CEPS SPECIAL REPORT

Thinking ahead for Europe

The Use of Innovative Financial Instruments for Financing EU Policies and Objectives

Implications for EU and National Budgets

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Abstract

This report analyses the proposed expansion of innovative financial instruments in the EU Multiannual Financial Framework for the 2014–20 period. It presents the economic rationale, governance principles and criteria that these instruments should follow and compares these with proposals from the European Commission. Based on this assessment, it makes recommendations for the proposed instruments.

This study was originally commissioned by the European Parliament's Committee on Budgets and is available for free downloading on its website at http://www.europarl.europa.eu/committees/en/studiesdownload.html?languageDocument=EN&file=76312 Jean-Luc Dehaene and Eider Gardiazábal Rubial, MEPs, followed the study on behalf of the Committee on Budgets. It is republished on the CEPS website with the kind permission of the European Parliament. Unless otherwise indicated, the views expressed are attributable only to the authors in a personal capacity and not to any institution with which they are associated.

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LIST OF ABBREVIATIONS

ACP	Africa, the Caribbean and the Pacific
ADB	Asian Development Bank
AECID	Agencia Española de Cooperación Internacional para el Desarrollo
AFD	Agence Française de Développement
AfDB	African Development Bank
AIF	Asia Investment Facility
AUSAID	Australian Government Overseas Aid Program
BCIE	Banco Centroamericano de Integración Económica
BIO	Belgian Investment Company for Developing Countries
CAF	Banco de Desarrollo de América Latina
CDB	Caribbean Development Bank
CEB	Council of Europe Development Bank
CEF	Connecting Europe Facility
CIP	Competitiveness and Innovation Framework Programme
CIF	Caribbean Investment Facility
CMZR	Czech-Moravian Guarantee and Development Bank
COFIDES	Companía Española de Financiación del Desarrollo
COSME	Competitiveness and SME
CSF	Common Strategic Framework
DEVCO	Development and Cooperation
DG	Directorate General
EAFDR	European Agricultural Fund for Rural Development
EBFI	European Bilateral Financial Institution
EBRD	European Bank for Reconstruction and Development
ECFIN	Economic and Financial Affairs
EC	European Commission
ECA	European Court of Auditors
EDF	European Development Fund
EEAS	European External Action Service

EEEF	European Energy Efficiency Fund
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EIF	European Investment Fund
EIP	Innovation and Entrepreneurship Programme
ELENA	European Local Energy Assistance
EMFF	European Maritime and Fisheries Fund
ENPI	European Neighbourhood and Partnership Instrument
EP	European Parliament
EPEC	European PPP Expertise Centre
EPF	European Partners Facility
EPMF	European Progress Microfinance Facility
ERDF	European Regional Development Fund
ERR	economic rate of return
ESF	European Social Fund
EU	European Union
EU-A ITF	EU-Africa Infrastructure Trust Fund
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FIEG	Financial Instruments Inter-services Expert Group
FINNFUND	Finnish Fund for Industrial Cooperation Ltd.
FP7	Seventh Framework Programme for Research and Technological Development
FYROM	Former Yugoslav Republic of Macedonia
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GGF	Green for Growth Fund
GNI	Gross National Income
GIF	High Growth and Innovative Facility
ICT	Information and Communication Technologies
IDB	Inter-American Development Bank
IFI	International Finance Institution
IL	instrument leverage
IFCA	Investment Facility for Central Asia
IFP	Investment Facility for the Pacific
InFI	Innovative Financial Instrument
IRR	internal rate of return

ITF	Innovation Task Force
JASMINE	Joint Action to Support Micro-Finance Institutions in Europe
JASPERS	Joint Assistance to Support Projects in European Regions
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investment in City Areas
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
LAIF	Latin America Investment Facility
LGBFs	Loan and Grant Blending Facilities
LGTT	Loan Guarantee Instrument for Trans-European Transport Network Projects
MA	managing authority
ME	multiplier effect
MFB	Hungarian Development Bank
MFF	Multiannual Financial Framework
MRI	Mutual Reliance Initiative
MS	member state
NIB	Nordic Investment Bank
NIF	Neighbourhood Investment Facility
NZAID	New Zealand Aid Programme
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OeEB	Oesterreichische Entwicklungsbank AG (Development Bank of Austria)
OP	Operational Programme
PA	Partnership Agreement
PBI	Project Bond Initiative
PDS	Project Development Service
PIDG	Private Infrastructure Development Group
PFG	Project Financiers Group
PL	project leverage
PPP	Public-Private Partnership
R&D	Research and Development
RDI	Research, Development and Innovation
RSFF	Risk-Sharing Finance Facility
RSI	Risk-Sharing Initiative
SIMEST	Società Italiana per le Imprese All'Estero
SET-Plan	Strategic Energy Technology Plan

SID	Slovenska izvozna in razvojna banka
SME	Small and medium-sized enterprise
SMEG	SME Guarantee Facility
SOFID	Sociedade para o Financiamento do Desenvolvimento, Instituição Financeira de Crédito, SA
TA	technical assistance
TEN-T	Trans-European Networks – Transport
TTP	Technology Transfer Pilot Project
WB	The World Bank Group
WBIF	Western Balkans Investment Framework

EXECUTIVE SUMMARY

The European Union's objectives and aspirations have greatly increased in the last two decades, while the Union's budget has shrunk in real terms as a percentage of Gross National Income (GNI). The introduction of financial instruments that combine EU-budget support with loans from the EIB Group (the European Investment Bank and the European Investment Fund), as well as from other financial institutions, is seen as one way of expanding the reach and increasing the effectiveness of the EU budget. The financial and sovereign debt crisis has also increased the need for innovative financial solutions to the weakening credit market for public infrastructures, research and development (R&D) and small and medium-sized enterprises (SMEs). While EU-level financial instruments cannot fill the vacuum created by the credit crunch and the sovereign debt crisis, they can offer specific support in terms of growth and job creation for areas with European added value and that are capable of providing significant long-term returns. Moreover, these instruments open up a new space for institutions and levels of power to collaborate, and facilitate the pooling of resources and development of common standards across the EU. These indirect benefits of well-devised mechanisms can create considerable efficiencies of scale.

The current Multiannual Financial Framework (MFF) for 2007 to 2013 introduced an unprecedented number (more than 20) of so-called 'innovative financial instruments (InFIs)'. Although only 1.3% of EU-budget resources were allocated to these instruments, this relatively small amount enables the European Investment Bank (EIB) Group and other lenders to multiply the original budget contribution by a factor of more than 30 in the forms of loans in certain instances. Positive evaluations of these instruments have encouraged the European Commission to propose expanding the size and scope of the existing instruments, to introduce ambitious new instruments, and to reform and consolidate the overall delivery architecture.

Although the success of these financial instruments has greatly raised expectations, it is important to remember that InFIs are only suitable for projects with potentially profitable financial returns. They should not be seen as substitutes for grants, but rather as means of enhancing the scope of the EU budget. Greater discrimination is needed regarding projects that need grants and those that could be at least partially financed with loans. InFIs that combine grants – to reduce the overall cost and risk of projects – *and* loans help boost the credit rating of projects that otherwise would not have seen the light of day. Grant components attract financiers.

InFIs can only be used for projects with significant European added value, where the internal rate of return (IRR) is either close to positive, or positive but not high enough to attract financiers because of market failures, long maturities or other barriers that can be reduced by using InFIs.

While financial instruments are market-driven and their design requires a certain flexibility to cope with changing market needs, their genuine European added value must be ensured and they must be closely aligned with EU policy objectives. These financial instruments must also mobilise as much capital as possible towards the achievement of EU objectives, that is, they must have a high multiplier effect and European added value.

Governance structures will be designed for the debt and equity platforms in development, those will be important for ensuring efficient InFIs. The degree of risk of both financial instruments and grants depends on the implementation framework, which includes the project selection process and the governance structures decided within the equity and debt platforms. Instead of creating a restrictive regulatory framework about the type of support and beneficiary, it is the focus of the instruments, the policy objectives and the monitoring that need to be strengthened.

The use of InFIs can be classified in three groups: Instruments for internal policies that are managed by the European Commission; instruments under shared management that are controlled by member states (Structural and Cohesion Funds); and financial instruments for external action. Although specific details of the structures for the period 2014-2020 are not known, the Commission generally proposes restructuring and consolidating InFIs in the 2014–2020 period, expanding their scope and creating new instruments, including the Project Bonds Initiative (PBI). This restructuring will attempt to address the inefficiencies revealed by evaluations of the current instruments, including inconsistencies that result from having independently developed a large number of instruments, thereby causing unnecessary differences between the instruments – as well as overlaps.

A) Innovative financial instruments under central management

In order to reach the Europe 2020 Strategy objectives, the EU has proposed to consolidate centrally controlled financial instruments into six instruments. These instruments include the Risk-Sharing Finance Facility (RSFF) for research and innovation; equity and guarantees for innovative SMEs, microfinance, education and culture; and instruments for transport and energy.

The new proposals strengthen the debt instruments using a portfolio approach that is based on the new risk-sharing model for the Risk-Sharing Finance Facility (RSFF). The previous risk distribution between the EIB and the EU budget for internal policies was designed *pari passu*, meaning that the EU and the EIB shared the guarantee risks equally. For example, in the RSFF for research and innovation, the EIB and the Commission each cover 50% of the guarantee. In the future, however, the portfolio approach will have a first-loss mechanism through which the EU budget covers the first losses (up to 95% of the guarantee) and the EIB covers the marginal remaining losses (5%). This mitigates the EIB risk, thereby increasing its lending capacity.

The European Commission also proposes the introduction of project bonds for infrastructure that will use a first-loss portfolio approach. The Project Bond Initiative (PBI) could be a significant source of funding for the Connecting Europe Facility (CEF), as well as other important future infrastructure projects – if its scope is expanded through bonds issued on the capital market by the project company. Beyond the funding allocated to the risk guarantee, no budget risks exist. Nevertheless, the instrument needs to be tested.

The European Commission is improving its SME support assistance under the proposed Competitiveness of enterprises and SMEs (COSME). To avoid overlaps, support for innovative SMEs in COSME will be merged with the RSFF programme for SMEs (the Risk Sharing Initiative , RSI).

The Commission is proposing significant improvements for all InFIs. In the next Multiannual Financial Framework (MFF), overlaps will be reduced and monitoring improved, while improved governance structures should increase coherence and transparency thorugh the new debt and equity platforms. There is, however, no sure indication about how the platforms will actually function. The European Commission's new Financial Instruments

Inter-services Expert Group (FIEG) could serve as a base for these platforms, but the relationship between the FIEG with the different arms of the budgetary authorities (the European Parliament and the European Council) and its relationship with the financial institutions that are in charge of implementing the instruments needs to be improved.

In order for the instruments to function efficiently and increase their impact it must be possible to use reflows to refinance the instruments – thereby making them potentially budgetary neutral and self-financing.

B) Financial instruments under the Structural and Cohesion Funds

The scope for, and importance of, InFIs in delivering investments under the Structural and Cohesion Funds increased during the 2007–2013 period to include SMEs, sustainable urban development planning and regeneration, energy efficiency and renewable energy in buildings. Assessing the performance of these InFIs is complicated, and experiences vary across different member states. Generally, one can conclude that to date, the up-take of InFIs under shared management has not been optimal. This is due to the cultural shift that managing authorities (MAs) and final beneficiaries had to make; the lack of awareness and understanding of the instruments; the creation of an appropriate institutional and regulatory framework; and issues regarding the capacity of the MA and the final recipients. There have also been issues of incoherence and instrument overlap; delays in the launching and delivery of funds; excessive allocation of resources; and inadequate or incomplete ex-ante assessments. The instruments' limited application reduced their potential to contribute to EU objectives and achieve a critical mass of investments in relation to SMEs, sustainable urban development and energy efficiency.

Building on experience from the 2007–2013 period, the Commission proposals include expanding, innovating and strengthening the use of InFIs for the 2014–2020 EU Structural and Cohesion Funds. The scope of InFIs will be expanded to all types of projects and activities, sectors and beneficiaries, and InFIs will be allowed under the Cohesion Fund for the first time. Member states and managing authorities (MA) will be able to use InFIs for all thematic objectives and priorities covered by Operational Programmes (OPs), as long as the economic viability of final recipients and the projects' repayment capacity can be shown. The proposals remove the current prohibition of financing a project from more than one source and set out rules to allow InFIs to be combined with other forms of support, in particular grants.

InFIs are to be designed on the basis of an ex-ante assessment identifying, *inter alia,* market gaps/failures or sub-optimal investment situations, investment needs, potential private sector involvement and the InFI's added value, as well as questions of critical mass and possible economies of scale. The MA will be required to report on operations relating to the InFIs as an annex to the annual implementation report submitted to the Commission. Three implementation options are proposed for InFIs: 1) EU-level InFIs; 2) InFIs at the national or regional level; and 3) InFIs consisting solely of loans or guarantees. Technical assistance and guidance for advisory services and capacity building are to be provided to MAs and final recipients, but what exactly they involve is not clear.

The respective shares of the European Regional Development Fund (ERDF) and the European Social Fund (ESF) that are used for InFIs will not be clear until the end of the 2014–2020 programming period because they are a function of the uptake of the instruments by the MAs to implement the OPs. Some initial estimates by the Commission suggest that the potential volume of ERDF resources to be delivered through InFIs in the next programming period could increase by as much as a factor of three (to approximately 15%). The leverage effect will depend on the InFI used, the specific financial products developed and the sector

in which it is applied. Pooling the funds into one or a few multi-regional funds (such as one for Nordic countries), rather than allocating the money in separate regional isolated funds would increase both the risk spread and the leverage and multiplier effect.

The general provisions proposed thus far should address shortcomings identified in the implementation of existing InFIs under shared management. Specific details of the instruments are still under discussion. In particular, the delegated and implementing acts that are envisaged for the 2014–2020 period might include important provisions on minimum requirements for the ex-ante assessment of InFIs; the blending of InFIs and grants; the eligibility of expenditure; and the multiplier ratios to be ensured. These acts will be critical for ensuring effective and efficient implementation of the new provisions for using InFIs. The provisions for reporting on InFI operations will be key to improving transparency and useful for evaluating if the instruments actually function as they were envisaged.

C) Financial instruments for external action

In the area of external action, the EU has been using guarantees for EIB lending under ACP programmes for some time. But the new 'blending' mechanisms have added a new dimension to external action. These facilities use EU funding – sometimes expanded with member states' contributions – and are specifically designed to provide financial support to development financiers and thus mobilise additional funding for EU development objectives.

A large number of development banks and international financial institutions participate in the blending facilities to create multiplier effects that are often more than 20 times the EU's contribution. One weakness of these facilities has been the ad hoc manner in which they were set up, often causing their procedures, monitoring and reporting to be different for reasons that cannot be justified by operational needs in the target regions.

The Commission proposals for 2014 to 2020 foresee expanding the operations of these blending mechanisms, increasing both their financing and their geographical coverage. It also proposes creating an EU Platform for Cooperation and Development.

While the 'blending mechanisms' are interesting complements to the EU development policy, care must be taken to ensure that the use of debt instruments does not reduce the focus on the poorest or increase developing countries' debt burdens to unsustainable levels.

Key conclusions and recommendations

The financial resources needed to fulfil the objectives for SMEs, energy, climate change, transport, growth and employment, research, development and innovation, and external action are far beyond the capacity of the EU-budget's traditional grant funding. Financial instruments can help the EU achieve its multiple objectives.

The Commission proposals for financial instruments improve the way they function, but the future governance of these instruments and the European Parliament's role is still unclear.

The introduction of the debt and equity platforms will help improve the coherence of the different instruments. However, more needs to be done in this regard. The instruments have very different structures as a result of their ad-hoc development, which also makes them less transparent.

The procedures for budgeting, delegating management, awarding funding, monitoring, implementing rules, exposing risk, leveraging, reporting and accounting should be presented simply and transparently in easily comparable formats for all financial instruments.

The proposed debt and equity platforms, including those for external cooperation and development, should be chaired and managed by one Commission service, preferably the Directorate General for Economic and Financial Affairs (DG ECFIN), as is the case for the FIEG. The platform should also include a steering committee that includes the Council and the European Parliament, as well as key stakeholders.

The platforms must provide clear guidance for monitoring and evaluating the InFIs.

InFIs must follow a market logic, for example allowing the reuse of reflows.

The fragmented budget for InFIs in policy areas and regional budgets for Structural Funds, as well as the extremely conservative approach of a 100% capital requirement (meaning that the budget can always cover a total default of all the instruments), considerably limits the leverage potential. Funding guarantees for InFIs should be pooled in the largest possible fund (including regional funds) – even if that means that shares are allocated regionally. With a more realistic capital requirement (for example, a conservative risk coverage of 50%), the leverage and multiplier effect would increase dramatically.

ZUSAMMENFASSUNG

Die Ziele und Bestrebungen der Europäischen Union haben in den vergangen zwei Jahrzehnten beträchtlich zugenommen, während der Unionshaushalt – ausgedrückt in Prozent des BNE – real geschrumpft ist. Die Einführung von Finanzinstrumenten, die eine Unterstützung aus dem EU-Haushalt mit Darlehen der EIB-Gruppe (Europäische Investitionsbank und Europäischer Investitionsfonds) sowie anderer Finanzinstitute kombinieren, ist nur als ein möglicher Weg zur Ausweitung der Reichweite des EU-Haushalts und zur Steigerung seiner Effizienz anzusehen. Die Finanz- und Staatsschuldenkrise hat ebenfalls den Bedarf an neuen innovativen Finanzlösungen für den schwächelnden Kreditmarkt für öffentliche Infrastrukturen, Forschung und Entwicklung (FuE) und kleine und mittlere Unternehmen (KMU) verstärkt. Während Finanzinstrumente auf EU-Ebene nicht das Vakuum füllen können, das durch die Kreditklemme und die Staatsschuldenkrise entstanden ist, können sie spezifische Unterstützung im Hinblick auf Wachstum und die Schaffung von Arbeitsplätzen in Bereichen mit einem europäischen Mehrwert leisten, die bedeutende langfristige Erträge erbringen können. Darüber hinaus schaffen diese Instrumente einen neuen Raum für die Zusammenarbeit zwischen den Einrichtungen und Machtebenen und ermöglichen die Zusammenlegung von Mitteln und die Entwicklung gemeinsamer Standards innerhalb der EU. Diese indirekten Vorteile durchdachter Mechanismen können beträchtliche Effizienzvorteile schaffen.

