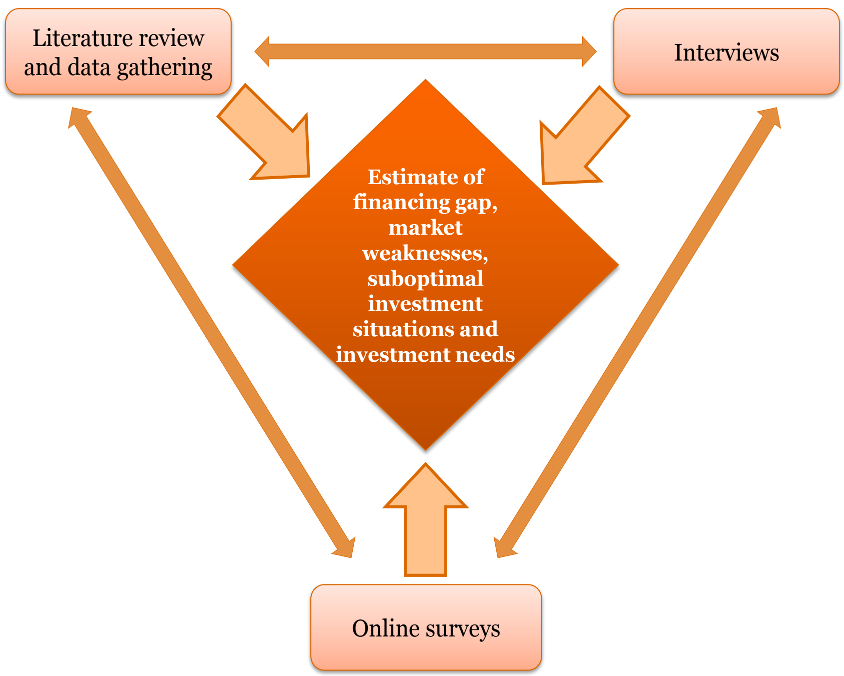
(ii) published statistical data;

(iii) publications from scientific institutions;

(iv) research publications from financial institutions.

Interviews collect qualitative considerations, expert views and information about ongoing decision processes.

Surveys provide high quality indicators (already existing or dedicated new surveys).



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Analysis of market failures: the specificities of SMEs

Volume III

Market problems 1

Identify the market problems existing in the country or region in which the FI has to be established.

- ✓ Analysis of the **national or regional economic environment**
- ✓ Analysis of **market weaknesses** impacting the business environment (e.g. regulatory framework, corporate indebtedness levels, fragmentation of supply chains, innovation)
- ✓ Analysis of the **SME structure and characteristics** (e.g. company size, sector and geographical distribution)

Market failure and suboptimal investment 2

Establish the evidence of market failure, by analysing the gap between supply and demand, and identify suboptimal investment situations.

- ✓ **Demand analysis** (e.g. financial structure of the SMEs, types of investments for which SMEs seek financing, expected number of SMEs seeking finance, average amount of financing needed by SMEs)
- ✓ **Supply analysis** (e.g. existing public and private sources of finance available to SMEs, including existing FIs and grants)

Investment gap 3

Quantify the investment gap to the extent possible.

- ✓ Analysis of the **gap between supply and demand** for financing from SMEs

Focus on the Delegated Regulation: Rules on guarantees delivered through FIs (Article 8)

Where FIs provide guarantees, the following requirements shall be fulfilled:

- **Appropriate multiplier ratio** between the amount of the programme contribution set aside to cover expected and unexpected losses from new loans or other risk-sharing instruments and the value of disbursed new loans or risk-sharing instruments;
- **The multiplier ratio shall be established through a prudent ex ante risk assessment for the specific guarantee product to be offered**, taking into account market conditions, investment strategy of the FI and the principles of economy and efficiency. The *ex ante* risk assessment may be reviewed where justified by changes in market conditions;
- The programme contribution committed to honour guarantees shall reflect the *ex ante* risk assessment;
- If the financial intermediary or the entity benefiting from the guarantees has not disbursed the planned amount to final recipients the eligible expenditure shall be reduced proportionally.

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 (to the extent possible).	

Market assessment for SME access to finance in Rhône-Alpes (France)

Rhône-Alpes market assessment for SME access to finance: Methodology of the study

Literature review

- Review of already existing information on SME financing in Rhône-Alpes (R-A) with a view to identifying and analysing: macroeconomic environment; policy priorities of the MA for 2014-2020; regulatory environment relevant for SMEs and FIs; existing indicators and information on SME financing; lessons learnt (successes and failures) of the past use of FIs.

Stakeholder interviews

- Carry-out interviews with stakeholders involved in SME financing in Rhône-Alpes, targeting both supply-side (financial institutions, policy makers) and demand-side stakeholders.

Online survey

- Survey contained 44 questions related to SME's ability to access finance.
- Sample strategy defined and stratified SMEs according to sectors and size (i.e. micro, small, medium).
- 472 SMEs responded to the survey.

Data analysis

- All the data and information collected through the literature review, stakeholder interviews and online survey was used and assessed in order to validate the findings of the study.

Rhône-Alpes market assessment for SME access to finance: Methodology used to quantify supply

Calculation of the annual supply of the main financial products available to the SMEs over 2014-2016 on the basis of numerous sources of information and market trends and projections.

Overview of financial product supply.

- Analysis considers all the amount provided to the SMEs in R-A for the products where data is available for the most recent years.
- Data disaggregated by SME size (micro, small, medium).
- Products include: microfinance, loans, leasing, export credit, factoring/credit insurance, mezzanine, business angles/venture capital and private equity.

Quantification of the expected supply of financial products over 2014-2016.

Takes into account:

- Supply trends for each product.
- GDP growth forecasts.
- Perception of the development of each market as expressed by regional stakeholders during interviews.

Rhône-Alpes market assessment for SME access to finance: Methodology used to quantify demand

Quantification of the expected demand for finance

- Through the use of the online survey, SMEs provided information for various financial products, including: microfinance, short-term loans, medium and long-term loans and leasing.
- SMEs provide estimates of what amount of finance they expect to require in the future (2014-2016).
- Data was then computed and the demand for the entire population for each category of company calculated.

Rhône-Alpes market assessment for SME access to finance: Quantification results of the market gap

Viable financing gaps for micro, small and medium-size companies concerning loan products in 2014.

Product	Micro enterprises (mEUR)	Small and medium enterprises (mEUR)
Short-term loans, overdrafts, credit lines	Between 79 and 87	Between 117 and 129
Medium- and long-term loans	Between 149 and 165	Between 245 and 271
Total	**Between 228 and 252**	**Between 362 and 400**

Qualitative information

- The financing gaps for micro-enterprises suggest the unwillingness of the commercial banks to finance this size-category and the limited resources of the microfinance institutions.
- Many small companies face difficulties that are similar to micro-enterprises but have no access to microfinance institutions.
- Medium-sized companies encounter fewer difficulties, which are mainly related to costs and contractual conditions required by the suppliers of finance.