Während des aktuellen mehrjährigen Finanzrahmens (MFR) für den Zeitraum von 2007 bis 2013 wurde eine beispiellose Zahl (über 20) so genannter „innovativer Finanzinstrumente“ (InFI) eingeführt. Obwohl nur 1,3 % der EU-Haushaltsmittel diesen Instrumenten zugeteilt wurde, ermöglicht dieser verhältnismäßig geringe Betrag der Europäischen Investitionsbank (EIB) und anderen Kreditgebern, den ursprünglichen Haushaltsbeitrag in Form von Darlehen bestimmten Fällen mehr als zu verdreißigfachen. Auf der Grundlage positiver Bewertungen dieser Instrumente schlägt die Europäische Kommission daher vor, die Größe und die Möglichkeiten der bestehenden Instrumente auszuweiten, bestimmte ehrgeizige neue Instrumente einzuführen sowie deren allgemeine Auslieferungsarchitektur zu reformieren und zu konsolidieren.

Obwohl der Erfolg dieser Finanzinstrumente große Erwartungen geweckt hat, ist unbedingt zu bedenken, dass InFI nur für Projekte mit einer potenziell einträglichen Finanzrendite geeignet sind. Sie sollten nicht als Ersatz für Zuschüsse betrachtet werden, sondern vielmehr als Mittel zur Verbesserung der Reichweite des EU-Haushalts. Es muss stärker unterschieden werden zwischen Projekten, die Zuschüsse benötigen, und Projekten, die (zumindest teilweise) mit Darlehen finanziert werden können. InFIs, die Zuschüsse – zur Verringerung der Gesamtkosten und –risiken von Projekten – und Darlehen miteinander kombinieren, tragen dazu bei, die Bonitätseinstufung von Projekten anzuheben, die andernfalls nicht hätten durchgeführt werden können. Zuschusskomponenten ziehen Finanzierungsquellen an.

InFI können nur für Projekte mit einem hohen europäischen Mehrwert verwendet werden, bei denen die interne Rendite (IRR) entweder annähernd positiv oder positiv, jedoch aufgrund Marktversagen, einer langen Laufzeit oder anderer Hindernisse, die durch InFI reduziert werden können, nicht hoch genug ist, um Finanzquellen anzuziehen.

Während Finanzinstrumente vom Markt bestimmt werden und ihre Konzeption eine bestimmte Flexibilität erfordert, um sich auf die sich verändernden Marktanforderungen einzustellen, muss ihr europäischer Mehrwert sichergestellt werden und sie müssen eng auf die Einhaltung der Ziele der EU-Politik ausgerichtet sein. Diese Finanzinstrumente müssen zur Erreichung der EU-Ziele auch möglichst viel Kapital mobilisieren, d. h. einen starken Multiplikatoreffekt haben und europäischen Mehrwert bewirken.

Es werden Governance-Strukturen für die in der Entwicklung befindlichen Plattformen für Fremd- und Eigenkapitalfinanzierungen konzipiert, die zur Sicherstellung von effizienten InFI wichtig sind. Der Risikoumfang der Finanzinstrumente und der Zuschüsse ist abhängig vom Umsetzungsrahmen, der unter anderem aus dem Auswahlverfahren für die Projekte und den innerhalb der Plattformen für Fremd- und Eigenkapitalfinanzierungen beschlossenen Governance-Strukturen besteht. Anstatt einen restriktiven Rechtsrahmen im Hinblick auf den Typ der Unterstützung und der Begünstigten zu schaffen, sollten der Schwerpunkt der Instrumente, die politischen Ziele und die Überwachung verstärkt werden.

Die InFI können in drei Gruppen aufgeteilt werden: Instrumente für interne Politikbereiche, die von der Europäischen Kommission verwaltet werden; Instrumente unter gemeinsamer Verwaltung, die von den Mitgliedstaaten kontrolliert werden (Struktur- und Kohäsionsfonds); Finanzinstrumente für außenpolitisches Handeln. Obwohl Details der Strukturen für den Zeitraum 2014-2020 noch nicht bekannt sind, schlägt die Kommission generell vor, die InFI während des Zeitraums 2014-2020 zu restrukturieren und zu konsolidieren, ihren Umfang zu erweitern und neue Instrumente einschließlich der Projektanleihen zu schaffen. Mit dieser Umstrukturierung soll versucht werden, den Schwächen zu begegnen, die bei den Evaluierungen der derzeitigen Instrumente aufgedeckt wurden, auch denen, die daher rühren, dass eine große Zahl von Instrumenten unabhängig voneinander entwickelt wurden, was zu unnötigen Divergenzen zwischen den Instrumenten und zu Überschneidungen geführt hat.

A) Innovative Finanzinstrumente unter zentraler Verwaltung

Zur Erreichung der Ziele der Strategie Europa 2020 hat die EU vorgeschlagen, Finanzinstrumente unter zentraler Kontrolle in sechs Instrumenten zu konsolidieren. Diese Instrumente umfassen die Fazilität für Finanzierungen auf Risikoteilungsbasis für Forschung und Innovation; Eigenkapital und Garantien für innovative KMU, Mikrofinanzierungen, Bildung und Kultur; Instrumente für Transport und Energie.

Die neuen Vorschläge stärken die Schuldeninstrumente unter Heranziehung eines Portfolio-Ansatzes auf der Grundlage des neuen Modells zur Risikoteilung für die Fazilität für Finanzierungen auf Risikoteilungsbasis (RSFF). Die Risikoverteilung zwischen der EIB und dem EU-Haushalt in den internen Politikbereichen erfolgte nach dem Prinzip der Gleichrangigkeit, was bedeutet, dass die Garantierisiken gleichmäßig auf die EU und die EIB aufgeteilt wurden. Bei der RSFF für Forschung und Innovation decken die EIB und die Kommission beispielsweise jeweils 50 % der Garantie ab. Künftig wird der Portfolio-Ansatz jedoch über einen Erstverlust-Mechanismus verfügen, in dessen Rahmen der EU-Haushalt den Erstverlust abdeckt (bis zu 95 % der Garantie), während die EIB den Restverlust (5 %) abdeckt. Dies verringert das Risiko der EIB und stärkt so ihre Kreditvergabekapazität.

Die Europäische Kommission schlägt ebenfalls die Einführung von Projektanleihen für Infrastrukturen vor, für die ein Erstverlust-Portfolio-Ansatz verwendet wird. Die Initiative zu den Projektanleihen könnte eine beträchtliche Finanzierungsquelle für die Fazilität „Connecting Europe" sowie für andere wichtige zukünftige Infrastrukturprojekte sein, falls ihr Umfang durch die Ausgabe von Anleihen auf dem Kapitalmarkt durch das Projektunternehmen ausgeweitet wird. Es bestehen keine Risiken für den Haushalt, die über

die Finanzierung, die der Risikogarantie zugewiesen wurde, hinausgehen. Trotzdem muss das Instrument getestet werden.

Die Europäische Kommission verbessert ihre Unterstützung für die KMU im Rahmen des Programms für die Wettbewerbsfähigkeit von Unternehmen und für KMU (COSME). Um Überschneidungen zu vermeiden, wird die Unterstützung innovativer KMU in COSME mit dem KMU-Programm im Rahmen der RSFF zusammengelegt.

Die Kommission schlägt erhebliche Verbesserungen für alle InFI vor. Im nächsten mehrjährigen Finanzrahmen (MFR) werden Überschneidungen reduziert und die Überwachung verbessert, während sich mit besseren Governance-Strukturen durch die neuen Plattformen für Fremd- und Eigenkapitalfinanzierungen Kohärenz und Transparenz verbessern sollten. Es gibt jedoch keine sicheren Hinweise darauf, wie die Plattformen tatsächlich funktionieren werden. Die neue dienststellenübergreifende Expertengruppe für Finanzinstrumente (FIEG) der Europäischen Kommission könnte als Grundlage für den Aufbau dieser Plattformen dienen, allerdings ist im Hinblick auf die Beziehungen zwischen der FIEG und den verschiedenen Teilen der Haushaltsbehörde (Europäisches Parlament und Rat) und ihre Beziehungen zu den Finanzinstitutionen, die mit der Umsetzung der Instrumente beauftragt sind, noch Einiges zu verbessern.

Für das effiziente Funktionieren der Instrumente und die Steigerung ihrer Wirkung müssen Rückflüsse für die Refinanzierung der Instrumente genutzt werden – wodurch sie potenziell haushaltsneutral gestaltet werden und sich selbst finanzieren können.

B) Finanzinstrumente im Rahmen der Struktur- und Kohäsionsfonds

Der Umfang und die Bedeutung von InFI für die Bereitstellung von Investitionen im Rahmen der Struktur- und Kohäsionsfonds erhöhte sich während des Zeitraums von 2007-2013, um KMU, eine nachhaltige Planung für städtische Entwicklung und Sanierung, Energieeffizienz und erneuerbare Energiequellen in Gebäuden aufzunehmen. Die Bewertung der Leistung dieser InFI ist schwierig und die Erfahrungen sind in den einzelnen Mitgliedstaaten unterschiedlich. Allgemein kann festgestellt werden, dass die Inanspruchnahme der InFI unter gemeinsamer Verwaltung bis zum aktuellen Zeitpunkt nicht optimal war. Dies ist unter anderem zurückzuführen auf den kulturellen Wandel, der bei den Verwaltungsbehörden und den Begünstigten stattfinden musste, auf einen Mangel an Sensibilisierung und an Verständnis der Instrumente, auf die Schaffung eines geeigneten institutionellen und rechtlichen Rahmens sowie auf Kapazitätsprobleme bei den Verwaltungsbehörden und bei den Endempfängern. Es gab ebenfalls Probleme aufgrund Inkohärenz und Überschneidungen zwischen Instrumenten, Verzögerungen bei der Auflage und Bereitstellung von Fonds, übermäßiger Zuteilungen von Mitteln und unangemessener oder unvollständiger Vorab-Bewertungen. Die eingeschränkte Anwendung der Instrumente bedeutete, dass ihr Potenzial im Hinblick auf den Beitrag zu den EU-Zielen und zur Erreichung einer kritischen Masse von Investitionen in KMU, in die nachhaltige städtische Entwicklung und in die Energieeffizienz geschmälert wurde.

Aufbauend auf den während des Zeitraums 2007-2013 gewonnenen Erfahrungen schlägt die Kommission unter anderem vor, die EU-Strukturfonds und den EU-Kohäsionsfonds 2014-2020 zu erweitern, einige Neuerungen einzuführen und die Verwendung von InFI zu stärken. Der Umfang der InFI wird auf alle Typen von Projekten, Aktivitäten, Sektoren und Empfänger erweitert, und die Verwendung der InFI wird erstmals auch im Rahmen des Kohäsionsfonds gestattet. Die Mitgliedstaaten und die Verwaltungsbehörden werden in der Lage sein, InFI im Hinblick auf alle thematischen Ziele und Prioritäten zu verwenden, die durch operationelle Programme abgedeckt werden, sofern die wirtschaftliche Leistungsfähigkeit der Endempfänger und die Rückzahlungsfähigkeit der Projekte

nachgewiesen werden kann. Die Vorschläge ersetzen die aktuelle Bestimmung, dass ein Projekt nicht aus mehr als einer Quelle finanziert werden darf, und legen Vorschriften fest, mit denen die Kombination von InFI mit anderen Formen der Unterstützung, insbesondere Zuschüssen, ermöglicht wird.

InFI sind auf der Grundlage einer Vorab-Bewertung zu konzipieren, in deren Rahmen u. a. Marktlücken/Marktversagen oder nicht optimale Investitionssituationen, Investitionsbedarf, eine potenzielle Beteiligung des privaten Sektors, der Mehrwert der InFI sowie Fragen der kritischen Masse und Möglichkeiten für Skaleneffekte festgestellt werden. Die Verwaltungsbehörden müssen ebenfalls einen Bericht über die Operationen im Zusammenhang mit InFI als Anhang zum jährlichen Umsetzungsbericht, der an die Kommission geschickt wird, übermitteln. Für InFI werden drei Umsetzungsoptionen vorgeschlagen: 1) auf EU-Ebene eingerichtete InFI; 2) auf der nationalen bzw. regionalen Ebene eingerichtete InFI; 3) ausschließlich aus Darlehen oder Garantien bestehende InFI. Den Verwaltungsbehörden und den Endempfängern sind technische Unterstützung und Leitung für Beratungsservice und den Kapazitätsaufbau bereitzustellen, obwohl die diesbezüglichen Details nicht klar sind.

Der jeweilige Anteil des Europäischen Fonds für regionale Entwicklung (EFRE) und des Europäischen Sozialfonds (ESF), der für die InFI verwendet wird, wird erst gegen Ende des Programmplanungszeitraums 2014-2020 bekannt sein, da dies davon abhängt, inwieweit die Instrumente zur Umsetzung der operativen Programme durch die Verwaltungsbehörden angenommen werden. Anfängliche Schätzungen der Kommission legen nahe, dass der Umfang der EFRE-Mittel, die potenziell während des nächsten Programmplanungszeitraums im Rahmen von InFI bereitgestellt werden könnten, auf das Dreifache (auf etwa 15 Prozent) anwachsen könnte. Der Hebeleffekt hängt von den verwendeten InFI, den speziellen Finanzprodukten und dem Sektor, auf dem diese angewendet werden, ab. Die Zusammenlegung der Fonds in einen oder mehrere multiregionale Fonds (beispielsweise einen Fonds für die nordischen Länder etc.) statt der Aufteilung der Gelder in getrennte regionale Fonds würde die Risikostreuung sowie den Hebel- und Multiplikatoreffekt vergrößern.

Die bisher vorgeschlagenen allgemeinen Bestimmungen sollten den Mängeln entgegenwirken, die bei der Umsetzung der bestehenden InFI unter gemeinsamer Verwaltung festgestellt wurden. Die spezifischen Details dieser Instrumente werden noch diskutiert. Insbesondere können die geplanten delegierten Rechtsakte und Durchführungsrechtsakte für den Zeitraum 2014-2020 wichtige Bestimmungen über u. a. die Mindestanforderungen der Vorab-Bewertungen der InFI, die Mischung von InFI und Zuschüssen, die Förderfähigkeit von Ausgaben und die sicherzustellenden Multiplikatorquoten umfassen. Diese Akte sind wichtig für die Sicherstellung der effektiven und effizienten Umsetzung der neuen Bestimmungen über die Verwendung von InFI. Die Bestimmungen über die Berichte über Operationen im Zusammenhang mit InFI sind wichtig zur Verbesserung der Transparenz und nützlich für die Bewertung, ob die Instrumente tatsächlich so funktionieren wie vorgesehen.

C) Finanzinstrumente für außenpolitisches Handeln

Im Bereich des außenpolitischen Handelns hat die EU während eines bestimmten Zeitraums Garantien für EIB-Kredite im Rahmen der AKP-Programme verwendet. Die neuen „Mischmechanismen" haben jedoch eine zusätzliche Dimension in das außenpolitische Handeln eingeführt. Diese Fazilitäten verwenden EU-Finanzierungen – bisweilen erweitert durch Beiträge von Mitgliedstaaten – und sind speziell auf die Bereitstellung von finanzieller

Unterstützung an Entwicklungsfinanzierer ausgerichtet und mobilisieren so zusätzliche Finanzierungen für die EU-Entwicklungsziele.

Eine große Zahl an Entwicklungsbanken und internationalen Finanzinstituten sind an den gemischten Fazilitäten beteiligt, die Multiplikatoreffekte bewirken, die den EU-Beitrag oft um das 20-Fache übersteigen. Eine Schwäche der Fazilitäten besteht jedoch in der Ad-hoc-Manier, mit der diese aufgelegt wurden, was dazu führte, dass die Verfahren, die Überwachung und die Berichterstattung für die Fazilitäten aus Gründen, die nicht mit operativen Erfordernissen in den Zielregionen zu rechtfertigen sind, oft unterschiedlich sind.

Die Kommissionsvorschläge für den Zeitraum 2014-2020 sehen vor, die Operationen dieser Mischmechanismen zu erweitern, die ihnen zugeteilten Mittel zu erhöhen und ihre geografische Bandbreite auszuweiten. Die Kommission schlägt ebenfalls die Einrichtung einer EU-Plattform für Zusammenarbeit und Entwicklung vor.

Während die „Mischmechanismen“ interessante Ergänzungen zu der Entwicklungspolitik der EU darstellen, ist Sorgfalt angebracht, um sicherzustellen, dass die Verwendung von Schuldeninstrumenten nicht den Schwerpunkt von den Ärmsten abwendet und die Verschuldung der Entwicklungsländer nicht auf untragbare Weise vergrößert wird.

Wichtigste Schlussfolgerungen und Empfehlungen

Die erforderlichen Finanzmittel, um mit einer traditionellen Zuschussfinanzierung die Ziele in den Bereichen KMU, Energie, Klimawandel, Verkehr, Wachstum und Beschäftigung, Forschung, Entwicklung und Innovation sowie außenpolitisches Handeln zu erfüllen, übersteigen die Kapazität des EU-Haushalts bei weitem. Finanzinstrumente können die EU bei der Erreichung ihrer vielfältigen Ziele unterstützen.

Die Vorschläge der Kommission zu den Finanzinstrumenten verbessern das Funktionieren dieser Instrumente, allerdings ist immer noch unklar, wie die künftige Governance dieser Instrumente aussehen und welche Rolle das Europäische Parlament dabei spielen soll.

Die Einführung der Plattformen für Fremd- und Eigenkapitalfinanzierungen wird dazu beitragen, die Kohärenz der verschiedenen Instrumente zu verbessern. Allerdings muss diesbezüglich noch mehr geschehen. Die Instrumente haben aufgrund ihrer Ad-hoc-Entwicklung sehr unterschiedliche Strukturen, weshalb sie auch weniger transparent sind.

Die Verfahren im Hinblick auf die Einbeziehung in den Haushaltsplan, die Übertragung der Mittelbewirtschaftung, die Mittelvergabe, die Überwachungsverfahren, die Durchführungsbestimmungen, die Risikoexposition, die Hebelwirkung, die Rechnungslegung und Berichterstattung sollten auf einfache und transparente Weise in einem für alle Finanzinstrumente vergleichbaren Format vorgestellt werden.

Die vorgeschlagenen Plattformen für Fremd- und Eigenkapitalfinanzierungen einschließlich der Plattformen für außenpolitische Zusammenarbeit und Entwicklung sollten unter dem Vorsitz einer Dienststelle der Kommission, vorzugsweise der Generaldirektion für Wirtschaft und Finanzen (GD ECFIN), verwaltet werden, wie es im Hinblick auf die dienststellenübergreifende Expertengruppe für Finanzinstrumente der Fall ist. Die Plattform sollte auch einen Lenkungsausschuss einschließlich des Rates und des Europäischen Parlaments sowie wichtiger Interessengruppen umfassen.

Die Plattformen müssen klare Vorgaben für die Überwachung und Bewertung der InFI bereitstellen.

InFI müssen einer Marktlogik folgen, indem man beispielsweise die Wiederverwendung von Rückflüssen ermöglicht.

Der fragmentierte Haushalt für InFI in Politikbereichen und Regionalhaushalten für die Strukturfonds sowie der extrem konservative Ansatz einer Eigenkapitalanforderung von 100 % (das heißt, dass der Haushalt immer einen totalen Zahlungsausfall aller Instrumente abdecken kann) schränkt die mögliche Hebelwirkung beträchtlich ein. Die Mittel für die Garantien von InFI sollten in einem möglichst großen Fonds (einschließlich der Regionalfonds) zusammengelegt werden, auch wenn die Anteile dann regional zugewiesen werden. Mit einer realistischeren Eigenkapitalanforderung (beispielsweise eine konservative Risikoabdeckung von 50 %) könnten die Hebelwirkung und der Multiplikatoreffekt wesentlich gesteigert werden.

SYNTHÈSE

Les objectifs et les aspirations de l'Union européenne ont considérablement augmenté au cours des deux dernières décennies, alors que le budget de l'Union a diminué en termes réels en pourcentage du revenu national brut (RNB). L'introduction d'instruments financiers combinant un soutien du budget de l'Union européenne et des prêts accordés par le groupe BEI (la Banque européenne d'investissement et le Fonds européen d'investissement), ainsi que par d'autres institutions financières, est considérée comme un moyen d'élargir la portée du budget de l'Union européenne et d'en accroître l'efficacité. La crise financière et la crise de la dette souveraine ont également conduit à un besoin accru de nouvelles solutions financières innovantes pour répondre à l'affaiblissement du marché du crédit qui affecte les infrastructures publiques, la recherche et développement et les PME. Si les instruments financiers à l'échelle de l'Union européenne ne sont pas en mesure de combler le vide créé par le resserrement du crédit et par la crise de la dette souveraine, ils peuvent offrir un soutien spécifique en matière de croissance et de création d'emplois dans les zones présentant une valeur ajoutée européenne et capables de procurer des rendements à long terme importants. En outre, ces instruments créent un nouvel espace de collaboration entre les institutions et les niveaux de pouvoir et facilitent la mise en commun des ressources et l'élaboration de normes communes à l'ensemble de l'Union européenne. Ces bienfaits indirects de mécanismes bien conçus peuvent créer des économies d'échelle considérables.

Le cadre financier pluriannuel (CFP) en cours pour la période allant de 2007 à 2013 a introduit un nombre sans précédent d'instruments (plus de 20) dits "instruments financiers innovants". Bien que seulement 1,3 % des ressources budgétaires de l'UE aient été affectées à ces instruments, ce montant relativement peu élevé permet, dans certains cas, à la Banque européenne d'investissement (BEI) et à d'autres sources de financement de multiplier par plus de 30 la contribution budgétaire d'origine sous forme de prêts. Les évaluations positives de ces instruments ont poussé la Commission européenne à proposer d'élargir la taille et la portée de ces instruments existants, d'introduire des instruments nouveaux et ambitieux et de réformer et consolider leur architecture d'octroi globale.

Bien que le succès de ces instruments financiers ait créé de grandes attentes, il est important de garder à l'esprit que les instruments financiers innovants ne conviennent qu'à des projets qui présentent un rendement financier potentiel positif. Ils ne doivent pas être considérés comme un remplacement des subventions, mais comme des instruments qui élargissent la portée du budget de l'Union européenne. Une meilleure distinction doit être opérée entre les projets qui ont besoin de subventions et ceux qui peuvent être financés au moins partiellement par des prêts. Les instruments financiers innovants qui combinent des subventions – afin de réduire le coût et le risque globaux des projets – *et* des prêts contribuent à élever la cote de crédit de projets qui, autrement, n'auraient pas été entrepris. La composante de subventions attire les financiers.

Les instruments financiers innovants ne peuvent être utilisés qu'avec des projets qui présentent une valeur ajoutée européenne élevée et dont le taux de rendement interne (TRI) est presque positif ou positif, mais pas suffisamment élevé pour attirer les financiers en raison de défaillances du marché, d'une échéance lointaine ou d'autres obstacles que les instruments financiers innovants peuvent réduire.

Bien que les instruments financiers soient axés sur le marché et que leur conception exige un certain degré de souplesse pour faire face aux besoins changeants du marché, il est nécessaire de veiller à ce qu'ils présentent une véritable valeur ajoutée européenne et à ce qu'ils soient étroitement alignés sur la réalisation des objectifs politiques de l'UE. Il est également important que ces instruments financiers mobilisent autant de capitaux que possible en vue de la réalisation des objectifs de l'UE, c'est-à-dire qu'ils présentent un effet multiplicateur élevé et une valeur ajoutée européenne.

Des structures de gouvernance seront conçues pour les futures plateformes d'instruments de capital et de dette; ces structures seront importantes pour assurer l'efficacité des instruments financiers innovants. Le niveau de risque des instruments financiers et des subventions dépend du cadre de mise en œuvre, y compris de la procédure de sélection de projet et des structures de gouvernance établies dans le cadre des plateformes d'instruments de capital et de dette. Au lieu de créer un cadre réglementaire restrictif concernant le type de soutien et de bénéficiaire, il faut renforcer la focalisation des instruments, des objectifs politiques et du suivi.

Les instruments financiers innovants peuvent être classés en trois groupes selon leur fin: les instruments pour les politiques internes gérés par la Commission européenne; les instruments en gestion partagée sous le contrôle des États membres (Fonds structurels et de cohésion); et les instruments financiers pour l'action extérieure. Même si les détails spécifiques des structures pour la période 2014-2020 ne sont pas connus, la Commission propose de restructurer et de consolider les instruments financiers innovants au cours de la période 2014-2020, en élargissant leur portée et en créant de nouveaux instruments, y compris l'initiative d'emprunts obligataires. Cette restructuration visera à combler les lacunes révélées par les évaluations des instruments actuels, notamment les incohérences découlant de l'existence d'un nombre élevé d'instruments élaborés indépendamment les uns des autres, ce qui mène à des divergences inutiles et à des chevauchements entre les instruments.

A) Les instruments financiers innovants faisant l'objet d'une gestion centralisée

En vue d'atteindre les objectifs de sa stratégie Europe 2020, l'Union européenne propose de regrouper en six instruments les instruments financiers faisant l'objet d'une gestion centralisée. Ces instruments sont le mécanisme de financement avec partage des risques (MFPR) pour la recherche et l'innovation, les instruments de capital et les garanties pour les PME innovantes, la microfinance, l'éducation et la culture; et les instruments pour le transport et l'énergie.

Les nouvelles propositions renforcent les titres de créance grâce à une approche de portefeuille fondée sur le nouveau modèle de partage des risques pour le mécanisme de financement avec partage des risques (MFPR). Précédemment, la répartition des risques entre la BEI et le budget de l'UE dans les politiques internes était conçue selon le principe "*pari passu*", ce qui signifie que les risques de la garantie sont partagés à parts égales entre l'UE et la BEI. Dans le MFPR pour la recherche et l'innovation, par exemple, la BEI et la Commission couvrent chacune 50 % de la garantie. À l'avenir, toutefois, l'approche de portefeuille comportera un mécanisme "premières pertes" selon lequel le budget de l'UE couvre les premières pertes (jusqu'à 95 % de la garantie) et la BEI les pertes marginales restantes (5 %). Ceci atténue le risque supporté par la BEI et augmente ainsi sa capacité de prêt.

La Commission européenne propose également l'introduction d'emprunts obligataires pour des projets d'infrastructure, qui utiliseront une approche de portefeuille "premières pertes". L'initiative des emprunts obligataires pourrait constituer une source de financement

considérable pour le mécanisme pour l'interconnexion en Europe (MIE), ainsi que pour d'autres infrastructures importantes à l'avenir, si son champ d'application est élargi via des financements levés sur le marché de capitaux moyennant l'émission d'obligations par la société de projet. Au-delà du financement affecté à la garantie des risques, les risques pour le budget sont inexistants. Néanmoins, l'instrument doit être testé.

La Commission européenne améliore son soutien aux PME dans le cadre du projet de programme pour la compétitivité des entreprises et des PME (COSME). Pour éviter les chevauchements, le soutien apporté aux PME innovantes par le programme COSME sera fusionné avec le programme pour les PME au titre du MFPR (initiative de partage des risques).

La Commission propose des améliorations considérables de tous les instruments financiers innovants. Dans le prochain cadre financier pluriannuel (CFP), les chevauchements seront réduits et le suivi amélioré, alors que la création de meilleures structures de gouvernance devrait également conduire à davantage de cohérence et de transparence avec les nouvelles plateformes d'instruments de capital et de dette. Cependant, on ne sait pas avec certitude comment les plateformes vont fonctionner dans la pratique. Le groupe d'experts interservice sur les instruments financiers (FIEG) récemment créé par la Commission peut constituer une base pour ces plateformes, mais il faut améliorer les relations entre le FIEG et les différentes branches des autorités budgétaires (Parlement européen et Conseil) et entre le FIEG et les institutions financières en charge de la mise en œuvre des instruments.

Pour assurer le bon fonctionnement des instruments et l'accroissement de leur impact, il doit être possible d'utiliser les remboursements pour refinancer les instruments, ce qui les rend potentiellement neutres d'un point de vue budgétaire et autofinancés.

B) Les instruments financiers au titre des Fonds structurels et de cohésion

La portée et l'importance des instruments financiers innovants pour effectuer des investissements au titre des Fonds structurels et de cohésion ont progressé au cours de la période 2007-2013 pour inclure les PME, la planification et la régénération du développement urbain durable, l'efficacité énergétique et l'énergie renouvelable dans les bâtiments. Il est compliqué d'évaluer la performance de ces instruments financiers innovants et les expériences varient selon les États membres. Globalement, il est possible de conclure qu'à ce jour, l'adoption des instruments financiers innovants en gestion partagée est loin d'être optimale. Ceci découle du changement culturel qui a dû intervenir au sein des autorités de gestion et parmi les bénéficiaires finaux; du manque de sensibilisation et de compréhension des instruments; de la création d'un cadre institutionnel et réglementaire approprié; et de problèmes de capacité au sein des autorités de gestion et parmi les bénéficiaires finaux. Il y a également eu des problèmes d'incohérence et de chevauchement entre les instruments; des retards dans le lancement et la mise à disposition des fonds; des cas d'affectation excédentaire des ressources; et des évaluations *ex ante* inadaptées ou incomplètes. Du fait de la mise en œuvre limitée des instruments, leur potentiel en matière de contribution aux objectifs de l'Union européenne et d'atteinte d'une masse critique d'investissements en relation avec les PME, le développement urbain durable et l'efficacité énergétique a été réduit.

S'appuyant sur l'expérience acquise au cours de la période 2007-2013, la Commission propose d'élargir, de renouveler et de renforcer l'utilisation des instruments financiers innovants pour les Fonds structurels et de cohésion de l'Union européenne pour la période 2014-2020. La portée des instruments financiers innovants sera élargie à tous les types de projets, d'activités, de secteurs et de bénéficiaires et les instruments financiers innovants seront également autorisés, pour la première fois, dans le cadre du Fonds de cohésion. Les

États membres et les autorités de gestion seront en mesure d'utiliser les instruments financiers innovants pour l'ensemble des objectifs thématiques et des priorités couverts par les programmes opérationnels (PO), sous réserve que soient démontrées la viabilité économique des bénéficiaires finaux et la capacité de remboursement des projets. Les propositions suppriment l'interdiction actuelle de financer un projet par plus d'une source et établissent des règles visant à permettre la combinaison d'instruments financiers innovants et d'autres formes de soutien, en particulier des subventions.

Les instruments financiers innovants seront conçus sur la base d'une évaluation *ex ante* qui identifie notamment les lacunes et défaillances du marché ou les situations d'investissement sous-optimales, les besoins d'investissement, la participation potentielle du secteur privé, la valeur ajoutée de l'instrument financier innovant ainsi que les questions de masse critique et de possibles économies d'échelle. Il sera également demandé aux autorités de gestion de faire état des opérations relatives aux instruments financiers innovants dans une annexe au rapport annuel d'exécution transmis à la Commission. Trois options de mise en œuvre sont proposées pour les instruments financiers innovants: 1) instruments financiers innovants à l'échelle de l'Union européenne; 2) instruments financiers innovants à l'échelle nationale ou régionale; et 3) instruments financiers innovants constitués uniquement de prêts ou de garanties. Les autorités de gestion et les bénéficiaires finaux bénéficieront d'une assistance technique et de conseils en matière de services consultatifs et de renforcement des capacités, mais le contenu de ces prestations n'est pas connu avec précision.

Les parts du Fonds européen de développement régional (FEDER) et du Fonds social européen (FSE) qui seront utilisées pour les instruments financiers innovants ne seront connues qu'à la fin de la période de programmation 2014-2020 puisqu'elles dépendent de l'adoption des instruments par les autorités de gestion dans le cadre de la mise en œuvre des programmes opérationnels. Certaines estimations initiales de la Commission suggèrent que le volume potentiel des ressources du FEDER qui pourraient être fournies au moyen d'instruments financiers innovants au cours de la prochaine période de programmation pourrait connaître une augmentation allant jusqu'à un triplement (c'est-à-dire jusqu'à 15 % environ). L'effet de levier dépendra de l'instrument financier innovant utilisé, des produits financiers spécifiques élaborés et du secteur d'application. La mise en commun des fonds au sein d'un seul ou d'un petit nombre de fonds multirégionaux (par exemple un pour les pays nordiques), plutôt que la répartition de ces fonds dans des fonds régionaux distincts et isolés, améliorerait la répartition des risques ainsi que l'effet de levier et l'effet multiplicateur.

Les dispositions générales proposées à ce jour devraient contribuer à combler les lacunes identifiées dans la mise en œuvre des instruments financiers innovants en gestion partagée existants. Les modalités spécifiques de ces instruments sont encore en cours de discussion. En particulier, les actes délégués et les actes d'exécution envisagés pour la période 2014-2020 pourraient inclure des dispositions importantes concernant les exigences minimales en matière d'évaluation *ex ante* des instruments financiers innovants; la combinaison d'instruments financiers innovants et de subventions; l'éligibilité des dépenses; et les ratios multiplicateurs à assurer. Ces actes seront essentiels pour assurer la mise en œuvre effective et efficace des nouvelles dispositions sur l'utilisation des instruments financiers innovants. Les dispositions en matière de reddition de comptes concernant les opérations relatives aux instruments financiers innovants seront également essentielles pour améliorer la transparence et seront utiles pour évaluer si les instruments fonctionnent de la manière envisagée initialement.

C) Instruments de financement pour l'action extérieure

Dans le domaine de l'action extérieure, l'UE utilise depuis un certain temps des garanties pour les prêts de la BEI au titre des programmes ACP. Les nouveaux mécanismes "mixtes" ont toutefois ajouté une dimension supplémentaire à l'action extérieure. Ces mécanismes utilisent le financement de l'UE, parfois élargi par des contributions des États membres, et sont conçus spécialement pour fournir un soutien financier aux organismes de financement du développement et mobiliser ainsi un financement supplémentaire pour les objectifs de développement de l'UE.

Un grand nombre de banques de développement et d'institutions financières internationales participent aux mécanismes mixtes pour créer des effets multiplicateurs qui sont souvent plus de 20 fois supérieurs à la contribution de l'Union européenne. L'une des faiblesses de ces mécanismes est qu'ils ont été mis en place de manière *ad hoc*, ce qui signifie que les procédures, le suivi et la reddition de comptes les concernant sont souvent différents pour des raisons qui ne peuvent être justifiées par des besoins opérationnels dans les régions cibles.

Dans ses propositions pour la période 2014-2020, la Commission envisage d'étendre l'intervention de ces mécanismes mixtes, en augmentant le financement qui leur est alloué et en élargissant leur couverture géographique. Elle propose également la mise en place d'une plateforme de l'UE pour la coopération et le développement.

Si les "mécanismes mixtes" constituent des compléments intéressants à la politique de développement de l'UE, il convient de veiller à ce que l'utilisation de titres de créance ne mène pas à un affaiblissement excessif de l'accent mis sur les pays les plus pauvres ni à un accroissement excessif de l'endettement des pays en développement.

Conclusions et recommandations clés

Les ressources financières nécessaires pour atteindre les objectifs concernant les PME, l'énergie, le changement climatique, les transports, la croissance et l'emploi, la recherche et développement et l'innovation et l'action extérieure dépassent très largement la capacité du budget de l'UE avec le financement par subvention traditionnel. Les instruments financiers peuvent aider l'Union européenne à atteindre ses multiples objectifs.

Les propositions de la Commission relatives aux instruments financiers améliorent le fonctionnement des instruments, mais il subsiste un manque de clarté en ce qui concerne la future gouvernance de ces instruments et le rôle du Parlement européen.

L'introduction des plateformes d'instruments de capital et de dette va contribuer à améliorer la cohérence entre les différents instruments. Cependant, des efforts supplémentaires doivent être fournis à cet égard. Les instruments présentent des structures très différentes en raison de leur élaboration ad hoc qui a rendu ces instruments moins transparents.

Les procédures de budgétisation, la gestion déléguée, l'octroi de financement, les procédures de suivi, les modalités d'exécution, l'exposition au risque, l'effet de levier, la reddition de comptes et la comptabilité doivent être présentés d'une manière simple et totalement transparente et dans des formats comparables pour tous les instruments financiers.

Les plateformes d'instruments de capital et de dette proposées, y compris celles pour la coopération extérieure et le développement, devraient être présidées et gérées par un service de la Commission, de préférence la direction générale des Affaires économiques et financières (DG ECFIN), comme c'est le cas pour le groupe d'experts interservice sur les instruments financiers. La plateforme devrait aussi comprendre un comité de pilotage

auquel participeraient le Conseil et le Parlement européen ainsi que les principales parties prenantes.

Les plateformes doivent fournir des orientations claires sur le suivi et l'évaluation des instruments financiers innovants.