Rhône-Alpes market assessment for SME access to finance: Recommendations

Observation	Recommendation
There are many FIs in the region but SMEs are not aware of them or may find their application difficult.	**Rationalisation of the existing FIs** to increase their impact and raise the awareness of their existence, purpose and accessibility.
Existence of financing gaps for short and long-term loans for all size categories of SMEs.	Development of specific **guarantee products** or complementing the existing products to facilitate access to short and long-term debt for investment purposes.
Three types of companies with possible equity financing needs identified: (1) non-innovative, newly-created, micro-enterprises; (2) innovative SMEs of all sizes; (3) mature SMEs with investment and/or turnaround strategies.	**Improve access to equity financing for various types of SMEs.**
Increased demand for microfinance versus limited operational capacity of microfinance providers whose business model depends mostly on public subsidies	**Support the provision of microfinance products** and internal capacity of Microfinance Institutions.

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Rhône-Alpes market assessment for SME access to finance: Recommendations

Observation	Recommendation
Use and disbursement of FIs have to be aligned with the grant schemes in the region to create complementarities and synergies instead of overlaps and confusion.	Consider a **comprehensive strategy for the use of grants and FIs** funded by the ESI Funds.
Most of the entrepreneurs in the region do not have enough financial knowledge, and so they are not well-equipped to negotiate with financial institutions.	Support the initiatives that provide **mentoring and tutelage** to business owners and directors.
The rationalisation of the FIs in the next programming period could help explore the strong potential displayed by the region to attract more private investors and increase the availability of funds for SMEs.	**Optimise the leverage potential** of the FIs in the region.

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 envisaged FI, 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.

Assessment of the value added of the FI

Value added 1	Consistency 2	State aid implications 3
Identify the quantitative and qualitative dimensions of the value added of the envisaged FI and compare it with the added value of alternative approaches	Assess the consistency of the envisaged FI with other forms of public intervention.	Consider the State aid implications of the envisaged FI.

The identified market failure or suboptimal investment situation and the corresponding investment needs can be addressed in several ways, particularly through 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 MAs to demonstrate that the envisaged FI has a higher added value than possible alternatives, thus being the most efficient use of ESIF resources.

Assessment of the value added of the FI

Identification of the quantitative 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:

- Leverage of the EU (ESIF) contribution of additional contributions to the investment at all levels down to the final recipient.
- Intensity of the subsidy of the FI.
- The revolving effect allowing the recycling of funds.
- Additional contributions coming from the final recipients.

Assessment of the value added of the FI

Identification of the qualitative 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 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.
- 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.
- Overcoming a specific market failure (e.g. lending capacity of the financial sector, which gives preference to a specific group of support schemes).
- Taking advantage of the expertise of financial institutions in delivering support to final recipients.

Assessment of the value added of the FI

Consistency with other forms of public intervention

MAs must consider conflicting elements or overlaps with other forms of public interventions, including grants and interventions at other political levels.

- Policy orientations and legislative/regulatory background.
- Fiscal interventions.
- Other public financial interventions (e.g. grants, other FIs)

Extra attention should be taken to ensure the consistency of the envisaged FI with any existing revolving funds.

State aid implications

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.

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

State aid implications

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.

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.	

Additional public and private resources to be potentially raised by the FI

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);

As appropriate, 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

Additional public and private resources to be potentially raised by the FI

Identification of additional resources 1	Leverage of the FI 2	Preferential remuneration 3
Identify the additional public and private resources to be potentially raised by the FI and assess indicative timing of national co-financing and of additional contributions (mainly private).	Estimate the leverage of the FI.	As appropriate, assess the need for, and level of preferential remuneration based on experience in the relevant markets.

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.

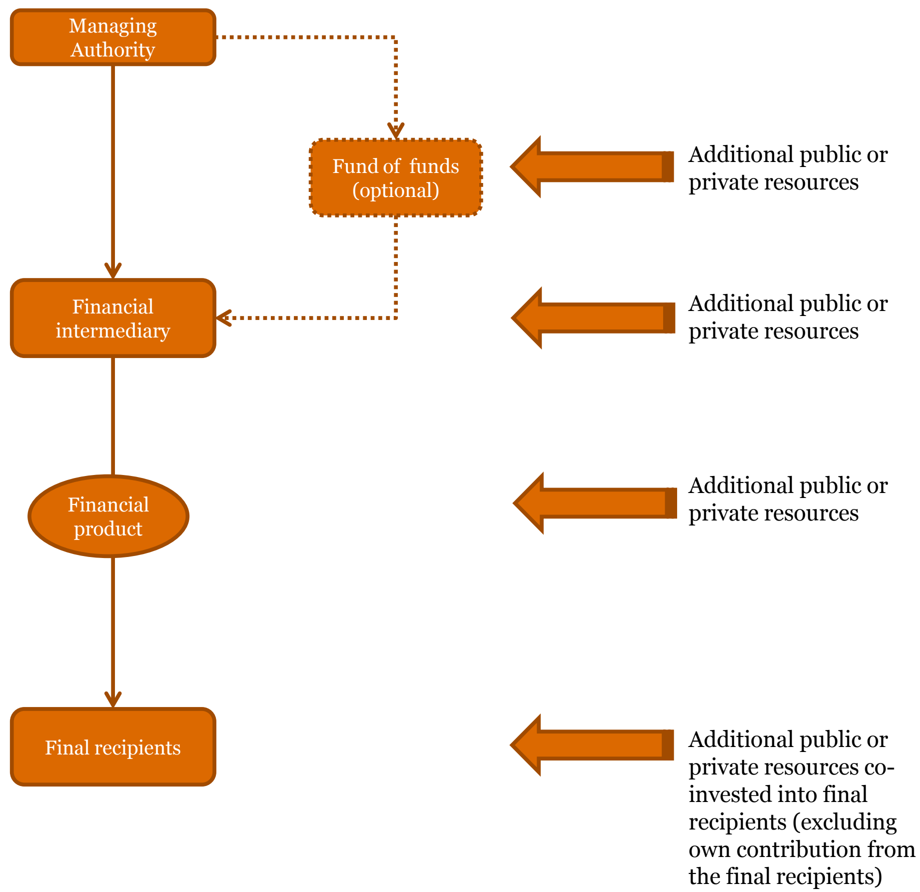
The private investments have to be aligned with public policy goals.

Additional public and private resources to be potentially raised by the FI

Identification of public and private resources potentially raised by the FI

MAs need to be aware that additional public and private resources may:

- Come from different stakeholders.
- Be financial as well as in-kind contributions.
- Be raised at all levels of the FI down to the final recipients' level.



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Additional public and private resources to be potentially raised by the FI

Estimation of the leverage of the FI

Leverage is the calculation of the estimated public and private resources raised divided by the nominal amount of ESIF expenditure.

The calculation of leverage follows the rules of the Regulation:

- own contributions from the final recipient are not taken into account;
- the face value of the expenditure is counted irrespective of the financial nature (e.g. repayable or non-repayable);
- future investment cycles are not considered if there are any (e.g. revolving instruments).

The ex-ante assessment has to consider the different sources of additional public and private resources, the different options to structuring the envisaged FI. It has to conclude on the expected leverage effect. Such a target may be conditional to the economic environment.

Additional public and private resources to be potentially raised by the FI

Attracting additional private resources

To effectively attract and monitor 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.
- Mechanisms to align private interests with the policy goals.

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Additional public and private resources to be potentially raised by the FI

As appropriate, assessment of the need for preferential remuneration

CPR and State aid schemes provide for two possibilities for the alignment of interest with private partners:

- *Pari passu* - private investor contributes with own funds in the same risk position as the EU contribution

- *Preferential remuneration* - 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.

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Additional public and private resources to be potentially raised by the FI

For 2014-2020, MAs may consider, as appropriate, using the following types of preferential remuneration schemes:

- **Asymmetric profit-sharing**
  (e.g. the hurdle rate is not *pari passu* to the investors in infrastructure 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 within the limits established by the Delegated Act to the CPR (e.g. microfinance).

- **Preferential exit regime**
  (e.g. risk taking on the not sold engagements in energy efficiency funds).

Focus on the Delegated Regulation: Thresholds for management costs and fees (Article 13)

[Please note: the thresholds might be exceeded if a competitive tender proves such a need]

Bodies implementing Funds of Funds

Management costs and fees which can be declared as eligible expenditure shall not exceed the sum of:

- 3% of the programme contributions paid to the Fund of Funds for the first 12 months after the signature of the funding agreement, 1% for the next 12 months 0.5% per annum thereafter; and
- 0.5% per annum of programme contributions paid by the Fund of Funds to financial intermediaries.

Focus on the Delegated Regulation: Thresholds for management costs and fees (Article 13)

[Please note: the thresholds might be exceeded if a competitive tender proves such a need]

Bodies implementing FIs

Management costs and fees which can be declared as eligible expenditure shall not exceed :

- **Base remuneration**:

- **Equity FIs**: 2.5% per annum of programme contributions committed under the funding agreement for the first two years after the signature of the funding agreement, thereafter 1% per annum;

- **All other FIs**: 0.5% per annum of programme contributions paid to the FI.

Focus on the Delegated Regulation: Thresholds for management costs and fees (Article 13) (cont'd)

- **Performance-based remuneration:**

– **Equity FIs:** 2.5% per annum of the programme contributions paid to final recipients as equity or re-invested resources attributable to programme contributions, which have yet to be paid back;

– **Loan FIs**: 1% per annum of the programme contributions paid to final recipients as loans and re-invested resources attributable to programme contributions, which have yet to be paid back;

– **Guarantees FIs**: 1.5% per annum of the programme contributions committed to outstanding guarantee contracts and re-used resources attributable to programme contributions;

– **Micro-credit FIs**: 1.5% per annum of the programme contributions paid to final recipients as microcredit or re-invested resources attributable to programme contributions, which have yet to be paid back;

– **FIs providing grants, interest rate subsidies or guarantee fee subsidies:** 0.5 % of the grant amount paid for the benefit of final recipients.

Focus on the Delegated Regulation: Thresholds for management costs and fees (Article 13) (cont'd)

The aggregate amount of management costs and fees over the eligibility period shall not exceed the following limits:

- **Fund of funds:** 7% of the total amount of programme contributions paid to the fund of funds;
- **Equity FIs**: 20% of the total amount of programme contributions paid to the financial instrument;
- **Loan FIs**: 8% of the total amount of programme contributions paid to the financial instrument;
- **Guarantee FIs**: 10 % of the total amount of programme contributions paid to the financial instrument;
- **Micro-credit FIs**: 10 % of the total amount of programme contributions paid to the financial instrument;
- **FIs providing grants, interest rate subsidies or guarantee fee subsidies**: 6 % of the total amount of programme contributions paid to the financial instrument.

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.	
As appropriate, assessment of the need for, and level of, preferential remuneration based on experience in relevant markets.	

Coffee Break

11:00 – 11:15

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.

Lessons learnt

Information gathering 1	Success factors 2	Performance enhancement 3
Gather relevant available information on past experiences particularly those that have been set up in the same country or region in which the envisaged FI will be established.	Identify the main success factors and pitfalls of these past experiences.	Use the collected information to enhance the performance of the envisaged FI (e.g. mitigate and reduce risk of the FI, ensure a faster set-up and roll-out of the FI.

Capturing the knowledge learned in the course of activities is part of a continuous improvement principle. These can include for instance:

- FIs using structural funds or other public interventions implemented in the region/country in the past.
- Any evaluation (ex-ante, interim or ex-post) of similar FIs or public interventions.
- FIs implemented in other regions/countries, focusing on similar sector, target market and/or financial product.

Lessons learnt

Identifying success factors and pitfalls of past experiences

Useful data might cover the following domains:

- Assumptions made during the design phase of the FI.
- Use of EU Programmes and instruments set up at EU level.
- Governance and structure.
- Fees and life cycle costs of the FI.
- Investment strategy.
- Monitoring and control.

Lessons learnt

Applying lessons learnt to enhance the performance of the FI

Specific tools such as Risk Analysis or SWOT Analysis may be employed to systematically apply lessons learnt in design and implementation of new FI.

	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.

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Lessons learnt

Applying lessons learnt to enhance the performance of the FI

The main steps of a **risk analysis** on the implementation of the FI include:

- **Risk identification**
  Listing different risks and dependencies associated with implementing the FI.

- **Risk assessment**
  Systemic evaluation of the probability and potential impact of the identified risk occurring.

- **Risk response**
  The definition of the appropriate required response to the risk e.g. avoidance, mitigation, acceptance.

- **Risk monitoring and control**
  Tracking and reviewing identified risks and associated risk response, as well as identifying and assessing any new risks on an on-going basis.

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Lessons learnt

Applying lessons learnt to enhance the performance of the FI

Risk category	Examples of types of risks
Executive and governance risk	Lack of commitment, support or sponsorship; insufficient alignment with other initiatives
Management risk	Insufficient project/programme management; unsatisfactory planning, monitoring or controls; inadequate scope; or inappropriate decision-making process
Financial risk	Credit risk (defaulting loans or mezzanine loans, defaulting underlying loans covered by guarantees), counterpart risk (final recipient or financial intermediary), treasury risk, or operational risk Costs of the FI
Organisational risk	Inadequate organisational alignment; change management; insufficient communication; lack of competences; insufficient staffing; lack of training; ineffective business continuity plan; or IT risks (related to hardware, software, security, availability, disaster recovery, etc.)

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).	

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.

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Proposed investment strategy

Level of Detail 1	Scale and Focus of FI 2	Additional Analysis 3
Define the level of detail for the proposed investment strategy maintaining a certain degree of flexibility.	Define scale and focus of the FI consistently with the results of the market assessment and the value added assessment, in particular by selecting the financial product to be offered and the target final recipients.	Define the governance structure of the FI, by selecting the most appropriate implementation arrangements and the envisaged combination with grant support.

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.

After the development of the proposed investment strategy, MAs should have a preliminary definition of the scale and focus, as well as the implementation arrangement, for the envisaged FI.

Proposed investment strategy

	Aim	Requirements of Article 37 (2)(e) CPR
Scale and focus of the FI	How is the FI going to address the identified market needs?	➢ Financial products to be offered. ➢ Final recipients targeted.
Governance structure	What is the most efficient structure to reach the objectives of the FI?	➢ Examination of the options for implementation arrangements within the meaning of Article 38. ➢ Envisaged combination with grant support as appropriate.

Proposed investment strategy

Phase 1: Defining the scale and focus of the FI

Where do we stand?

The Programme has provided an indication of the amount of ESIF resources to be delivered though FIs under a specific priority. The market assessment has identified market failures or suboptimal investment situations. The first phase of preparing the proposed investment strategy involves defining the **scale and focus of the FI**, in order to ensure that the envisaged FI will effectively address the market needs.

- Ensure consistency with the outcome of the market assessment and of the value added assessment
- Select the most appropriate financial product
- Select targeted final recipients

Phase 2: Defining the governance structure of the FI

Where do we stand?