Les instruments financiers innovants doivent suivre la logique du marché, par exemple en permettant la réutilisation des remboursements.

Le caractère fragmenté du budget accordé aux instruments financiers innovants dans les domaines politiques et les budgets régionaux au titre des Fonds structurels, ainsi que l'approche extrêmement prudente d'une exigence de capital de 100 % (ce qui veut dire que le budget peut toujours couvrir une défaillance totale de tous les instruments), limitent considérablement l'effet de levier. Le financement de garanties d'instruments financiers innovants devrait être mis en commun dans le fonds le plus vaste possible (y compris pour le Fonds de fonds régionaux), même si les parts sont ensuite allouées à l'échelle régionale. Avec une exigence de capital plus réaliste (par exemple une couverture des risques prudente de 50 %), l'effet de levier et l'effet multiplicateur progresseraient de façon spectaculaire.

1. INTRODUCTION

The European Union's objectives and aspirations have increased considerably in the last two decades, while its budget in real terms has been shrinking as a percentage of Gross National Income (GNI) since the 1990s. The introduction of investment mechanisms that combine EU-budget support with loans mainly by the EIB Group (the European Investment Bank and the European Investment Fund), but also from other financial institutions, is seen as one way of expanding the reach of the EU budget and increasing its effectiveness. The financial crisis has also increased the need for innovative financial solutions to address a weakening credit market for public infrastructures, research and development (R&D) and SMEs. While EU-level financial instruments cannot fill the vacuum created by the credit crunch and the sovereign debt crisis, they can offer specific support in areas with European added value and significant long-term returns for growth. The instruments further open up new space for collaborating, and stimulate the pooling of resources and development of common standards across the EU. The indirect benefits of well-devised mechanisms can also create considerable efficiencies of scale.

The current Multiannual Financial Framework (MFF) for the 2007–2013 period introduced a new high of more than 25 'Innovative Financial Instruments' (InFIs)[1], despite being allocated only 1.3% of the EU-budget resources. Given their relative success, the European Commission proposes their enlargement, structural reform and consolidation, as well as the introduction of ambitious new instruments, in particular the 'Project Bonds Initiative (PBI)'. The proposed extension has sparked both interest and concerns about risk management and implications for governance, with the European Parliament (EP) Committee on Budgets requesting a study to analyse the plans for InFIs in the next MFF period – their prospects, opportunities and risks, as well as improvements that will probably be needed in their governance structures.

1.1 Defining innovative financial instruments

There is some confusion about which interventions are properly classified as 'innovative' financial instruments. In EU documents the innovative financial instruments are often termed as financial instruments (FIs). But this is misleading, a large number of financial support mechanisms, including some pure grants or pure EIB loans are presented as FIs. However, such instruments cannot be categorised as *'innovative'* financial instruments, which denotes the debt and equity instruments, which arise due to the backing of an EU budget grant. This document will use the term innovative consistently with the abbreviation 'InFI' to avoid any confusion. Unfortunately, the term 'innovative' is also misleading, however, because not only has the EU used such instruments for SME support and EIB lending for some time, but they are also not novel to many countries' public private partnerships. Furthermore, it is not clear how long an instrument can be 'innovative'! The term causes great confusion since any form of financial transfer is really a 'financial instrument'. It would have been smarter to give them another name such as 'blending instruments' or just 'debt and equity instruments'.

InFIs are defined in the proposed Financial Regulation as measures of "financial support provided from the budget in order to address one or more specific policy objectives by way

[1] It is not easy to coin an acronym for 'Innovative Financial Instruments': 'IFI's would be confused with the acronym for International Financial Institutions, while the term 'financial instruments (FIs)' can be used for any instrument, including grants. In the end, 'InFI' was chosen because it is not a common acronym.

of loans, guarantees, equity or quasi-equity investments or participations, or other risk-bearing instruments, possibly combined with grants"[2].

The European Commission's Communication about EU equity and debt platforms describes InFIs as "participations in equity (risk capital) funds, guarantees to local banks' lending to ... final beneficiaries, ... or risk-sharing with financial institutions to boost investment in large infrastructure projects. (These instruments) aim to boost the real economy through increasing the access to finance for enterprises and industry producing goods and services"[3].

Financial instruments that differ from standalone grants are termed 'innovative'. InFIs become part of a package linking different forms of EU-budget support with financial products from financial institutions, with their shape and scope determined by the area of intervention they address.

InFIs can be used in limited areas to help overcome risk barriers and market failures/imperfections by supporting projects that pursue EU policy objectives, and are financially viable (in terms of revenue generating capacity) but are not (yet) necessarily bankable (i.e. they face difficulties in attracting finance from market sources). In such situations, InFIs can complement regulatory interventions and other means of financing.[4] The EU budget currently supports InFIs for SMEs, energy and transport infrastructures, R&D and climate-change funds, as well as EU development policies in neighbouring countries, the Western Balkans and developing countries. Around 1.3% of the annual EU budget is now implemented through InFIs (on average, less than €500 million per year at the EU level). Despite this modest share, the practice of blending grants from the EU budget with loans from the EIB and other financial institutions is estimated to have tripled the impact of EU spending by attracting investment from financial institutions.[5] It is likely that in coming years, a larger share of the EU budget will be delivered through these instruments.

1.2 The subject, aim and scope of the study

This report analyses the European Commission proposals for continuing and expanding InFIs for the 2014–2020 Multiannual Financial Framework (MFF). The study aims to explain the reasons for expanding InFIs in the next programming period and to present the governance principles that should guide them. It analyses the Commission proposals to see if the reforms actually ensure the most effective use of InFIs. The report should help decision-makers understand the need for an effective system to ensure transparency and democratic control while also preserving the functionality of these instruments.

The report focuses on the substantive quality of the proposals and assesses the appropriateness of the governance structures regarding project selection, monitoring, transparency, budgetary control and democratic scrutiny. The implicit uncertainties – the main policies determining large funding fiches in the next EU MFF have not yet been finalised and discussions on the appropriate policy framework for InFIs are on-going –

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[2] EC (2010a) Proposal for a Regulation of the European Parliament and of the Council on the Financial Regulation applicable to the general budget of the European Union COM(2010)815 of 22.12.2010 Title VIII Financial Instruments page 87. European Commission Q&A – Innovative Financial Instrument. http://ec.eureuropa.eu/economy_finance/financial_operations/investment/innovative_financial_instruments/index_en.htm

[3] EC (2011b), A framework for the next generation of innovative financial instruments – the EU equity and debt platforms, Communication from the Commission, (COM(2011)662), 19.10.2011, Brussels

[4] Ibid

[5] EC (2010b) The EU Budget Review. Communication from the Commission (COM(2010)700), 19.10.2011, Brussels

should be noted. We will not fully evaluate the performance of current InFIs here because this was treated in a recent report for the EP (Spence et al. 2012). Instead, this report aims to complement the analysis and build upon the findings of the earlier report.

2. THE RATIONALE FOR USING INNOVATIVE FINANCIAL INSTRUMENTS

The Europe 2020 Strategy sets out a number of objectives for the EU that require significant levels of investment in terms of trans-European infrastructure, the deployment of low-carbon technologies and R&D. While many of these objectives could be financed by the private sector, substantial support is still needed from the public sector and the EU budget. This Strategy is being implemented in a context of fiscal austerity and pressure to maintain or even reduce the EU budget. A gap is growing between the recognised need to respond to core future challenges and the budgetary resources available to meet them. But abandoning the Europe 2020 Strategy is not an option. Investments in R&D, low-carbon technologies and infrastructure are basic to ensuring future economic growth and EU global competitiveness.

InFIs can play a role in risky investments that could possibly generate economic returns, or whose economic returns are partly public (which makes them less attractive to the private sector). For such investments, InFIs can cover part of the associated costs and risks, thereby serving as catalysts to make projects bankable from a private perspective.

InFIs can help increase the total level of investments in line with EU policy objectives, surpassing by a multiple what would be possible with the EU budget's fairly limited funds – at no (or very limited) risk to the EU budget. These instruments must be well designed and properly implemented. In this regard, evaluations of existing instruments already provide a number of lessons. In order to work, the instruments need appropriate enabling conditions and complementary policies. In particular, the proper underlying legal and regulatory framework is required to stimulate necessary action.

The EU's current complex financial regulations were not designed to foster the development of flexible and market-oriented tools like InFIs. But the EU financial regulations are currently being reviewed: the Commission proposes a new approach to the use of InFIs in the EU, including restructuring existing instruments, introducing new instruments and setting up equity and debt platforms[6] with clear rules for all types of instruments. The new regulatory framework must ensure that these instruments are used for the intended objectives, effectively leveraging investment, with appropriate monitoring and reporting mechanisms in place.

Guaranteeing the level of transparency necessary to ensure accountability and democratic scrutiny requires well-designed rules for implementation and budgetary control, as well as monitoring and reporting systems. The existing instruments do not allow for proper scrutiny. While this shortcoming must be rectified, InFIs must also be flexible and resilient – responding to market needs and conditions, following sound investment procedures and operating at the speed required by private investors. Not only do the instruments have to fulfil the requirements of public authorities, they also should be attractive to private investors.

This chapter will provide a brief overview of the economic rationale for increasing the use of InFIs and the principles for correctly setting up these instruments. This is important because

[6] European Commission Communication, "A new framework for the next generation of innovative financial instruments – the EU equity and debt platforms" (COM(2011)662 (final) 19.10.2011.

poorly designed instruments will not be used, and only increase the gap between EU objectives and the required financial efforts to achieve them.

2.1 The economic rationale for using innovative financial instruments

InFIs' combined grants and loans impact on the overall cost-benefit balance of projects, enabling projects and sector investment programmes that could not have been carried out otherwise. Grant elements reduce projects' overall cost and risk, in turn reducing interest rates charged to the final beneficiary. For this reason, grant elements are particularly suited for projects that have positive economic rates of return and are important for fulfilling EU objectives, but cannot attract financiers at normal market rates – either because the projects do not generate sufficient revenue to cover interest on a loan or, based on market perceptions, the risks are too high. Grants enable projects by operating as *risk-mitigation* instruments.

In the case of equity investments, the grant component of InFIs, as well as their strong catalytic effect on potential co-investors, serves to increase their financial leverage and multiplier effect and attract more funding to projects of high European added value. InFIs may also allow grant funds to be pooled from different sources (i.e. EU and national grants) and combined with loans from different public and private financial institutions to facilitate development of large-scale programmes that a single financial institution might not be capable of financing and implementing. Estimates indicate that the impacts have been considerable. In the area of infrastructure, the total investment leveraged with EU grant components have often been more than 20 times greater than the grant element. For riskier R&D programmes the amounts leveraged have been 10 times greater than the grant element. And yet the amount of additional funding mobilised for SMEs under the Structural Funds has been disappointing (ECA 2012)[7]. This design feature may need reform.

In addition to creating leverage, the practice of combining resources from different sources and lenders can result in increased economies of scale and thus improve effectiveness, impact and replicability.

Unlike the exclusive use of grants, the enhanced use of loans can help increase financial discipline and ownership. The fact that beneficiaries have to repay the loans and contribute their own funds also boosts projects' financial sustainability. In projects where the risks between the public and private sector are properly shared, efficiency has increased (OECD 2008). The benefits, however, are eroded if the risk distribution is misaligned and the public sector takes an excessive share of the risk. Therefore, a sound risk analysis must be used to impose a strict limit on the EU-budget liability.

Equity investments and certain grants, if used as risk capital for SMEs for example, can generate re-flows which in principle could be redirected to new operations without the commitment of further resources, reducing EU budgetary costs for the facilities.

2.2 Aligning innovative financial instruments with EU objectives: Funds under shared management

InFIs must be used in limited areas to help overcome risk barriers and market failures/imperfections by supporting projects that pursue EU policy objectives but are not (yet) necessarily bankable (i.e. they have difficulty attracting finance from market sources) *although* they are financially viable in terms of revenue generating capacity, etc. (EC 2011a).

[7] This disappointing result does not apply to SME support under the competitiveness programme, which had higher multiplier effects.

While market-driven InFIs must be designed with a certain degree of flexibility they still need to be aligned with EU policy objectives to ensure their genuine European added value.

The Commission proposals for the 2014–2020 EU MFF include improved performance and results in terms of the objectives and targets of the Europe 2020 Strategy (EC 2011d). For funds under shared management, a Common Strategic Framework (CSF) has been set out to translate the Europe 2020 Strategy objectives and targets into concrete investment priorities, ensure synergies among the various funds and avoid duplications. The CSF is supposed to guide the preparation of the National Partnership Agreements (PAs) and the subsequent Operational Programmes (OPs), thereby linking national priorities and investment actions to EU objectives (EC 2012c). PAs and OPs can serve as entry points for setting the objectives, scope and modalities of InFIs and linking them to EU policy objectives. The Commission proposes a number of improvements for the 2014–2020 CSF Funds, some of which could help make InFIs more relevant to EU policy objectives. For example, member states and their managing authorities could use InFIs to fulfill the thematic objectives of their OPs, thereby establishing an indirect link between InFIs and the achievement of EU policy objectives.

To strengthen the alignment of InFIs with EU policy objectives, an ex-ante assessment and criteria that are in line with wider policy objectives are needed, as well as a transparent and efficient ex-post reporting system (de Crayencour 2011). Commission proposals for InFIs in the CSF funds call for all InFIs to be designed on the basis of an ex-ante assessment to ensure that InFIs respond to actual market needs. This assessment is supposed to identify market failures or sub-optimal investment situations (including a financial gap analysis) to be addressed by the instrument; respective investment needs; possible private sector participation; and the value added by the particular InFI. However, the ex-ante assessment could also cover other issues such as 'policy relevance'. National and regional OPs are already subject to an ex-ante evaluation procedure which includes checking if the proposed OP objective or priority axes are in line with EU policy objectives. It makes sense to require similar policy relevance checks in the ex-ante assessment of InFIs under shared management.

Another way to ensure InFIs' ex-ante compliance with EU objectives is to have criteria in the project selection procedure that favour projects supportive of EU policy objectives. Specific project selection criteria linked to the EU's climate and energy targets were incorporated into the design of the ELENA (**E**uropean **L**ocal **EN**ergy **A**ssistance) technical assistance facility established under the Intelligent Energy Europe programme. Criteria for the ELENA project selection process include (Withana et al. 2011):

Eligibility of the beneficiary;
Eligibility of the investment programme;
Potential bankability of the investment programme;
Financial and technical capacity to implement an investment programme;
Contribution to the EU 20–20–20 climate and energy targets;
Leverage (the cost of the investment must be at least 25 times the
ELENA contribution);
European added value, in terms of particular energy policies;
Use of state-of-the-art technologies.

One of two specific policy-related criteria indicates that only projects that contribute to the EU 20–20–20 climate and energy targets will be supported. The second criterion stipulates that 'European added value' refers to a project's contribution to implementing EU policies in the field of energy. The experience of ELENA has shown that stringent selection criteria can discourage beneficiaries from participating in the financial scheme, meaning that all criteria should be balanced to also ensure flexibility and responsiveness to market demands. It can, however, be argued that – whether the scheme involves a grant or InFIs – beneficiaries for

every EU scheme have a natural learning curve, and that robust selection criteria are important for better targeting financial support to EU policy objectives.

Aligning InFIs with EU objectives can also be enhanced ex-post. Current proposals for the Cohesion Policy call for strengthening reporting, monitoring and evaluation provisions for InFIs in the 2014–2020 period. Managing authorities will be obliged to submit a specific report on operations that involve InFIs as an annex to their annual implementation reports to the Commission. This is an important improvement on existing reporting requirements (which until 2010 were voluntary). However, it does not require much detail about the actual policy impacts from using InFIs. Current proposals call for this report to mainly cover quantitative information about the support paid into an InFI; support paid by the InFI to the final recipients; the multiplier effect; and revenues and repayments to the InFI. It should also include a section that assesses how InFIs contribute to the OP indicators. The draft Common Provisions Regulation on the CSF Funds foresees developing a performance framework that links EU policy objectives, targets, milestones and indicators for each OP (EC 2011b). Linking the annual report on InFIs to OP indicators is a step in the right direction but it would be better to have similar provisions for linking reporting requirements to EU policy objectives for all InFIs (including those centrally managed). The 2012 ECA report recommended that the Commission and member states should agree on a small number of measurable, relevant, specific and uniform result indicators for InFIs in order to provide more detailed information on their impacts. The production of independent evaluations that assess the InFIs policy contributions and help improve the next InFI cycle (after 2020) could also be required.

Another way to improve alignment of InFIs with EU objectives would be to monitor progress towards the achievement of policy objectives through European Commission participation in steering, advisory or supervisory bodies. The Commission primarily ensures policy control and monitoring of progress towards achievement of EU policy objectives. This would give the Commission a broader overview of the progress made in fulfilling policy objectives and in overall instrument implementation; give it feedback from the final beneficiaries about the instrument's marketing and visibility and the development of new products; and gain valuable insights on adjustments to improve the instrument. An ex-post advisory/control function would also be useful since the Commission will not have the capacity to monitor all individual InFIs investments ex-ante. But given the size of investments for large-scale transport, energy, and information and communication technologies (ICT) infrastructures that are financed with EU Project Bonds, it could be argued that the Commission should play a bigger role in supervising the ex-ante appraisal of such investments to ensure that they support the achievement of EU policy objectives.

3. FUNDAMENTAL PRINCIPLES FOR THE GOVERNANCE OF INNOVATIVE FINANCIAL INSTRUMENTS

Before analysing the Commission proposals for InFIs, the principles of intervention, management and governance that should guide these instruments must be identified. These principles should be key elements in the proposed platforms for equity and debt.

European added value

The Europe 2020 Strategy stresses the need for all EU interventions to add value at the European level. InFIs must be justified in terms of the value they add to the EU. It is not clear what this principle means in practice; it differs according to sector, level and context. However, some generic characteristics of InFIs can indicate whether or not they offer

'European' added value. The first is intrinsically linked to the *subsidiarity principle*: an EU-level InFI should produce a result that would not have been possible through national instruments alone.

The primary reason to introduce InFIs at the European level is to cover market gaps that could not be efficiently achieved at national level (e.g. because of lack of sufficient diversification), as well as a lack of coordination and/or potential economies of scale. They should also outweigh the possible costs of market distortions and not overlap or crowd out private funding and national or regional public funding. The benefits should have a European dimension, which can be subject to numerous normative economic interpretations: achieving local benefits in line with EU objectives may be considered adequate by some analysts but not by others.