The Managing Authority is confident that the envisaged FI will effectively address the market needs. What needs to be done in a second phase is to ensure that the most efficient **governance structure** is selected, taking into account the specificities of the situation in the country or region.

- Analyse the pros and cons of the different options for implementation arrangements
- Define the co-financing structure, in particular the possible combination of the FI with grants

Proposed investment strategy

The proposed investment strategy should provide the rationale behind the MA's choice of financial product to be provided, such as:

- Guarantees
- Loans
- Mezzanine (quasi-equity)
- Equity and venture capital

Managing authorities can either decide to provide only one type of financial product through the FI or several types.

Proposed investment strategy: Financial products overview

Guarantees

Example:

SMEs lacking collateral to gain access to debt finance on reasonable terms.

Advantages	Disadvantages
Addresses specific risk capacity constraints in a given market segment	The main problem of all unfunded instruments is the control of the liabilities in case the guarantees become striking
Actual disbursement takes place only in case of default	Proving the incentive effect of FIs using this type of financial product might be more complex than that of alternatives
Can consolidate the financing structure of a large number of projects with relatively little resources	Assessing the value added takes more effort
Can reduce the risk premium for the request of further financing	

Proposed investment strategy: Financial products overview

Loans

Example:

Purchases (plant, equipment, raw materials etc.)

Advantages	Disadvantages
Addresses specific liquidity and risk capacity constraints in a given market segment	Funded products such as loans require more initial support than unfunded products such as guarantees.
Limited management cost	When a grant scheme is transformed into a loan scheme, particular efforts are needed to establish a realistic PD and LGD ratio.

Proposed investment strategy: Financial products overview

Mezzanine (quasi-equity)

Example:

Growing SMEs, mid-caps, infrastructure projects.

Advantages	Disadvantages
Can bridge the equity gap needed for leveraging additional loans	High risk borne by the financial intermediary (yet reduced compared to equity)
Reduced exposure to loss in case of insolvency (compared to equity)	No active role in the project management or the management of the target companies
	High transaction costs related to the complexity of these products

Proposed investment strategy: Financial products overview

Equity and venture capital

Example:

Development phase of SMEs, higher risk projects.

Advantages	Disadvantages
Active role in project management and access to shareholder's information	High risk borne by the financial intermediary
Can have high impact per EUR invested (projects with sufficient level of equity are able to gather other types of finance)	Venture capital (early stage) investments are time-consuming and cost intensive

Proposed investment strategy: Financial products overview

Equity and venture capital

Example:

Development phase of SMEs, higher risk projects.

Advantages	Disadvantages
Active role in project management and access to shareholder's information	High risk borne by the financial intermediary
Can have high impact per EUR invested (projects with sufficient level of equity are able to gather other types of finance)	Venture capital (early stage) investments are time-consuming and cost intensive

Defining the implementation arrangements of the FI

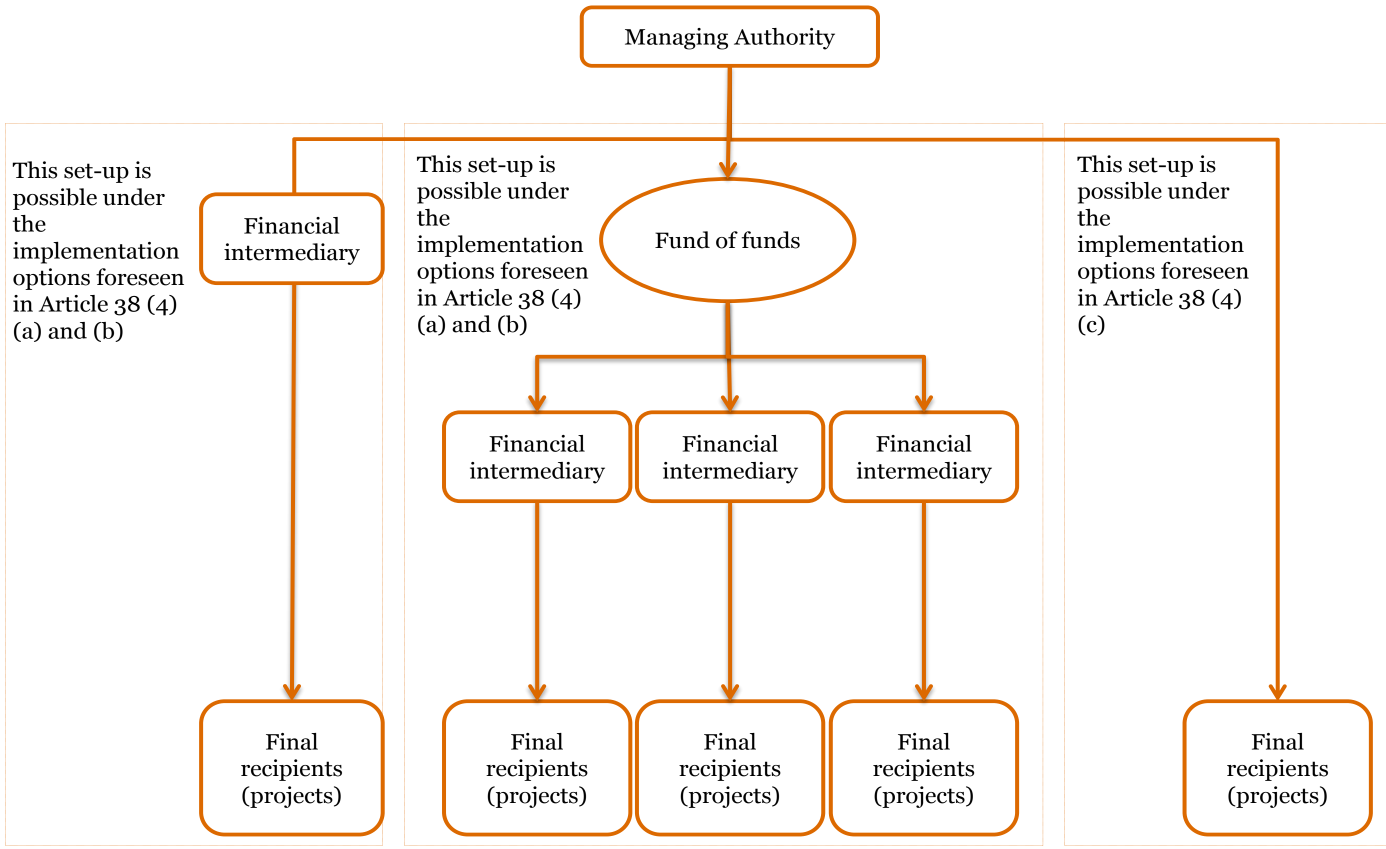
Four implementation options

- Contributing with ESIF resources to EU-level FIs.
- Investing in the capital of an existing or newly created legal entity.
- Entrusting implementation tasks to another entity.
- Undertaking implementation tasks directly.

Two FI typologies

- Off-the-shelf FIs.
- Tailor-made FIs.