Additionality

This rule is applicable to EU Structural Funds operations, but should apply to all InFIs in all policy areas – although this is rarely mentioned. EU-level InFIs should not substitute or crowd out national public or private InFIs, nor should they lead to a reduction of national aggregate public expenditure (i.e. become a substitute for public expenditure). InFIs should be designed to complement or enhance actions in the public and private sector.

Addressing sub-optimal investment situations

This principle is partially linked to that of *additionality*. The instruments should only be used based on a solid analysis that shows a sub-optimal investment situation (see EC 2011, p 5) with certain conditions. They should be used for projects that have a positive economic rate of return (ERR), but are not attractive to financiers without a grant element from the EU. The ERR does not just include the investor revenues but all of the project's returns. There are two instances where InFIs can help projects become bankable:

> The project has a high ERR but not a positive internal rate of return (IRR, i.e. the private profitability), such as when the investor cannot recover social benefits. In this case, the grant element can enhance the profitability and make the IRR positive, thereby attracting investors. To some extent, the grant pays for the project's positive externalities. Transaction costs may also be very high – in cross-border infrastructure projects, for example. EU assistance can reduce these transaction costs, thus increasing the IRR.
>
> The project may be profitable (have a positive IRR), but not bankable. This could be due to the private sector's risk perceptions, long maturities, or simply because the project is not profitable enough to attract investment (e.g. smaller loans to SMEs, micro-credit etc.). The grant element in the form of a guarantee or equity can make such investments more attractive to financial institutions.

Great care must be taken to not confuse a sub-optimal investment situation that results from market failure or lack of bankability with an investment that has a negative ERR. Even if there is political will to complete them, such investments should never be financed with InFIs, since the returns will not cover the costs. InFIs need to follow commercial logic. For this reason many important policy objectives should be addressed by direct grants, from support to basic non-commercial R&D, to social infrastructures.

In some cases, InFIs can cover part of a project while the rest is covered by more traditional EU and other public grants. Such *blending* can be used when a project component can operate under a commercial logic and generate sufficient revenues for cost recovery. It can be used

for specific infrastructures, for example an environmental infrastructure that can partly recover the investment through user charges (e.g. combining a dam with a tourist amenity).

Leverage and multiplier effect

The InFIs' objective is to mobilise as much capital as possible for EU objectives by mobilising a global investment in the form of equity or debt that is several times greater than the EU-budget commitment. The Court of Auditors' latest report on support to SMEs criticised the implementation of the ERDF revolving- fund instrument for its very low leverage and multiplier effect (European Court of Auditors 2012).

The most relevant indicator of these funds mobilisation is the *multiplier effect* that compares the total equity and/or debt raised above the EU-budget contribution to the individual investment. Many EU documents mention leverage and multiplier effects for InFIs and grants, but unfortunately, they don't always mean the same thing. Official definitions of what leverage and multiplier effects mean for InFIs are explained below. For more information, the 2012 Spence report gives a more detailed representation, along with the definition formulas.

The performance of InFIs is measured by their ability to raise additional funding. The various levels of funding that can be mobilised are defined differently.[8] There are three funding components:

An EU-budget element in the form of grants or risk guarantees from the EU budget;

Equity and risk funding from a public financial institution directly linked to the instrument (generally the EIB and the EIF);

Other funding: public grants and other equity or debt funding by other public and private financial institutions, or funds raised in capital markets.

Three measures indicate an instrument's financial mobilisation:

<u>Instrument leverage (IL)</u>: The amount of funding the EU-budget contribution has mobilised from a financial institution that is *linked to the instrument* (e.g. the EIB) in relation to the EU-budget contribution. For example, if the EIB offers guarantees and loans worth €1 billion for an EU grant of €100 million, the IL is 10 (funding mobilised by the instrument/EU budget contribution).

In the case of an EIF 'first- loss guarantee', the EU budget is used to cover the expected loss (subject to a ceiling and conditional on the achievement of a minimum portfolio volume) that is associated with the creation of a new financing portfolio for SMEs. For example, if the EIF signs a guarantee for a new portfolio of loans of €100 million, with a guaranteed amount of €50 million and a guarantee cap of €5 million, the leverage would be the guaranteed volume divided by the maximum EIF exposure from the guarantee, that is, 10x (50 million / 5 million). The current average leverage under the SME Guarantee Facility (SMEG) portfolio is currently about 16x.

<u>Project leverage (PL)</u>: This represents the amount of additional funding the instrument has attracted. It compares the total instrument leverage (the EIB loan generated) to the grand total of funding that was raised (including other public or private financial institutions, other public grants, etc.). This means that if a project's total funding is €3 billion and the instrument leverage €1 billion we have €3 billion/€1 billion, or three.

For equity fund investments, the leverage is the amount of third party investor money catalysed by the EIF investment in equity funds (i.e. total fund size/the EIF stake). On average, under the GIF the leverage amounts to about 5x at fund level.

[8] For a more precise definition please refer to Spence et al. 2012, p. 31 and Annex 3.

Multiplier effect: The most widely used and most often misunderstood measure is the multiplier effect (ME), which compares all funding to the EU-budget element. In the case above with a €3 billion PL, €1 billion IL and a grant of €100m, it would be €3 billion/€100 million, or a multiplier of 30.

For EIF equity funds, if the EIF invests €20 million into an equity fund with a total size of €100 million (including third party investments), which in turn invests the total fund in SMEs, catalysing further financing for each portfolio company for €300 million on aggregate from other investors, the multiplier would be 20x (400 million/20 million).

It is important to note that having a large leverage and multiplier effect does not automatically mean that the instrument reaches a high level of additionality. These calculations do not show whether or not the other resources that are attracted would have been used in the absence of the instrument and/or if the EU budget and the EIB/EIF are substituting for existing funding. The multiplier also does not take into account the investment's catalytic role. For instance, a relatively large stake taken by the EIF in an equity fund may provide the signalling effect used by other investors to invest in the fund so that the EIF investment catalyses overall funding – even though its catalytic role is not reflected in the fairly small leverage/multiplier numbers. Inversely, if the EIF takes a relatively small stake in a large equity fund that was likely to have developed without any EIF participation, then the leverage and multiplier numbers will be very high, although the true catalytic nature/added value of the EIF investment might be very low. Any methodology for calculating the multiplier should consider these aspects, including the non-financial impacts. The multiplier effect is just one element of the overall measure of the impact of any given investment; more analysis is necessary to determine the instrument's full impact.

Budgetary stability and risk exposure

The current Financial Regulation (Article 14) requires the EU budget to be balanced and subjects it to a strict expenditure ceiling. These provisions are unlikely to change with the current review of the financial regulations. This means that even if the EU budget can theoretically cover risks beyond the budget allocations, the liability in a single year could never be higher than the EU-budget maximum ceiling of 1.23 % of GNI.

For InFIs, there is no financial risk above the level of funding allocated to the instrument because the programme is designed to cap the EU-budget risk. Liabilities generated by the instruments are currently limited to the EU-budget contribution.

EU-budget guarantees are generally not free (i.e. they are priced), thus offering revenues that help make the instrument more stable and efficient. The flows can be used to refinance the required risk capital. This means that loan interest rates not only cover the financial institutions' operational costs, but can also generate revenue that provides returns to the instrument, generating funding for new operations. The main source of reflows now comes from SME equity funds; The use of reflows to refinance the instruments is not allowed in other InFIs. The generation of reflows and their reuse in new operations still needs to be clarified and codified.

Current capping provisions are based on an excessively stringent interpretation of risk that impacts on the final leverage and multiplier effect. Risk for the EU budget is interpreted as strictly as possible, equating the maximum annual liability risk for the EU budget with the size of the EU guarantees. This protects EU liabilities that would result from the simultaneous default of all projects, necessitating a 100% capital requirement, which is far beyond any realistic, highly conservative risk assessment. A more reasonable risk assessment

– even conservative – would considerably enhance the leverage and multiplier effect of the instruments.

Another point worth mentioning is that EU-budget risks decline in proportion to the size of the instrument and the variety of the portfolio (that increase the risk spread). To reduce default risks, instruments should aim to pool funding into the largest equity and guarantee fund. In addition, a less stringent capital requirement would create much greater impact on the leverage and multiplier effect of such pooling.

Instruments can allow for risk to be shared with entrusted entities that would not lend without EU-budget assistance – either because of the level of risk or because of the bank's capital adequacy rules.

Transparency

The procedures for InFIs lack coherence and transparency. Although reporting does exist, the formats, reporting times and level of detail have not inconsistent. The fact that InFIs are controlled by different DGs has resulted in unnecessary variations in their set-up, management, terminology and reporting. This report's authors even found that one instrument of external action used a different measure of leverage for reporting. The lack of a central body responsible for reporting has exacerbated this opacity.

The procedures for budgeting, delegated management, award funding, monitoring processes, implementation rules, risk exposure, leverage, reporting and accounting should be presented in a simple and fully transparent manner in a comparable format for all instruments. Reporting now only gives a partial picture of the instrument's parameters which are: leverage and multiplier effect, financial investors, the project's time horizon, investment conditions, level and management of revenues and the project's risk exposure. Simple, consistent and relevant information must be transparently presented. Care must be taken to appropriately balance reporting requirements, the usefulness of their information, and the administrative burden they impose on financial institutions, the Commission and beneficiaries.

The authors of this report conclude that the most appropriate body to oversee this process and ensure consistency would be the European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN). Coherence should be ensured through the equity and debt platforms, chaired by the DG ECFIN in the form of the existing Financial Instruments Inter-services Expert Group (FIEG). This should become the base of the equity and debt platform, as well as for the proposed Platform for Cooperation and Development, with a steering committee that includes representatives of the European Parliament and Council, and perhaps other key external stakeholders. It should also set up working groups with the financial institutions that are participating in the instruments. The policy formulation, objectives, selection criteria for the instruments, day-to-day management and reporting should remain the responsibility of the relevant DGs and entrusted entities, such as the EIB. The DG ECFIN should assure a centrally located consolidated information service.

Harmonisation and simplification

All InFIs should follow a common set of rules, enshrined in legislative or delegated acts.

Integration and coherence between innovative financial instruments

Today's InFIs were developed ad hoc and are poorly coordinated, with some interventions overlapping – in particular, support to SMEs. The European Commission is developing

proposals to better integrate the instruments. Whenever possible, instruments targeting the same policy areas and providing similar products should be combined. Plans to create equity and debt platforms aim at ensuring coherent and well-designed instruments.

Flexibility in a changing environment

InFIs have to be able to take different forms depending on the needs of the area of action. Financial budget support can take the following InFI forms:

- Support to technical assistance and studies
- Direct investment grants
- Conditionality / performance-related grants
- Interest rate subsidies
- Loan guarantees
- Credit enhancement – first-loss piece
- Risk capital
- Equity and debt financing

Some of these forms of support that are not yet being used are far from the rigid grant-only mechanism traditionally found in the EU budget. Figure 1 provides a simple illustration of the link between the EU budget, financial institutions and beneficiaries to indicate how these instruments are used.

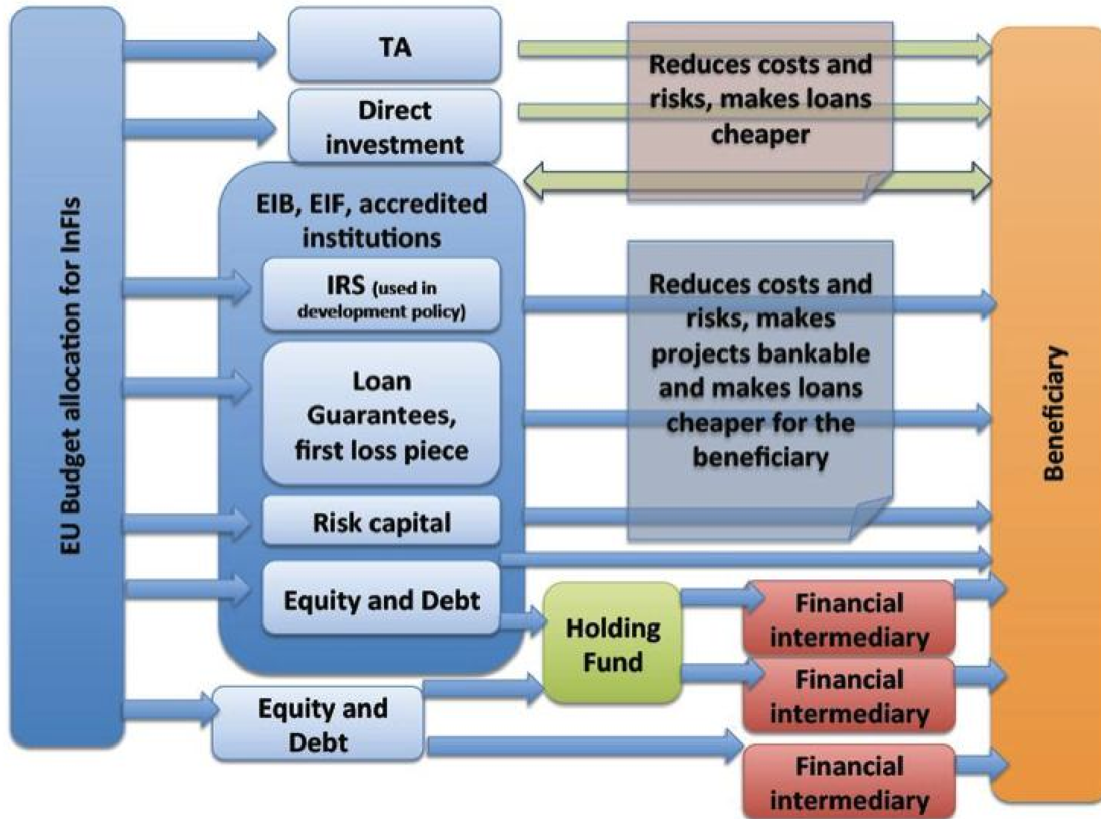
- In the case of *technical assistance and direct investment grants* - Technical assistance to prepare and accompany a project is offered to the beneficiary. Direct investment grants can cover parts of a project that financiers cannot finance, either because they do not generate revenue or they are too risky. Such assistance reduces costs and risks and triggers support from financial institutions.
- *Interest rate subsidies* - Accredited financial institutions can benefit from a number of EU-budget instruments. In external action, the EU budget can cover costs for the institutions, allowing them to offer beneficiaries loans with lower interest rates. Interest rate subsidies (IRS) are, however, only appropriate in countries facing debt-sustainability issues (which tend to be developing countries); they are mostly used by the external action budget.
- *Loan guarantees* (such as a first-loss piece) cover part of the unexpected losses or the default of a project. They reduce risks and trigger loans with lower interest rates to beneficiaries, and are mainly used to fund transport and innovation. They also are the key element of the proposed Project Bonds Initiative.
- *Risk capital* offers funds for financial institutions to lend or invest in risky investments that they otherwise would not support.
- *Equity and debt* are funds used mostly to finance SMEs and micro-enterprises through intermediary institutions. In some cases, the EIB manages and lends funds directly to beneficiaries. The funds can be placed in a holding fund, either from the budget or through the EIB. The holding fund is a national entity that manages funds and allocates them to intermediary financial institutions. The EU budget may also directly offer funds to national financial institutions.

Where an instrument covers many different areas of intervention, as is the case of development aid, the entrusted financial institution should choose the best instrument and the necessary level of support, based on a watertight rationale.

There is some resistance to allowing the EU budget to move into such forms of support. This comes from a fear that the instruments create risk for the budget, which is as unjustified as the belief that *grants* are not risky, either. In fact, the level of risk depends on the

implementation framework that is in place, which includes the project selection process and the equity and debt platforms. The legal base for InFIs should be sufficiently flexible to adjust operations and programmes to changing market conditions.

Figure 1. Understanding different forms of innovative financial instruments



Delegation

InFIs must be delivered through specialised financial institutions with the capacity and experience to manage such instruments. Rules limiting budgetary liability, setting clear eligibility rules and requiring the delegated financial institutions to apply sound management and control procedures can ensure the efficient implementation of InFIs. Reporting and monitoring, along with interim evaluations, will allow the Council, the European Parliament and the European Commission to intervene to redirect and improve the instruments as they are being implemented. Policy prioritisation, budgetary control and democratic scrutiny are important issues, but should not jeopardise the functionality of the instruments. The European Commission should not require project-by-project transaction approvals – with the possible exception of specific large projects.[9]

InFI management and implementation should be fully delegated to the entrusted entity. For centrally or joint managed funds (i.e. those not under shared management with member states) the entrusted entity most frequently will be the EIB, although other international

[9] Requiring the Commission to grant ex-ante *project* approval would create an unnecessary burden whereas the entrusted entities are chosen for their ability and expertise in the area of intervention and are better placed to take such decisions. Ex-ante approval by the Commission would also not guarantee better management of a selection procedure: it could instead create perverse incentives by blurring responsibilities and allowing the entrusted entity or fund manager to disclaim responsibility for specific projects that had been 'rubberstamped' by the Commission.

financial institutions (IFIs) and bilateral public financial institutions where at least one member state is a shareholder may also be eligible[10], provided they follow procedures satisfying EU-budget control standards and their progress is well monitored. Specialised investment vehicles can also be set up under national laws to manage funds. It is clear that, with the exception of the EIB, it is difficult to conceive of financial institutions being accountable to the European Court of Auditors and the European Parliament, rather than to national courts of auditors and national parliaments. In such cases, the EU should ensure that the standards propose a uniform level of control across all institutions in EU member states.

The rules of delegation will have to define the rules about financial institutions' management fees and the pricing of the instruments. Several financial institutions interviewed by the authors inferred that there are problems with the fee structure, which seems to have been over-engineered and inconsistent. There are different rules for different facilities – for reasons that do not appear to be based on objective criteria. This system needs review.

Management of reflows

At the moment, only SME InFIs in the Structural Funds can reinvest revenues and repayments generated by the instruments in order to reuse them during the programming period. This principle has been successfully used in financial instruments of the European Development Fund budget (since the Ninth EDF), but is not allowed in other areas – a reflection of some member states' resistance to allowing the reuse of reflows.

Reflows can be used to generate a self-financing long-term investment cycle. Management of InFIs and reflows should be based on the most efficient operating methods. Impeding reuse of reflows in the programme limits the instruments' impact and efficiency. Programmes should also be permitted to continually use reflows, even from one programming period to the next. Restrictions are not cost efficient and prevent long-term sustainable investment flows in strategic EU activities. EU-budget support can be priced according to the objectives, thus generating revenue from successful projects that in turn are reinvested in those projects or to balance losses from riskier (but high European Value Added) projects. Pricing levels have to be decided with due care, however, as those are a cost which in turn affects the instrument's leverage and multiplier.