Defining the implementation arrangements of the FI



Defining the implementation arrangements of the FI

	Centrally managed by EC	Shared management
Thematic Objective 1 Research, Development & Innovation	**Horizon 2020**	**Instruments under ESI funds** ***Off-the-Shelf instruments*** ***Tailor-made instruments***
Thematic Objective 3 Competitiveness of SMEs	**Competitiveness & SMEs (COSME)**	
Thematic Objective 4 Supporting the shift towards low-carbon economy in all sectors **Thematic objective 5** Promoting climate change adaptation, risk prevention and management **Thematic objective 6** Preserving and protecting the environment and promoting resource efficiency	**Life Programme**	
Thematic Objective 7 Sustainable transport and network infrastructures	**Connecting Europe Facility (CEF)**	
Thematic Objective 9 Promoting social inclusion and combating poverty	**Social Change and Innovation** **Creative Europe**	
Thematic Objective 10 Education, skills and lifelong learning	**Erasmus for All**	

Defining the implementation arrangements of the FI

Investment in the capital of an existing or newly created legal entity dedicated to implement FIs

This option is appropriate when:

- The FI is conceived to be implemented by a body where an injection to the own funds of the body is necessary or supportive to achieve the objectives.
- The FI is conceived to be implemented by one clearly identified body, with well-defined objectives and structure. This does not prevent the body implementing the fund of funds from delegating part of the implementation tasks to other financial intermediaries (per Article 38 (5) CPR).
- A fund of funds structure is chosen as a body dedicated to implement FIs consistent with the ESI Funds.

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Defining the implementation arrangements of the FI

Entrust implementation tasks to another entity.

MAs can appoint a **financial institution for public interest under public control** to act as a:

- Manager of FoF (body implementing a fund of funds); or
- Manager of a specific FI/products (financial intermediary).

This is normally a national or regional development bank or promotional bank or promotional agency, or an international financial institution (IFI), or the EIB.

The implementation of the FI can also be entrusted to **other bodies subject to public or private law** such as agencies, PPP funds, commercial banks and other bodies. The entity has to be selected through a selection process in accordance with applicable EU and national rules.

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Defining the implementation arrangements of the FI

Direct implementation of the FI by the MA

This option can be used exclusively when the financial product to be provided by the FI is a loan or a guarantee. May be appropriate if the MA has significant in-house experience and knowledge of FIs.

The ***advantages*** of this option are as follows:

- The possibility to draw non-grant finance from ESI Funds without establishing a dedicated FI, which could be complex and potentially time-consuming.
- Avoids introducing additional layers of reporting and monitoring.
- Leverage the competences when the MA already holds in-house expertise.

However, ***constraints*** may include:

- Para-banking may not be allowed by national law.
- No advance payment to the FI.
- Payments that will follow the grant model.
- Management costs not eligible, but can be covered by OP TA.

Choice of FI type

Tailor made vs. off-the-shelf instruments

Once the choice of implementation option is made and the establishment of an FI at the national, regional, transnational or cross-border levels is decided, MAs face the choice of the most appropriate FI typology.

Off-the-shelf instruments may be appropriate when:

- The available instruments fit the market needs and the targeted final recipients identified during the ex-ante assessment phase.
- A proven model is important for all stakeholders involved.
- The MA has limited resources to commit for the development of a specifically designed FI.
- A fast roll-out of the FI is crucial, for instance where anti-crisis interventions are envisaged, e.g. access to finance for SMEs.

Choice of FI type

Tailor made vs. off-the-shelf instruments

Tailor-made instruments may be appropriate when:

- The market needs and the targeted final recipients are very specific and cannot be covered by either EU-level or off-the shelf FIs.
- MAs are already familiar with and have the resources for the setting up and use of FIs.
- The MA wants to address a field where a broad experience is already built up in the regions (e.g. urban development funds, innovation finance) and/or no off-the-shelf is defined yet.
- An ‘advanced’ model of risk-sharing with private and public partners is envisaged.
- A grant-loan combination (or broader a combination of grants with ‘bankable instruments’) is envisaged, where tailor-made is the only way forward.

Envisaged combination with grant support

- Article 37 (7) of the CPR states that FIs may be combined with grants.
- Grants as technical support, interest rate subsidies and guarantee fees subsidies, can be combined with the FI in **a single operation** if they are directly related to the FI and target the same final recipients.
- However, separate records must be kept for each form of support.
- Alternatively, final recipients supported by an ESI Fund FI may also receive assistance from another ESI Funds priority or Programme or from another instrument supported by the budget of the Union
- This means that the two types of support form part of two **separate operations** with distinct eligible expenditures.
- Again, separate records shall be maintained for each source of assistance.

Envisaged combination with grant support

The main advantages of combining FIs with grant support include the following:

- Facilitating the **transition** from a former grant regime towards revolving FIs, thereby gradually moving away from grant dependency.
- Flexibility in the choice of the appropriate mix of grant and FIs, depending on the specific needs of the targeted final recipients and their **access to finance**, where the FI may be more supportive than a grant irrespective of a lower intensity of subsidy.
- Effectiveness of EU public spending by promoting and achieving to the extent possible a **lower intensity of subsidy** than with grants.

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).	

Lunch Break

13:00 – 14:00

Specification of expected results consistent with the 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.

Specification of expected results and the corresponding measurement indicators

Expected Results 1	Strategic Objective 2	Monitoring System 3
Establish and quantify the expected results of the FI by means of result indicators, output indicators and FI-performance indicators.	Specify how the FI contributes to deliver the strategic objectives for which it is set up.	Define the monitoring system in order to efficiently monitor the FI, facilitate reporting requirements and identify any improvement areas.

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), ESI Funds and to the overall objective(s) of the related Programme(s).

This should provide MAs with a good framework to monitor progress and assess the effectiveness of the FI.

Specification of expected results and the corresponding measurement indicators

- Establish and quantify the expected results of the FI.
- Specify how the FI will contribute to deliver its strategic objectives.
- Define the monitoring system.

- Measurement of indicators
- Other information or data
- Evaluation reports

MONITORING
Analysing, arbitrage, making decisions

- Reporting
- Communication
- Corrective/preventive actions, if necessary

Have MAs 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.	

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.

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

Trigger values 1	**Data enclosure** 2
Define the conditions and/or the timing in which a revision or an update of the ex-ante assessment is needed.	Enclose this information in the monitoring and reporting provisions established in the previous step of the analysis.

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.

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.	

Sector specific methodologies: Overview

Sector-specific methodologies:
Complementarity with the General Methodology

There is a close complementarity link between the General Methodology and the different specific methodologies.

While the General Methodology applies to all sectors and Thematic objectives, the specific methodologies highlight the peculiarities that should be taken into account when conducting an ex-ante assessment for an FI targeting:

- **Territorial and urban development**
- **Low-carbon economy**
- **SMEs**
- **RTDI**

The specific methodologies mainly highlight sector specificities concerning:

- The assessment of market failure and suboptimal investment situations.
- The development of the proposed investment strategy for the envisaged FI.

Sector-specific methodologies:
Urban and territorial development

Volume V

Integrated approaches to territorial development, including financial instruments for urban development.

Viability gap

1

- Public goods and non-excludability;
- Negative externalities and spillovers;
- Missing markets for merit goods;
- High sunk / non-recoverable costs in brownfield development;
- Property rights;

Financing gap

2

- Insufficient supply of adequate financial products;
- Lack of access to Tier 1 banks
- Asymmetric information including principal/agent problems.

Sector-specific methodologies:
Urban and territorial development

Volume V

Integrated approaches to territorial development, including financial instruments for urban development.

Some of the specific features of FIs for urban and territorial include:

- Projects can be structured in different forms, such as PPPs, fully private and fully public investments.
- Possibility to implement the FI using CLLD and ITI approaches.
- Different possible territorial focus – city, urban area, or another defined territory.
- Potential use of contributions in-kind to provide resources alternative to cash to capitalise FI for urban and territorial development.