Awareness and visibility

EU-level InFIs must be clearly identifiable and accessible for beneficiaries, and visible to the general public. Accordingly, rules for entrusted entities, national authorities and intermediary bodies need to be specified to ensure awareness of InFIs and visibility of EU instruments.

3.1 The equity and debt platforms

The equity and debt platform structures will provide a standardised set of common rules and principles to ensure effective EU oversight of the various InFIs[11]. The governance principles to be followed in designing and implementing these instruments are listed above. The platforms will not have their own budget lines, but rather will be financed by allocations from different budget lines. For InFIs under shared management, the rules from the

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[10] The exact wording of the new financial regulation about which institutions can be entrusted to manage the facilities is unclear.

[11] Platforms will be created for internal policies, for the moment it is not clear if the platforms will also be developed for external action

platforms will merely be presenting guidelines for best practice. The equity and debt platforms must in addition to implementation rules, develop procedures including for budgetary control and reporting.

To ensure coordination and coherence, the platforms should be governed by a steering committee composed of the Directorate Generals (DGs) involved, the entrusted financial institutions and representatives of the Council and the European Parliament. The DG ECFIN would be the most ideal DG to chair the steering committee, with the lead DGs chairing specific policy areas.

This is based on a similar structure that already exists in the form of the Financial Instruments Inter-services Expert Group (FIEG) that was created to provide permanent internal guidance and advice to DGs throughout the lifetime of InFIs by the Secretary General and the DG-ECFIN Director General in January 2012. It includes the Secretariat General, DG ECFIN, DG BUDG, DG COMP and the Legal Service, and is chaired by the DG ECFIN. The FIEG aims to foster coherent instrument design and ensure conformity with common rules, principles and guidelines. Other DGs are invited to attend the FIEG meetings as required for the area of competence.

The FIEG offers an interesting starting point for the equity and debt platforms because it allows a specialised Commission service to oversee all InFIs, thereby increasing clarity and coordination. It is also the light and flexible structure needed for instruments that must be able to adapt to rapidly changing market conditions. The aims of the FIEG are:

- To achieve coherence and consistency of all InFIs and avoid overlaps between instruments;
- To ensure the existence of an appropriate implementation framework, in compliance with the regulations and standards, and reflecting sound financial management and best market practice;
- To ensure that individual financial instruments efficiently pursue their objectives in line with the Europe 2020 Strategy;
- To monitor the performance of monitoring and evaluation systems;
- To ensure consistency in reporting (and thus transparency);
- To ensure an appropriate balance between administrative requirements and the specificities of flexibility, functionality and geography needed for the instruments;
- To provide clear and consistent rules for framework agreements with the EIB, the EBRD and other international and national financial institutions involved in implementation.

The FIEG is an advisory group for the Commission services, with a structure that can be adapted to fulfil the needs of the debt and equity platform as well as the platform for blending instruments in external action. Although the FIEG appears to cover all aspects that the debt and equity platforms need to address, it is actually a closed group of Commission representatives without external input. A debt and equity platform, however, needs a formal link to the European Parliament and the Council Secretariat, as well a clear link to technical groups including the financial institutions. Simple reporting does not suffice.

The debt and equity platform could have two levels: a *steering* group with representatives of the European Parliament and the Council that meets once or twice a year to discuss policy issues and review the coherency of the instruments with their stated objectives; and a separate *operational financiers* group with representatives of the financial institutions. The FIEG could then take charge of the implementation, monitoring and reporting on InFIs.

4. INNOVATIVE FINANCIAL INSTRUMENTS IN THE 2014–2020 PERIOD

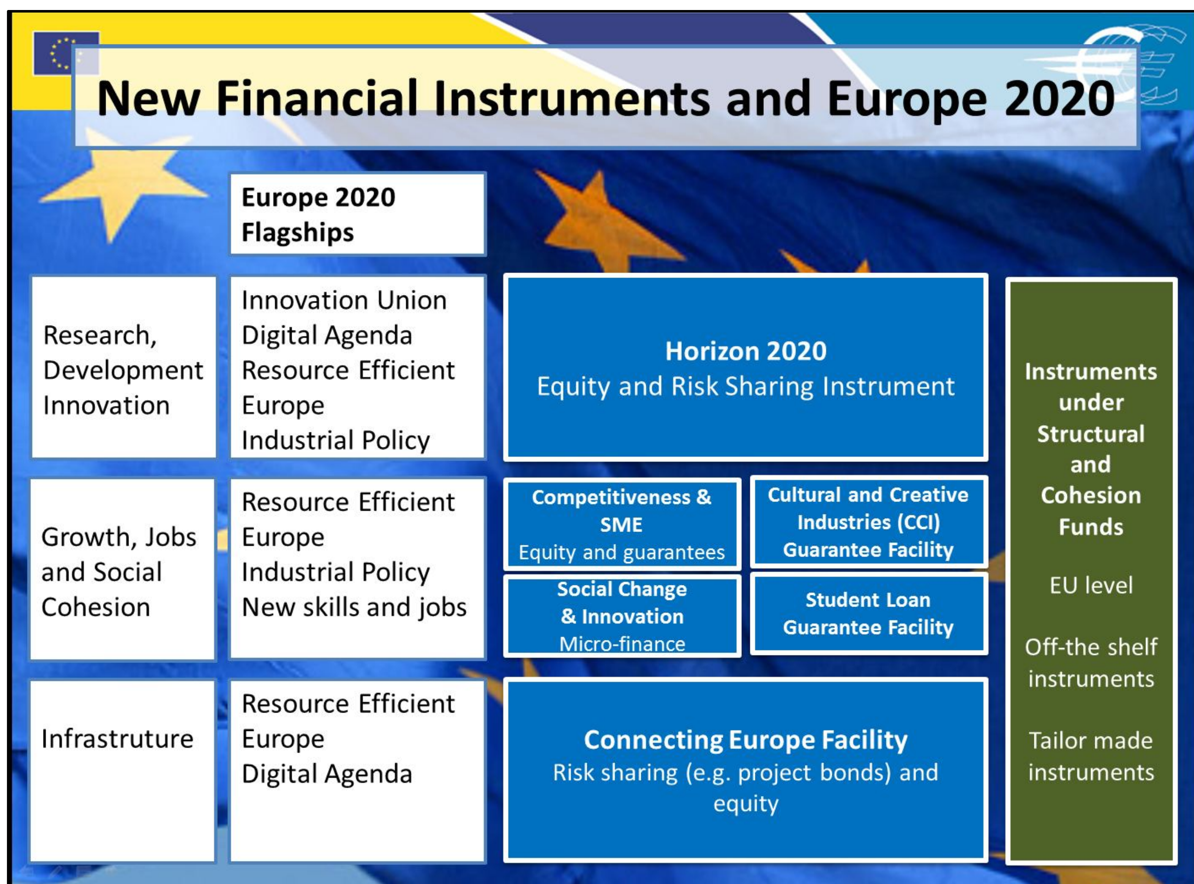
There are currently 25 InFIs: 10 internal instruments managed by the European Commission either centrally or jointly with a financial institution, three instruments under shared management (thus mainly under the control of national authorities) and 13 external instruments. Annex 1 presents a detailed description of these instruments. Table 1 lists the instruments divided into the three groups.

Table 1. Innovative Financial Instruments in the 2007–2013 programming period

Internal Central and Joint management	Internal Shared management	External
CIP GIF High Growth and Innovative SME Facility	JEREMIE Joint European Resources for Micro to Medium Enterprises	WBIF Western Balkans Investment Framework
CIP SMEG07 SME Guarantee Facility	JESSICA Joint European Support for Sustainable Investment in City Areas	NIF Neighbourhood Investment Facility
RSFF Risk-Sharing Finance Facility	JASPERS Joint Assistance to Support Projects in European Regions	EU-A ITF EU-Africa Infrastructure Trust Fund
LGTT Loan Guarantee Instrument for Trans-European Network Transport Projects		ACP Investment Facility
Marguerite Fund The 2020 European Fund for Energy, Climate Change and Infrastructure		GEEREF Global Energy Efficiency and Renewable Energy Fund
EPMF European Progress Microfinance Facility		EFSE European Fund for Southeast Europe
TTP Technology Transfer Pilot Project		GGF Green for Growth Fund
JASMINE Joint Action to Support Microfinance Institutions in Europe		LAIF Latin America Investment Facility
ELENA European Local Energy Assistance		IFCA Investment Facility for Central Asia
EEEF European Energy Efficiency Fund		AIF Asia Investment Facility (New, end 2011)
		CIF Caribbean Investment Facility (New, 2012)
		IFP Investment Facility for the Pacific (New,2012)

The European Commission proposes restructuring and consolidating these instruments in the 2014–2020 period, and expanding their scope and creating new instruments such as the Project Bonds Initiative. Restructuring will address inefficiencies revealed in evaluations of current instruments, including those that result from the lack of coherence between instruments creating divergences and overlaps. The Commission is developing a proposal to restructure internal-policy InFis that it manages to make them more coherent and to streamline procedures using the debt and equity platforms (Figure 2). Building on experience gained during the 2007–2013 period and introducing a number of novelties, Commission proposals for the 2014–2020 EU Structural and Cohesion Funds expand and strengthen the use of InFIs under shared management. No major restructuring has been proposed for external policies and instruments under shared management, but many policy improvements have been proposed. This is further discussed in following chapters.

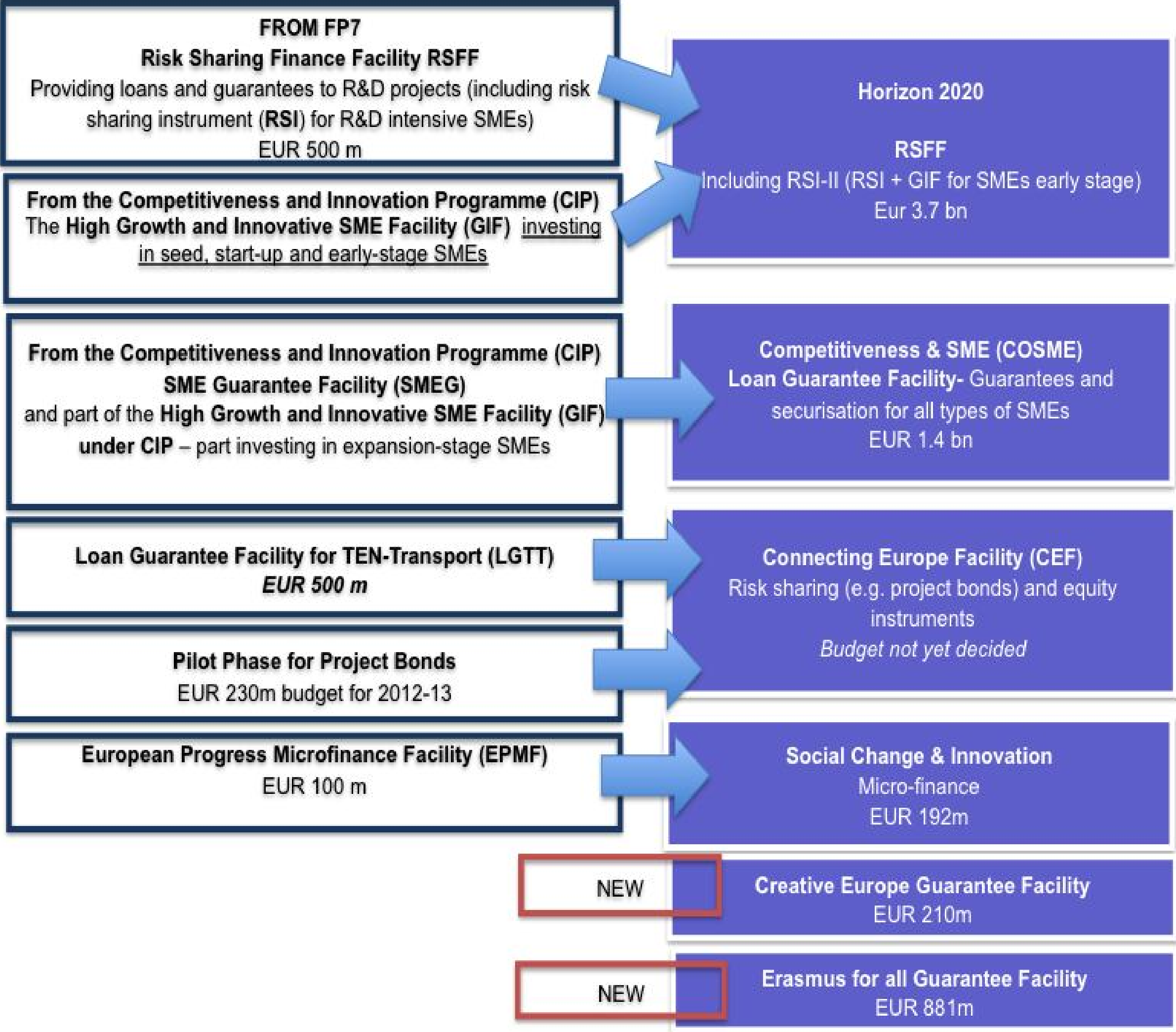
Figure 2. New InFIs in the 2014–2020 MFF and the Europe 2020 Strategy



Source: DG ECFIN (2011), Financial instruments in the MFF 2014–2020, presentation at the 'Exploring the potential of new financial instruments for climate change' workshop, Brussels, 11.10.2011.

As indicated in Figure 2, the Commission has proposed a new more streamlined structure with six instruments for InFIs managed by the Commission in internal policies. These six instruments do not cover all existing and future instruments but only those directly related to main EU-budget policies, such as the Horizon 2020 or the Cohesion Policy. It also does not include specialised funds that are not part of those policies, such as the EEEF (European Energy Efficiency Fund) or 'Marguerite' Fund (the 2020 European Fund for Climate Change and Infrastructure). The new structure aims to reduce overlaps and simplify the architecture, thus making them potentially more transparent to beneficiaries. What this change may mean in practice is set out in Figure 3.

Figure 3. InFIs managed by the European Commission (central and joint management): Comparisons between current instruments and proposals



Source: Based on interviews with the European Commission.

The European Commission is also setting up better coordination structures in areas of external action; however, this is mainly taking place in relation to instruments under the DG-DEVCO control. Collaboration with the DG Enlargement and the European External Action Service (EEAS) still needs to be strengthened to improve coherence with their InFIs. This may indicate a role involving the FIEG regarding external InFIs.

An important reform across the instruments relates to combining grants and INFIs. Some current rules prevent beneficiaries combining two forms of EU assistance for the same project, for example combining an SME grant support with an EU-backed loan. This may make sense in terms of combining two grants, but not when combining grants with loans from InFIs. The Commission proposals eliminate the provision that a project cannot be financed by more than one source and set out rules that enable combining financial instruments with other forms of support, in particular, grants.

The subsections below review the main proposals for InFIs in the 2014–2020 period and assess the extent to which these proposals are in line with certain governance principles discussed in Chapter 2, namely European added value, additionality, sub-optimal investment situations (justification for interventions), potential leverage and multiplier

effects, budgetary stability and risk, visibility and awareness, and transparency. The InFIs examined are:

Research: the RSFF
Competitiveness: SME assistance
Cohesion Policy: proposals for InFIs under shared management
Transport: the LGTT and the Project Bonds Initiative
External action: the loan and grant 'blending facilities'

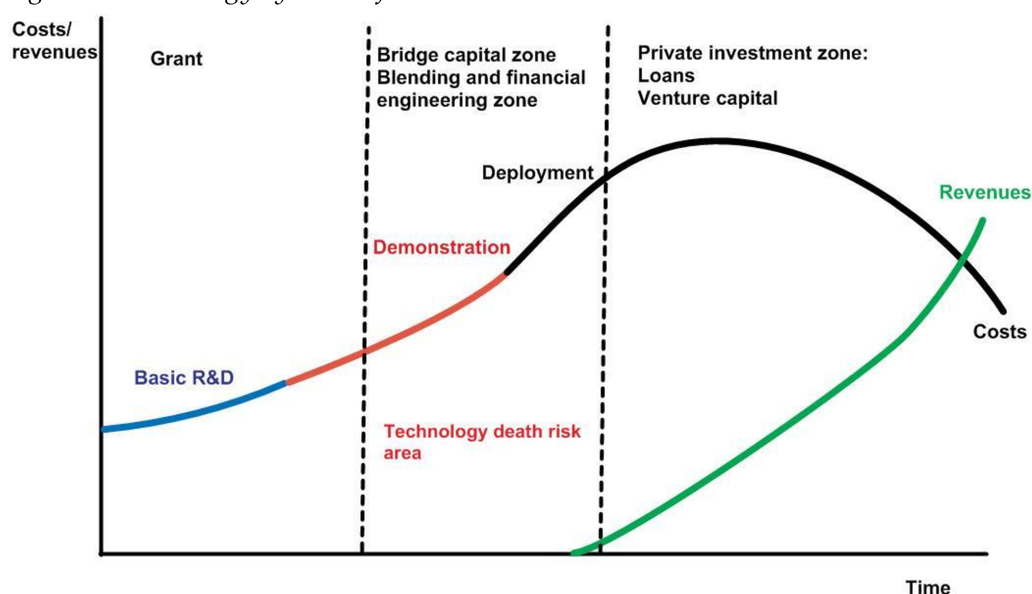
The purpose of this chapter is not to present a full and detailed evaluation of the proposed InFIs, but rather to pinpoint areas that are unclear or will need special attention in the next MFF.

4.1 The Risk-Sharing Finance Facility

It is well documented that the European Union's share of GNI that is invested in R&D is below the level of investment in the US and Japan. The main cause of this weakness is the low contribution by the private sector (Uppenberg 2009). An important gap in financing has been identified at the development stages of demonstration and deployment. While basic research in Europe is covered by grants at levels similar to those in the US and Japan, at the critical stages of testing and deployment funding evaporates. The gap between R&D results and deployment is often referred to as the 'valley of death' or the 'technology death-risk area' (Núñez Ferrer et al. 2011).

This 'technology death-risk area' is described in Figure 4. It is a zone that does not attract investors for a number of reasons, such rising costs and long maturity periods with high uncertainty. For technologies that have a positive economic rate of return[12] there is adequate reason for the public sector to intervene with bridge capital when such finance gaps appear. Public support can assist in financing and increase the bankability of projects by reducing risks and associated interest rate costs.