Financial instruments for territorial development in Slovakia

Financial instruments for territorial development in Slovakia

Task 1: General considerations and guidance on the use of FIs covering Thematic Objectives in Slovakia

Task 2: Specific guidance and analysis on the use of FIs in the three main areas of application

European Investment Bank

Energy, infrastructure and waste projects including energy efficiency (EE) in large projects

Municipal and urban development including EE in buildings

SMEs including Social Economy Enterprises and energy efficiency in companies

Financial instruments for territorial development in Slovakia

Scope of the assessment

Sectors: Energy, Infrastructure and Waste; Municipal and Urban Development.

Amount of funds:

- Total funds allocated to Operational Programmes (OPs) amount to nearly **EUR 16bn**.
- Total funds allocated to the 5 OPs (Research and Innovation, Integrated Infrastructure, Human Resources, Quality of Environment and Integrated Regional), that can finance FIs amount to approx. EUR 13.5bn.
- The present assignment covers **4 OPs for approx. EUR 11bn** (see the OP coverage on the next slide).

Access to all kind of financial products, e.g.: grants, loans, equity, mezzanine, guarantees.

Time period: previous years (following the financial crisis), current situation and the next 3 years in the context of the programming period 2014-2020. Relevant elements of the pre-crisis period will be also considered.

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Financial instruments for territorial development in Slovakia

Scope of the assessment

Investment Area	OPs	TOs
Energy, Infrastructure and Waste Management - EE in Large Projects	OP Integrated Infrastructure OP Environmental Quality	**TO 4** supporting the shift towards a low-carbon economy in all sectors **TO 5** promoting climate change adaptation, risk prevention and management **TO 6** protecting environment and promoting resource efficiency **TO 7** promoting sustainable transport and removing bottlenecks in key networks
Municipal Development including EE in Buildings	OP Environmental Quality OP Integrated Regional OP Effective Public Administration OP Human Resources	**TO 4** supporting the shift towards a low-carbon economy in all sectors **TO 5** promoting climate change adaptation, risk prevention and management **TO 6** protecting environment and promoting resource efficiency **TO 7** promoting sustainable transport and removing bottlenecks in key networks **TO 9** promoting social inclusion and combatting poverty **TO 10** Investing in education, training and vocational training for skills and lifelong learning **TO 11** Enhancing institutional capacity of public authorities and stakeholders and public administration

Financial instruments for territorial development in Slovakia

Task 1 – 'General considerations and guidance' on the use of FIs covering Thematic Objectives in the Slovak Republic

- Review of already existing analysis on current instruments in Slovakia or with similar instruments implemented elsewhere.
- OP consistency with ESI funds ex-ante conditionalities.
- Description of the integrated approach for the delivery of FIs in Slovak Republic and the instruments proposed by the Ministry of Finance.

Task 2 – 'Specific guidance and analysis' on the use of FIs in two of the three main areas of application

- Analysis of market failures, sub-optimal investment situations and investment needs.
- Assessment of the value added of the FIs in consistence with State aid implications.
- Assessment of additional public and private resources to be potentially raised by the FIs.
- Review of the lessons learnt from the past or from similar existing funds.
- Development of a proposed investment strategy.
- Specification of expected results consistent with the relevant programme.

Sector-specific methodologies:
Low-carbon

Volume IV

Supporting the shift towards a low-carbon economy (Thematic objective 4)

Structural economic failures

1

- Negative externalities
- Tragedy of the commons and non-excludability of public goods

Demand-side failures

2

- Split incentives and principal-agent problems
- Asymmetric information
- Small size projects and high transaction costs
- Scarcity of investment-ready projects

Supply side failures

3

- Lack of access to finance and high project risks
- Lack of capacity and experience in the supply chain

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Sector-specific methodologies:
Low-carbon

Volume IV

Supporting the shift towards a low-carbon economy (Thematic objective 4)

Likelihood of the different types of market failure	Energy Efficiency	Renewable Energy	Low carbon urban infrastructure
Negative externalities	High	High	High
Tragedy of the commons/public goods	High	Low	Low
Split incentives/principal-agent issues	High	Medium	Medium
Asymmetric information	High	Low	Low
Small size projects/high transaction costs	High	High	High
Scarcity of investment-ready projects	Low	High	High
Lack of access to finance/high project risks	High	High	High
Lack of capacity and experience in the supply chain	High	High	High

Sector-specific methodologies:
Low-carbon

Volume IV

Supporting the shift towards a low-carbon economy (Thematic objective 4)

Project typologies	Typical financial products
Energy efficiency and renewable energy in SMEs	• Grant support for energy audit and verification • Soft loan or guarantee mechanism that enables longer-term maturity of investment or lower interest • Cash back incentive related to planned EE savings
Energy efficiency and renewable energy in buildings	• Guarantee products • EPCs for measures with a shorter payback period • Credit lines for on-lending to EE projects • Mezzanine debt facilities • Grants for capital intensive measures with longer payback periods or to address social issues • Technical support
Energy efficiency and renewable energy in urban infrastructure	• Subsidised loans combined with grants to support longer payback periods or projects with low IRRs and high ERRs • Equity products for new technologies

Sector-specific methodologies:
SMEs (incl. agriculture, microcredit)

Volume III

Enhancing the competitiveness of SMEs, including agriculture, microcredit and fisheries (Thematic objective 3)

Poor business environment

1

- Limited business services for SMEs;
- Inefficient management methods;
- Limited access to markets and clients;
- Difficulties in regulatory compliance;
- Difficulties in attracting talent and skills;
- Limited territorial attractiveness for investments;
- Lack of physical and financial infrastructure.

Limited access to finance

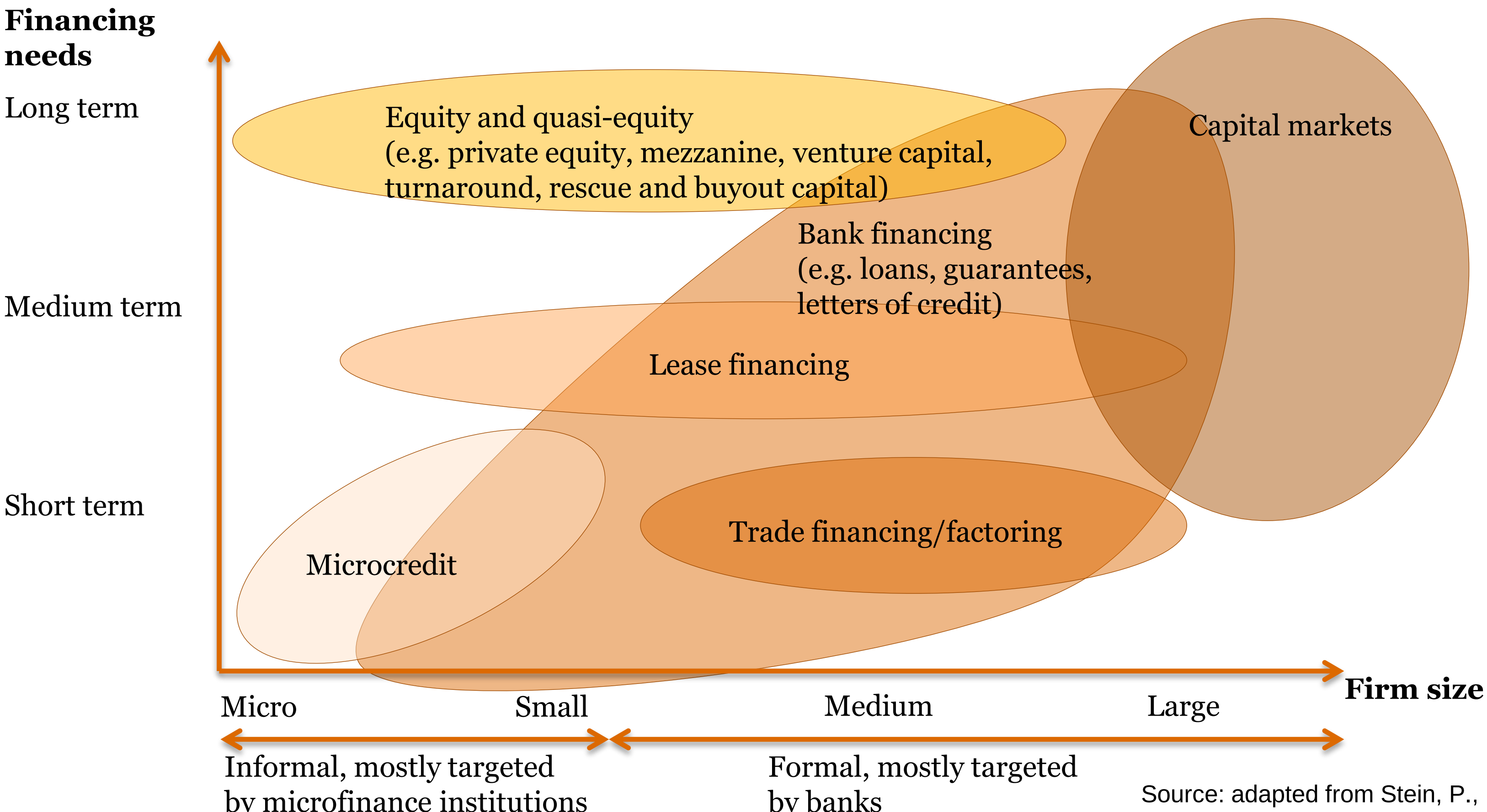
2

- Insufficient supply of adequate financial products;
- Asymmetric information including principal/agent problems;
- High transaction costs;
- Insufficient capacity to provide collateral;
- Insufficient or unpredictable cash flow.

Sector-specific methodologies:
SMEs (incl. agriculture, microcredit)

Volume III

Map of non-grant financing options relative to SME size



Source: adapted from Stein, P., Goland, T., Schiff, R. (2010)

Sector-specific methodologies:
SMEs (incl. agriculture, microcredit)

Volume III

Enhancing the competitiveness of SMEs, including agriculture, microcredit and fisheries (Thematic objective 3)

The SME methodology also contains dedicated chapters on financial instruments focused on:

- Agriculture
- Fisheries and aquaculture
- Microcredit

These chapters focus on sector specificities related to market analysis, State aid, final recipients, potential intermediaries and suitable financial products.

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Sector-specific methodologies:
Research, Development & Innovation

Volume II

Strengthening research, technological development and innovation (Thematic objective 1)

Poor business environment

1

- Limited access to talent and qualified labour force;
- Complexity and the cost of protecting intellectual property rights;
- Lack of research infrastructure for public and private researchers;
- Lack of coordination between fundamental research and the needs of the productive sector;

Limited access to finance

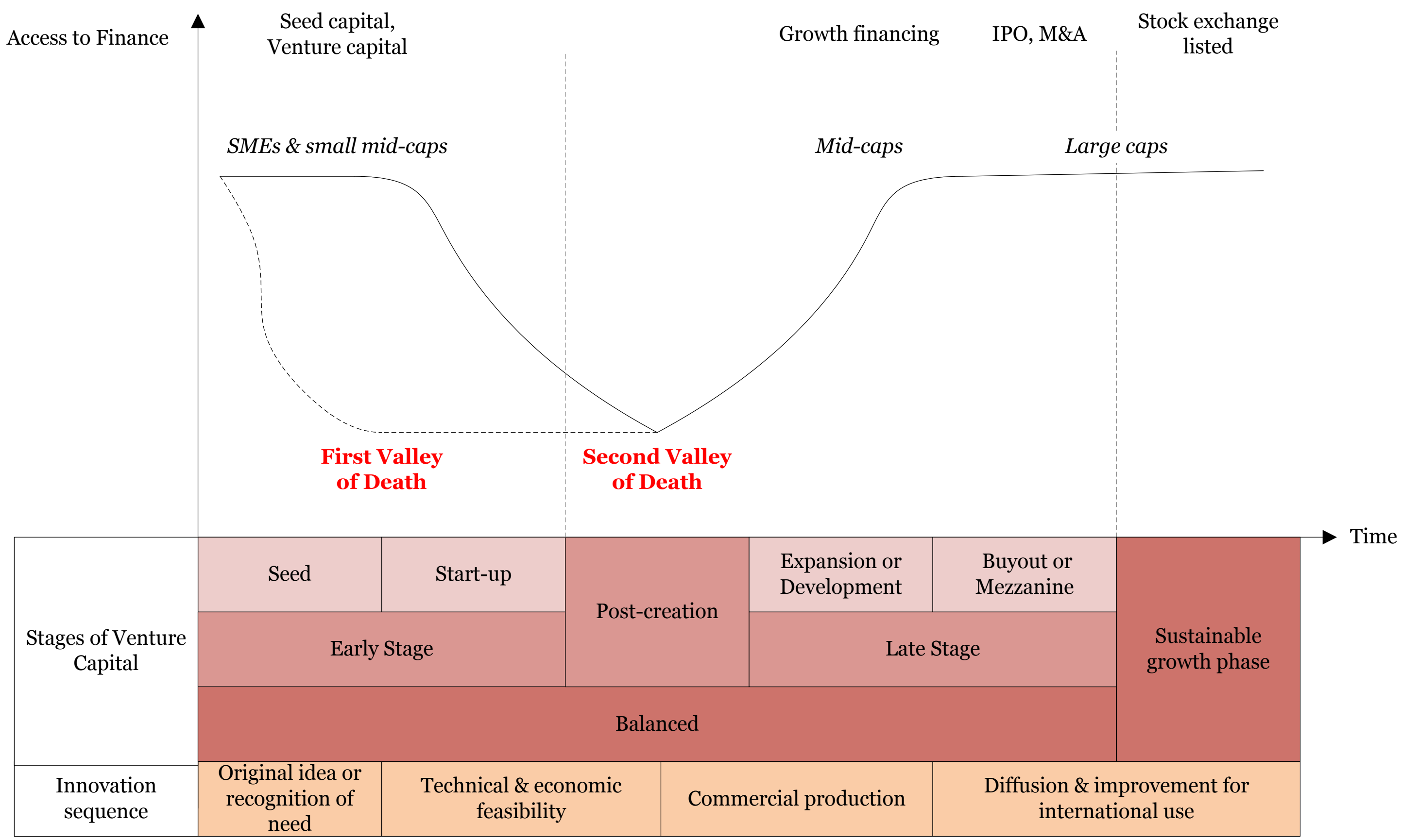
2

- Insufficient supply of adequate financial products;
- Asymmetric information including principal/agent problems;
- Knowledge externalities and spillovers;
- Insufficient capacity to provide collateral;
- Insufficient or unpredictable cash flow.