Figure 4. Technology cycle and financial needs



Source: Nunez Ferrer et al. (2011), SET-Plan – From Concept to Successful Implementation', CEPS Task Force Report, May 2011, p. 24.

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[12] The economic rate of return (ERR) includes benefits to society that are not captured by the investor. Private investors take decisions on the financial returns known as the 'internal rate of return' (IRR).

In an initiative to promote innovation and technology development, in 2007 the European Commission launched the Risk-Sharing Finance Facility (RSFF) in collaboration with the EIB. This debt-based InFI is part of the Seventh Framework Programme for Research and Technological Development (FP7). The EIB and the European Commission each provided €500 million as a capital cushion to cover any risks incurred by projects for the period 2007–2010, and they will each provide another €500 million for 2011 to 2013. With an estimated conservative risk of default of 20%, the risk guarantee of €1 billion jointly provided by the EC and the EIB could raise investment sums between €8 to €24 billion in three years (a multiplier effect of 16 to 48). The RSFF has shown convincing results: by the first quarter of 2012, loans worth €9.6 billion had been signed, and almost €5 billion disbursed (EIB 2012).

Based on an independent Expert Group's interim evaluation of the RSFF that was published by the EIB (2010a), the RSFF successfully assisted large companies and mid caps, but did not sufficiently support SMEs. The Expert Group recommended that the RSFF improve its specific focus on SMEs. For this reason, specific support for SMEs was introduced for the period 2012–13, the Risk-Sharing Instrument (RSI) for highly innovative SMEs and small mid caps, in collaboration with the European Investment Fund (EIF), which is implementing it.

4.1.1 Proposals for the Risk-Sharing Finance Facility in the 2014–2020 period

The Horizon 2020 programme will continue to finance the Risk-Sharing Financing Facility (RSFF), greatly increasing its size and reach. The European Commission proposes increasing the EU-budget contribution for financial instruments in research to €3.768 million to create a very large multiplier effect. The amount is not broken down into what the RSFF follow-up will receive and the Research, equity funds for Development and Innovation (RDI) . Horizon 2020 will also assist SMEs by expanding the Risk-Sharing Instrument and integrating the High Growth and Innovative SME Facility (GIF) for seed, start-ups and early-stage SMEs that are presently in the Competitiveness and Innovation Programme (CIP).

The potential leverage is very high, but the size will also depend on the EIB's contribution to the capital cushion and the way it is managed. The multiplier effect could generate over €100 billion in investment in R&D over the period of the MFF. This represents approximately 10% of the gap in R&D investment to the 3% target level in the Europe 2020 strategy. The level of funding that is mobilised will depend on many factors, such as the level of additional funding that the RSFF is able to attract from other sources, since the rules now allow this fund to be topped up with national contributions to increase the leverage and multiplier effect. The RSFF now has a project-by-project approach that is handled directly through the EIB, but in the future the RSFF will take a portfolio approach that will be delivered by partner banks.

The new risk-sharing model that has already been implemented for the RSFF also aims to change how risks are distributed between the EU budget and other institutions (mainly the EIB and the EIF). While the risk used to be shared on the same footing, in the future it will be based on a first-loss piece approach, in which the EU budget takes the first losses – up to 95% of the guaranteed amount. The residual 5% risk guarantee will be borne by the EIB. This can enhance the lending capacity of the financial institutions or reduce the level of risk interests they require, thereby increasing the multiplier effect.

Overlaps between the RSFF support for SMEs (RSI) and the support offered by the Competitiveness and Innovation Programme (CIP) will be addressed by improving instrument coordination and merging SME support for start-ups in the CIP (the future 'Competitiveness and SME', or COSME) with the RSI in Horizon 2020.

A final necessary reform is to allow the facility to reuse reflows from repayments. The fact that this is not allowed reduces the instrument's potential.

Table 2. The Risk-Sharing Finance Facility Assessment

Principles	Assessment of the RSFF
European Added Value	Innovation is essential for the European Union's long-term economic growth, and according to economic theory, R&D is one of the most suitable areas for European-level investment. This allows for pooling resources and improves coordination across the EU, avoiding duplication and generating economies of scale. It also allows for large collaborative projects to emerge which no single member state could finance alone. The RSFF started when investment in R&D was hit by the financial crisis, thus providing a welcome boost for one of the EU's highest priority areas.
Additionality	The RSFF is supposed to finance innovative high-risk investments with a high ERR – where financial institutions would not invest. When this is the case, additionality is preserved. The RSFF only contributes to part of a project's financing and must be complemented by additional sources. It does not have a mechanism to identify a project's ability to attract other capital and a project's additionality may be questioned, but discrimination on these grounds is not feasible in project selection. In any case, the Expert Group's evaluation of the RSFF found no evidence that it crowds out other financial sources. Instead, it discovered complementarity.[13] It is impractical to ensure ex-ante additionality for projects, and refuse or accept demands for financing based on these criteria. There is a well-documented lack of finance for innovative companies, and serious due diligence for RSFF projects guarantees quite a high level of additionality. Demand for R&D funding is much higher than the market provision.
Addressing sub-optimal investment	The RSFF is designed to finance projects with high ERRs that do not attract funding due to market failures.
Leverage and multiplier effect	The RSFF has a very impressive multiplier effect, with the total amount of finance that is mobilised by all sources more than 30 times higher than the EU- budget contribution. The instrument leverage (IL) is over 12 and the project leverage (PL) is over three. The total multiplier effect is considerable and may exceed €100 billion – or even more if other grant resources are pooled into a kind of 'trust fund', or other institutions offer shared risk capital. Changing the risk-sharing mechanism to a portfolio first-loss piece will affect the RSFF's leverage and multiplier effect positively.
Budgetary stability and risk-sharing profile	The risk guarantee offered will be strictly capped, thus eliminating a risk to the EU budget. Today the risk-sharing capital is based on an approach in which risks are shared equally. This is supposed to change to a first-loss approach, where the EU budget takes the first loss up to 95% of the guaranteed level. Guarantees by other institutions such as the EIB will only be called upon once 95% of the guaranteed amount has been crossed, and then for only 5%. This approach enhances the lending capacity of the EIB and other risk-sharing institutions.

[13] EC (2010c), Interim Evaluation of the Seventh Framework Programme, Report of the Expert Group, Final Report 12.11.2010.

Principles	Assessment of the RSFF
Efficiency of implementation setting	The EIB is entrusted with managing EU funds, from project selection to financial management. A steering committee consisting of four members each from the European Commission and the EIB will supervise the implementation. Although the RSFF has performed correctly and efficiently, the EIB's evaluation published in 2010 indicates uptake difficulties in some countries. The European Commission and the EIB are not permitted to reuse reflows from the repayment of the loans in the facility, which serves to reduce the strength and efficiency of the RSFF.
Visibility and awareness	The level of visibility and awareness of the RSFF has been generally positive as indicated by the rapid uptake of the funding.
Transparency	The EIB reports on progress and also makes ex-post evaluations of selected investments that are published on the EIB website. It is difficult to monitor results given the increasing number of operations and because most impacts become obvious sometime long after the period of loan operations has ended. The reporting requirements and the administrative burden imposed on financial institutions, the Commission and beneficiaries must be carefully balanced.

4.2 SME assistance under CIP and in the future under COSME

The Competitiveness and Innovation Programme (CIP) has two InFIs operating as part of the Innovation and Entrepreneurship Programme (EIP): the High Growth and Innovative SME Facility (GIF) and the SME Guarantee Facility (SMEG).

The GIF is managed by the EIF, which invests in venture capital funds to increase the level of equity for innovative SMEs in the early stages (GIF1) and in the expansion phase (GIF2).

The SMEG Facility is also managed by the EIF and provides guarantees that partially cover SME loan portfolios by financial institutions. There are four 'windows' or business lines:

Loan Guarantees: These cover debt finance portfolios that target SMEs.

Micro-Credit Guarantees: These cover portfolios of credits to micro-enterprises through financial institutions, especially start-ups.

Equity Guarantees: These cover portfolios of investments in SMEs in the seed and start-up phases; 'Quasi Equity Guarantees' are available. It also provides quasi equity for mezzanine financing.

Securisation: These are guarantees for financial institutions to mobilise more debt financing for SMEs.

These programmes started in 2007; the investment periods run until the end of 2012, while the actual transactions will continue many years beyond 2012 (until 2026 for GIF). Because the programme is not old, it is difficult to evaluate the impact at this stage.

The GIF and the SMEG have been relatively successful, with high demand for the instruments.[14] Surveys indicate that two-thirds of the GIF beneficiaries consider that without

[14] For a full evaluation of the CIP, please refer to Technopolis Group (2010) Interim Evaluation of the Competitiveness and Innovation Framework Programme (2007–2013), Specific Contract No ENTR/A4/04/093/1/09/22 Implementing Framework Contract No ENTR/04/093, Lot 1 and CSES (2011), Final evaluation of the Competitiveness and Innovation Framework Programme, 12.2011.

it, the business would not have made the same level of investment. For the SMEG, about half of the SMEs said their business could not have been set up without the SMEG loan support.

The evaluations, however, indicate a number of problems. The first is the need to improve strategic steering and coordination with other EU initiatives for SMEs. Coordination between the various DGs that manage bits and pieces of the CIP has not been optimal. Another problem is potential overlap with other SME assistance under the Cohesion Policy. The CSES (2011) evaluation mentioned some overlaps, but didn't identify any particular problems. Debt and equity platforms could play a useful role in this area, but overlaps and problems of coordination must be avoided in all future SME support programmes.

As for the programmes' European added value, the GIF has proven that this assistance was needed because it directly addresses the EU core objectives of innovation, growth and jobs. For the SMEG, the results are more controversial. Similar national schemes for assisting SMEs exist in many member states, and although a certain level of deadweight is inevitable when providing assistance on the basis of portfolios (ECA 2011), the programme has actually been criticised of considerable deadweight loss (an estimated 38%) by the Court of Auditors.[15] While the SMEG programme serves to develop SME programmes in countries where there is no such assistance, it is not clear that it should operate where such instruments already exist.

The programme indicates that there has been substantial leverage. For the GIF1 and the GIF2, leverage has been estimated at 6.5. For the SMEG it has reached as much as 67 times over the period 1998–2008 (Technopolis Group 2010). However the EIF's estimated leverage for 2011–2013 shows much lower expectations – respectively 3–5 and approximately 15 – which probably indicates a different methodology and interpretation of leverage. Such differences in interpretation of terms such as leverage or multiplier must be resolved by the equity and debt platforms or evaluations will not be consistent.

The proposals for COSME go some way in addressing the weaknesses identified by evaluators, in particular by linking the GIF1 for start-up SMEs with the RSI programme for Horizon 2020. This will avoid overlaps. However, there are no evaluations on potential overlaps with the Structural Funds operations that support SMEs under joint management. This is the result of the lack of coordination between the responsible DGs for different InFIs, the overall picture of EU InFI operations is often lost.

Evaluations of the present programmes call for COSME to improve monitoring and reporting. Annual Implementation Reports should include details of actual expenditure to improve transparency and provide a basis for evaluating efficiency. The Commission has in fact had difficulties tracing the use of funding offered to financial intermediaries.

The impact of the programmes is not monitored using a standard set of indicators (outputs, results, outcomes and impacts) to record and report progress. Greater consistency will be needed in the future.

[15] "In the context of the SMEG facility, it is considered that deadweight occurs if guarantees are provided for loans to SMEs with sufficient collateral and without innovative investments. (…) Other things being equal, these borrowers could have obtained the loans from commercial lenders without the SME guarantee." (ECA 2011, 85)

Table 3. The COSME Assessment

Principles	Assessment of COSME
European Added Value	The GIF programme addresses a core weakness in Europe, namely the lack of finance for innovative SMEs. EU action has introduced an important new financing scheme in member states. For the SMEG, the results are more controversial, since it also operates in countries with similar instruments. There is value added wherever the instrument can creates a new financial stream, but where it replicates national instruments the need is questionable.
Additionality	Evaluations consider the GIF to be 'additional'. Doubts are raised for a some of the impacts of the SMEG facility.
Addressing sub-optimal investment	The GIF addresses a clear market failure where innovative SMEs have lacked investment because of their risk profile and their size. For the SMEG, this is less clear, since some countries have similar SME financial schemes. The SMEG should not replicate or compete with national schemes.
Leverage and multiplier effect	Both have a high leverage effect – based on different estimations.
Budgetary stability and risk-sharing profile	Assistance is capped, so the EU budget is not at risk.
Efficiency of implementation setting	COSME addresses a number of implementation issues; efficiency is expected to increase.
Visibility and awareness	The uptake of the programmes shows the beneficiaries are aware of it, but not necessarily that the instruments originate from EU support. Programmes are run through financial intermediaries that do not always make the EU contribution sufficiently visible.
Transparency	COSME will be a complex programme; but despite having central management it will need an improved mechanism for reporting and monitoring. In this respect, the European Commission proposals are pointing in the right direction.

4.3 LGTT

Since 2008, the European Union budget has provided loan guarantees under the LGTT (Loan Guarantee instrument for Trans-European Transport Network Projects) programme, an instrument that was developed by the European Commission and the European Investment Bank (EIB). LGTT is financed by a capital contribution of €1 billion (€500 million each from the Commission's budget for the Trans-European Transport Network, or TEN-T, and the EIB) with as much as a 20% guarantee for total senior debt that is intended to support up to €20 billion of senior loans. The LGTT allows the EIB to bear higher financial risks than under its normal lending operations, covering the first five to seven years of project operations. The instrument is intended to provide a debt-service guarantee for *traffic risk*, which is a key financial risk in the early operating stage of a demand-based transport project. Given the risk profile of the subordinated instrument, the maximum amount of the LGTT guarantees is a

principal of €200 million. It was expected that over a decade the instrument could mobilise loans (multiplier effect) to a level of €50 billion (EIB 2006, EIB 2008).

Given the important changes in the financing environment since the LGTT's conception, the up-take of the instrument has been slower than expected, with scarcities of banking funding and public resources causing delays in tendering traffic risk projects in many European countries. Nevertheless, the LGTT has proven to be a critical element for successfully financing the remaining traffic risk projects. In fact, since 2008 the instrument has been implemented in almost all projects eligible in the road, rail and port sectors. By early 2012, seven contracts had been signed for an amount of €400 million with LGTT Facilities underpinning some €12 billion of capital investment.

Although the LGTT has become a standard feature of traffic projects and is usually required by all co-lenders to the EIB as a precondition for their participation, the instrument has its limitations. Risk coverage is limited to traffic demand, which makes the instrument unsuitable for availability risks (e.g. delays in construction and other problems impeding the successful use of the infrastructure). The LGTT was also designed to ease bank funding for infrastructure projects, but since all major markets have been hit by the strong contraction of available bank funding, in its current form the LGTT is not able to increase the available funding base provided by commercial banks. To address this issue, the EIB and the Commission are developing instruments that allow for new funding models that are based on institutional investors' capital resources. This accounts for the introduction of the Project Bonds Initiative (PBI) presented in Section 4.4.

But despite the PBI, the LGTT will not be abolished. It will instead be reformed so as to be able to offer more flexibility and continue to support the remaining bank funding.

Table 4. Assessment of the LGTT proposals

Principles	Assessment of Proposals
European Added Value	The LGTT clearly addresses an area where funding is needed after the crash of traditional financiers of infrastructure projects.
Additionality	The LGTT initiative is designed to guarantee an additional subordinated liquidity facility, thus ensuring additionality.
Addressing sub-optimal investment	The LGTT is designed to provide protection for traffic risk exposure, a risk that traditional senior lenders will not take in transport infrastructure, which leaves it to the public or private sector.
Leverage and multiplier effect	Although the LGTT has been slow in uptake, final funding mobilised for seven contracts signed at the value of €400 million has reached €12 billion.
Budgetary stability and risk-sharing profile	Risks to the EU budget are capped to the funding earmarked for guarantees – that is, they are non-existent.
Efficiency of implementation setting	Implementation was hampered by the limited risk coverage of the instrument and inflexible procedures. This must be addressed for the next MFF.
Visibility and awareness	Potential beneficiaries are familiar with the LGTT.
Transparency	The operations have been transparent.

4.4 Project Bonds

The European Commission has proposed a pilot phase for Project Bonds that are initially limited to investment in the Connecting Europe Facility (CEF) for the period 2012–13.[16] These Project Bonds were designed to substitute for the drop in financing from traditional financiers (banks and monoline insurance companies that offer debt service guarantees) because of the financial crisis. The Project Bonds are intended to attract funding from more conservative long-term investors, such as pension funds.

In this straightforward mechanism, the EU budget will support the EIB delivering a first-loss debt guarantee of up to 20% of the project's senior debt. This combined risk guarantee should improve projects' bankability and attract debt-capital market financing.

The Project Bonds instrument (which are not to be confused with 'Eurobonds') that is based on LGTT mechanics appears to be a necessary tool for developing Europe's infrastructure. But Project Bonds are not a panacea: The Bonds' pricing will be critical for attracting investors, as well as the quality of the infrastructures they finance.

Project Bonds are proposed exclusively for infrastructures financed under the CEF – transport, energy and telecommunications infrastructure. It is estimated that under the CEF, €2 billion will be dedicated to new InFIs for transport projects and a further €1 billion for energy projects. This provisional estimate may need to be revised. A 15 to 20 multiplier effect has been estimated, meaning that €2 billion could result in projects of €30 to 40 billion.[17] The actual leverage factor will vary by project.

Although the design of Project Bonds is not finished, some basic features are already apparent. It is based on the idea of 'tranching' (i.e. dividing) an issuer's debt into layers of different seniority, dividing debt into separate groups, each with their own risks/returns profile to attract different kinds of investors. After a project company has been set up (a single-purpose vehicle), the financing for a particular infrastructure project can be divided into:

a senior tranche issued as bonds to institutional investors such as insurance companies and pension funds; and

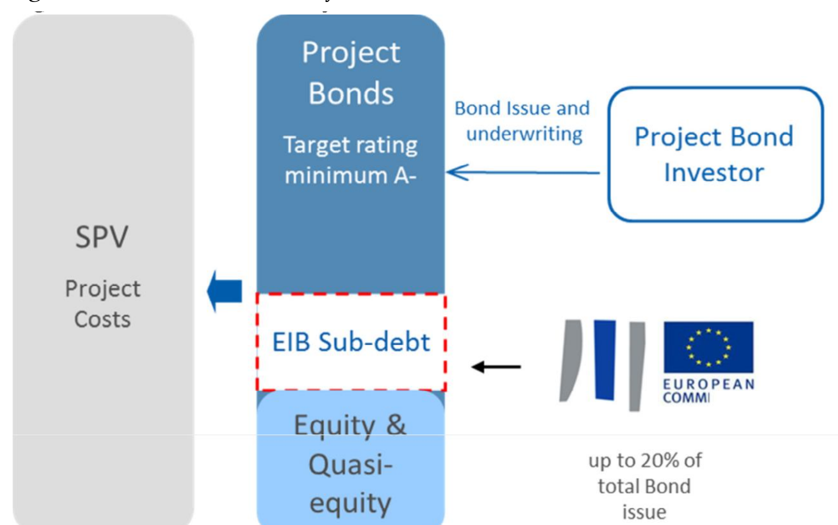
a subordinated tranche underwritten by the EIB as a funded loan or a simple guarantee facility.