Sector-specific methodologies:
Research, Development & Innovation

Volume II

The “Valleys of death”



Source: PwC (2012)

Sector-specific methodologies:
Research, Development & Innovation

Volume II

Investment priorities linked to RTDI in the different ESI Funds

ESI Fund	Thematic objectives	Investment priorities linked to RTDI
ERDF	T.O. 1	• Promoting business investment in innovation and research; • Developing links and synergies between enterprises, R&D centres and higher education; • Enhancing research and innovation (R&I) infrastructure and capacities to develop R&I excellence and promoting centres of competence.
	T.O. 3	• Promoting entrepreneurship in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators; • Developing and implementing new business models for SMEs, in particular for internationalization; • Supporting the creation of advanced capacities for product and service development; • Supporting the capacity of SMEs to engage in growth and innovation processes.
EAFRD		• Fostering innovation, cooperation, and the development of the knowledge base in rural areas; • Strengthening the links between agriculture, food production and forestry and research and innovation, including for the purpose of improved environmental management and performance.
EMFF		• Fostering innovative, competitive and knowledge based fisheries and aquaculture including related processing; • Support to strengthening technological development, innovation and knowledge transfer.

Sector-specific methodologies:
Research, Development & Innovation

Examples of past experience with revolving finance in RTDI

Financial Instrument	Description
Risk Sharing Instrument for Innovative Research oriented SMEs & Small Mid-Caps (RSI)	Joint pilot guarantee scheme launched to improve access to debt finance of innovative SMEs and Small Mid-Caps in support of their RTDI projects. With this scheme, the European Investment Fund (EIF) is providing guarantees to banks and leasing companies.
Risk Sharing Finance Facility (RSFF)	RSFF is joint collaboration between the European Commission and the European Investment Bank (EIB) since 2007. The RSFF aims to improve access to the EIB debt finance for participants of European R&D projects.
National Capital Fund	The National Capital Fund (NCF) was launched in 2007 in order to fill the equity gap in the market by investing in polish innovative businesses. The NCF is funded by the Polish and Swiss government together with the European Union.
ERP Innovationsprogramm	The ERP Innovation Programme of KfW provides long-term financing for market-oriented research and development of new products, processes and services as well as for their introduction on the market.
ERP-Startfonds	KfW mobilises equity capital for young innovative companies. KfW enters into participations but in most cases does not assume management tasks inside the companies.
High-Tech Gründerfonds (HTGF)	The main objective of High-Tech Gründerfonds (HTGF) is to significantly reduce the financing gap for high-tech enterprises in their seed phase and ultimately to contribute to the creation of highly-skilled jobs. The fund also intends to act as an icebreaker for private Venture Capital.
JEREMIE Innovation fund in Andalusia	The objective of the JEREMIE Innovation fund is to foster the development of companies with high growth potential, the creation of sustainable and qualified jobs and the facilitation of access to finance through the provision of equity and mezzanine finance

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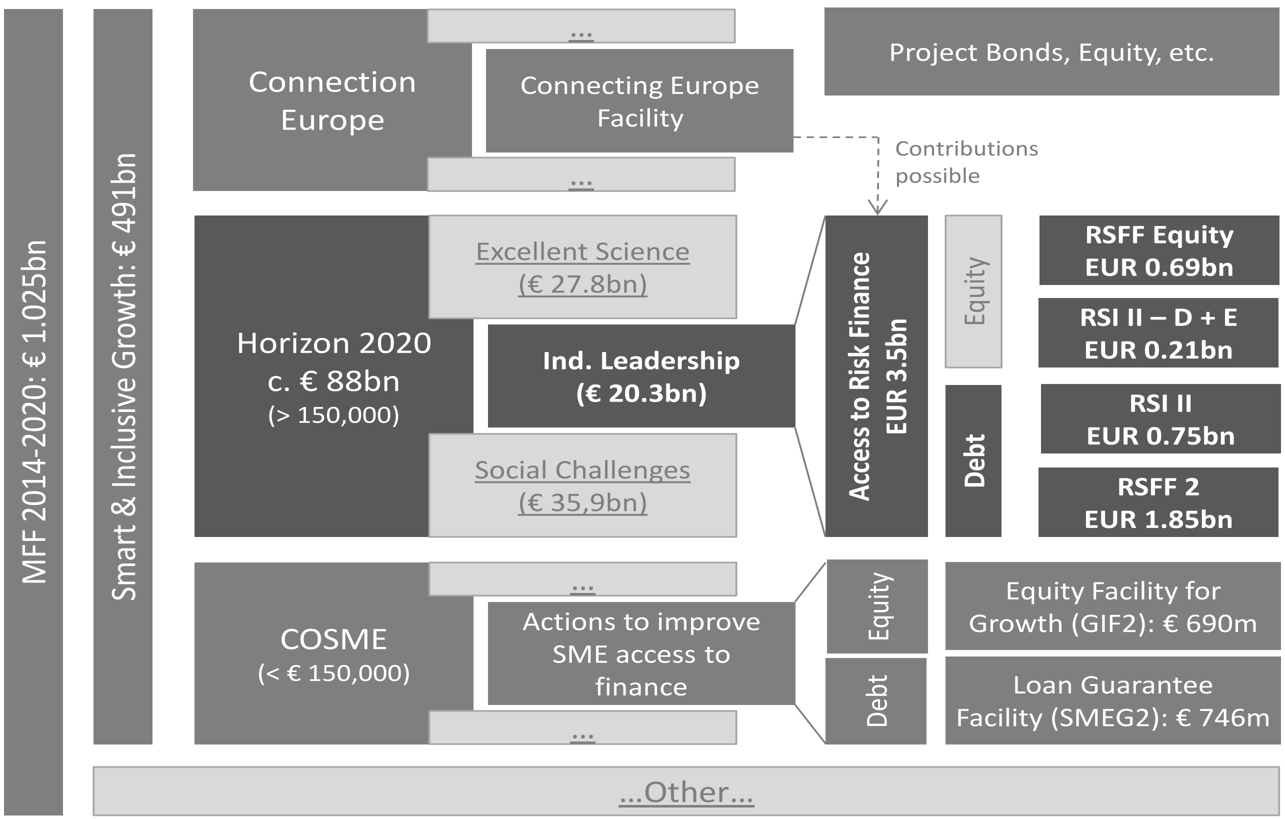
Sector-specific methodologies:
Research, Development & Innovation

Volume II

EU Budget Structure - Main logic of the EU MFF budget resources



Source: EIB (2013)

Key messages

- The ex-ante assessment is a validation tool, providing evidence of the adequacy of the envisaged FI against an identified market failure or suboptimal investment situation.
- It will help MAs to ensure that the envisaged FI contributes to the achievement of the Programme and the ESIF objectives.
- This methodology provides a useful toolbox encompassing good practices and providing practical guidance to MAs in the preparation and the realisation of the ex-ante assessment of the FIs envisaged in their Programme(s).
- It will facilitate analysis of State aid implications - many FIs could be either market conform or covered by Block Exemption Regulations or by the *de minimis* rule or exempt from notification procedures due to the set up as off-the-shelf instrument.
- Its use and application are not compulsory and MAs can apply other good practice methodologies as long as the ex-ante assessment covers all the requirements of Article 37 (2) of the CPR.
- Several initiatives are foreseen to support MAs in developing their ex-ante assessments, such as dedicated trainings and the Financial Instruments Technical Advisory Platform (FI-TAP).

Questions?

Thank you for your participation.

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