The concept of (b) is similar to the system in place for the RSFF and the LGTT that helps reduce risks and borrowing costs – and ultimately attracts investors and buyers of bonds. Large projects would end up with three components (see Figure 5).

[16] European Commission, Proposal for a Regulation of the European Parliament and the Council amending Decision No. 1639/2006/EC establishing a Competitiveness and Innovation Programme (2007–2013) and Regulation (EC) No. 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks, COM(2011) 659, Brussels, 19.10.2011.

[17] EC (2011e) Proposal for a Regulation of the European Parliament and the Council establishing the Connecting Europe Facility, (COM(2011)665, 19.10.2011, Brussels

Figure 5. Subordinated Project Bonds Instruments



Source: EIB (2011) 'Supporting the EU budget: the EIB contribution', power-point presentation at the CEPS Task Force meeting, 22.06.2011 version.

Like other joint financial instruments, the instrument provided by the EIB will be priced according to the EIB's Credit Risk Policy Guidelines. A Cooperation Agreement between the Commission and the EIB will set out the risk-sharing principles and mechanism.

Table 5. Project bonds

Principles	Assessment of Proposals
European Added Value	The Project Bonds address an area where funding is clearly needed after the crash of the traditional infrastructure project financiers. Project Bonds are focused on the important trans-European infrastructure that is a core element of the single market and linked to the need to develop low-carbon infrastructures to reach the 2020 and 2050 climate objectives.
Additionality	The Project Bonds Initiative is designed for where financing is lacking, so additionality is ensured.
Addressing sub-optimal investment	If correctly implemented, the Project Bonds Initiative will correct a market failure where important infrastructures with positive ERRs lack investment.
Leverage and multiplier effect	The Project Bonds could raise considerable funding.
Budgetary stability and risk-sharing profile	Risks to the EU budget are non-existent as the risk capital is capped.
Efficiency of implementation setting	This new instrument cannot be evaluated yet but it seems to solve the problems of the LGTT in terms of flexibility with the bond issuance and also covers more areas of infrastructure. But whether there will be a demand for Project Bonds remains an open question. The bonds' demand-driven nature means that the trans-European network links of the CEF may not attract investors. This will only be apparent when it is implemented. The Project Bonds should integrate the need to prioritise low-carbon infrastructures in line with the EU decarbonisation objectives. It is unclear how objectives and restrictions linked to EU objectives and strategies will limit the demand-side response.

	No agreement has been reached on reflows, i.e. the income from pricing the instrument. If reflows cannot be reinvested in the facility based on the principle of a revolving fund, the efficiency of the Project Bonds will drop.
Visibility and awareness	Not applicable – new instrument
Transparency	Not applicable – new instrument

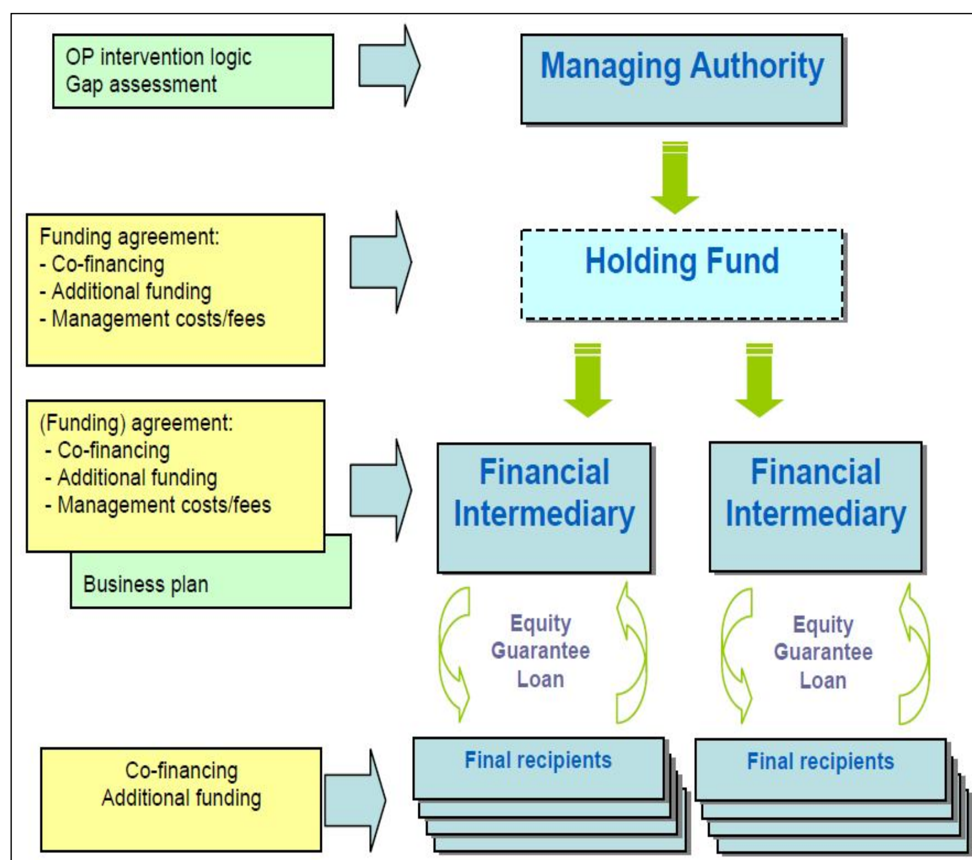
4.5 Financial instruments under the 2007–2013 Structural Funds

InFIs have been used to deliver investments under the Structural Funds since the 1994–1999 programming period, most especially for SMEs. InFIs' relative importance and scope increased during the 2007–2013 period to include sustainable urban development and regeneration, energy efficiency and renewable energy in buildings. During the 2007–2013 programming period, member states and managing authorities (MAs) are permitted to use some European Regional Development Fund (ERDF) and European Social Fund (ESF) resources to support InFIs. At a generic level, an InFI enables the combination of different funding sources (EU, national and private), providing additional financing to support SMEs, sustainable urban development and energy efficiency, and contributing to the Cohesion Policy's broader objectives. The revolving nature of funds can support a wider range of interventions (especially in relation to grants under the Cohesion Policy) and increase the incentives for a project's successful implementation since the expected return will be applied to new investments in support of the same objectives.

InFIs can either be set up through direct contributions to equity funds, loan funds and guarantee fund mechanisms, or indirectly through holding funds that are set up to invest in several funds, thus permitting the involvement of national banks, both public and private (see Figure 6 for a graphic representation). Instruments are implemented through the various governance models and legal structures of each member state or region (EC 2011a), thus each project and each area of investment is different. Based on data through 2010, most holding funds are managed by public bodies such as national or regional development agencies, or financial institutions such as the EIB and EIF (EC 2012a).

While the European Commission can encourage the use of such instruments, the final decision to use InFIs is made by the member state and the managing authority (MA). In the 2007–2013 period, in cooperation with the EIB, the EIF and other financial institutions, the Commission developed a number of initiatives to boost the use of InFIs. Two initiatives were launched to promote the use of financial engineering instruments – JEREMIE (Joint European Resources for Micro to Medium Enterprises) and JESSICA (Joint European Support for Sustainable Investment in City Areas) – and two technical assistance facilities were also launched – JASPERS (Joint Assistance to Support Projects in European Regions) and JASMINE (Joint Action to Support Micro-Finance Institutions in Europe). The JEREMIE and JESSICA networking platforms were launched in 2009 to support the exchange of know-how and good practice. A number of procedural manuals, handbooks and guidance notes have been developed, and several technical seminars have been held (EC 2012a).

Figure 6. The Set-up of financial instruments in Structural Funds in 2007–2013



Source: EC 2012a.

The legal framework on financial instruments under the Cohesion Policy in the 2007–2013 period was not very detailed at first but the Commission subsequently developed more specific guidance notes and introduced amendments to the legislation (EC 2012a). For example, Regulation (EC) No 1083/2006 did not require member states to provide detailed *reporting* data on InFIs. An EC guidance note (EC 2011c) included a template for monitoring reports to enable member states and MAs to monitor and voluntarily report on implementation to the Commission annually. Then a 2011 amendment to the General Regulation (Regulation No 1310/2011) made yearly reporting on InFIs obligatory for member states and the Commission. However, the data will only be available from 2013, and until then, the Commission must rely on voluntary reporting by member states.

InFIs co-financed by the ERDF are included in the scope of audits carried out by the Commission. In 2011 the Commission also initiated an audit plan for the set-up and implementation of InFIs that will cover InFIs in a number of member states (RO, LT, DE, EL, PL, UK, HU and PT) and present the results by the end of 2012 (EC 2012a). Four audits of the ESF were carried out by late 2011 (EC 2012a). InFIs were also covered in the Court of Auditors' 2010 annual report and in the Court's opinions on the Commission proposals to revise the Financial Regulation and proposals for the 2014–2020 Cohesion Policy. Other studies have been carried out for the European Parliament and by institutions involved in delivering InFIs (EC 2012a).

By the end of 2010, around *5% of the ERDF allocations* in the current programming period were committed to InFIs; and around *0.7% of declared ESF eligible expenditures* were allocated to InFIs (EC 2012a). Contributions of EU Structural Funds used for InFIs are capped, so the *risk* is limited to the amount allocated to the different instruments.

The *multiplier effect* of the InFI depends on the type of instrument, its sector and contextual conditions. Based on information to date, the following multiplier effects have been estimated by the Commission:

For an equity-related InFI: €1 billion of public resources led to equity investments in enterprises of between €1 billion and €3.40 billion (EC 2012a);

For a guarantee-related InFI: € 1 billion of public resources supported the disbursement of loans to enterprises of between €1billion to € 7.50 billion (EC 2012a); and

For a loan-related InFI: € 1 billion of public resources mobilised loans in the range of €1billion to €2 billion (EC 2012a).

The 2012 ECA report mentioned the ERDF InFIs' limitations in leveraging private investments (ECA 2011). Although the report explains that this is due to the lack of a legally binding leverage requirement, it should be noted that the ECA report is based on a comparison with other centrally managed EU programmes for SMEs. It does not take into account that InFIs under the Cohesion Policy seek to fulfil specific convergence-related objectives, whereas InFIs in other sectors seek to meet different objectives (e.g. competition objectives) and operate in different regions (e.g. regions with more developed financial markets).

An overall assessment of the InFIs used in the Cohesion Policy is complicated by the fact that the effect/impact of the instrument varies according to the type of instrument used, the sector in which it is applied and various contextual conditions. The overall uptake of InFIs has not been optimal. This is partly due to the need for a cultural shift in the MA and final beneficiaries, both of whom had become accustomed to grant financing and at first were reluctant to try a new, unfamiliar funding instrument. There also have been issues related to the lack of awareness and understanding of the instruments and limited visibility at the national/regional/local level. It also took time for the InFIs to become operational because of the need to set up structures to provide financial support to the project and partnerships and build relevant knowledge within the MA administrations, etc. – which was compounded by the novelty of setting up these processes, and the different levels of expertise and market development across member states. The instruments' slow deployment was also related to the inappropriateness of the Structural Funds' regulatory framework (ECA 2012), which required successive interpretations and set requirements that were sometimes unattractive to the private sector.

Capacity issues both in MAs and among final recipients, as well as delays in selecting financial intermediaries, led to delays in launching and delivering funds. There have also been some instances of resources that were allocated going unused to InFIs (EC 2012a), and concerns about the quality of certain *ex-ante assessments* carried out before the introduction of InFIs (ECA 2012). There have been concerns relating to the coherence between certain instruments (e.g. JEREMIE and CIP) (GHK 2010), as well as a lack of alignment between different financial support schemes under the Cohesion Policy, such as funds for jobs (from the European Social Fund) and for urban development (JESSICA). Due to InFIs' limited scope of application under shared management and delays in operationalisation of the instruments, their potential to contribute to EU objectives and achieve a critical mass of investments in relation to SMEs, sustainable urban development and energy efficiency has either not been optimised or been delayed. Experiences vary considerably across different member states.

4.5.1 Proposals for InFIs under the 2014–2020 Structural and Cohesion Funds

Building on experience gained during the 2007–2013 period and introducing a number of novelties, the European Commission proposals for the 2014–2020 EU Structural and

Cohesion Funds call for expanding and strengthening the use of InFIs. A separate section on InFIs – Title IV (Articles 32 to 40) – is included in the proposal for a regulation setting out common provisions for the five Common Strategic Framework Funds (CSF): the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) (EC 2011b). This provides a set of rules governing InFIs for all five CSF Funds and allows for a clearer presentation of the specificities and regulatory requirements of the instruments, thereby responding to the European Parliament's request that InFIs in the Structural and Cohesion Funds be simplified and subjected to greater democratic scrutiny (European Parliament 2011). Implementation details will be given in secondary legislation (Delegated Acts and Implementing Acts) (EC 2011).

The details of the specific instruments to be introduced under the future Structural and Cohesion Funds are still under discussion. The section below sets out the general provisions that have been proposed, drawing on the provisions set out in the Common Provisions Regulation and recent Commission documents (specifically the February 2012 Staff Working Document on InFIs in the Cohesion Policy) as well as presentations and fact-sheets focusing on InFIs in the Cohesion Policy. The analysis is based on provisions set out in the original Commission proposals. The final legislative text may differ substantially to the proposals.

Scope

Under the current legislative framework, InFIs' use is limited to specific types of projects, for example, SMEs and sustainable urban development under the ERDF, and business start-ups under the ESF (Article 44 on financial engineering instruments of Council Regulation (EC) 1083/2006). The proposals for the 2014–2020 period lift this limitation, expanding the scope of InFIs to all types of projects and activities, sectors and beneficiaries. For the first time, InFIs will also be allowed under the Cohesion Fund. Member states and managing authorities (MA) will be permitted to use InFIs for all thematic objectives and priorities covered by Operational Programmes (OPs) – provided that they demonstrate the economic viability of final recipients and the repayment capacity of the projects (EC 2012a). While the European Commission can encourage the use of such instruments, the final decision about using InFIs is made by the member state and the MA.

The Commission proposes removing the current provision that a project cannot be financed by more than one source, and sets out rules for enabling the combination of InFIs with other forms of support, in particular grants. Blending of (different) grants and loans supported by the EU budget will be allowed and final recipients of InFIs will also be permitted to receive grants or other assistance from another programme or instrument supported by the EU budget (EC 2012a). This provision is in line with the European Parliament recommendation (European Parliament 2011) urging an improved mix of financing instruments, including grants, loans or revolving funds in order to more efficiently use EU resources. The optimal blending level depends on the local context conditions and the project in question; however, some form of criteria will be needed to assess the proportion of the project that is eligible for grant financing and that which can be supported through InFIs. In a renovation project, for example, the costs of an energy audit and feasibility study could be covered by a grant while the costs of the renovation itself could be covered through an InFI.

Ex-ante assessment

Operational Programmes contain a new provision requiring InFIs to be designed on the basis of an ex-ante assessment that identifies market failures or sub-optimal investment situations, and investment needs (EC 2011b). The Commission Staff Working Document presents how

an assessment could cover potential private sector involvement, the InFI's added value, questions of critical mass and possibilities for economies of scale (EC 2012a). Such an assessment aims to avoid overlaps and inconsistencies between funding instruments implemented by actors across different levels (EC 2011). The ex-ante assessment should also partly respond to some criticism about how existing instruments function (e.g. by the ECA 2012). Detailed rules on the ex-ante assessment will be set out in the delegated acts.

Implementation options

The proposals set out three implementation options for using InFIs (EC 2011, EC 2012a):

InFIs set up at the EU level that are directly or indirectly managed by the Commission: Under this option, member states can invest part of their Structural Funds in EU-level instruments (e.g. the EEEF) which will be ring-fenced for investments in regions and actions covered by the OP that made the contributions. The instruments will be used to support actions and final recipients consistent with the contributory programme or programmes.

InFIs set up at the national or regional level managed in line with the draft Common Provisions Regulation and related secondary legislation (shared management): Under this option, managing authorities can contribute programme resources to:

Standardise ('off-the-shelf') instruments for which the terms and conditions will be laid down in a Commission Implementing Act. Standardised ready-to-use templates will be developed to address issues such as alignment with guidelines for state aid. These standardised instruments should rectify some of the implementation delays of existing instruments.

Tailor existing or new InFIs to specific conditions and needs.

InFIs consisting solely of loans or guarantees: Under this option, managing authorities can provide loans or guarantees directly to the beneficiary, for example, a regional development agency, with the MAs being reimbursed on the basis of the actual loans provided or by guarantee amounts blocked for new loans. Management costs or fees cannot be charged to the CSF Fund.

When supporting InFIs under Option 2, the MA may (EC 2011b):

Invest in the capital of existing or new legal entities,

Entrust implementation to the EIB, international financial institutions in which a member state is a shareholder, financial institutions established in a member state, or a body governed by public or private law selected in accordance with applicable EU and national rules,

Directly implement InFIs that solely consist of loans or guarantees.

The delegated act will set out rules concerning funding agreements and the role and responsibility of the entities entrusted with the implementation tasks, as well as management costs and fees.

Co-financing modalities and additional financial incentives

The European Commission proposals foresee a separate priority axis in the OP for contributions to EU-level InFIs under direct management (Implementation Option 1), with a co-financing rate of up to 100% (EC 2011). It remains to be seen whether this distinction between EU-level and national instruments is part of the final legislative text.

For contributions to national or regional InFIs under shared management (Implementation Option 2), the Commission proposes that managing authorities make phased contributions

taking into account the InFI's capital requirements (EC 2011). These provisions have been introduced, *inter alia,* to respond to ECA criticism about delays in payments to the final beneficiaries (ECA 2012).

In cases where a priority axis is fully implemented through InFIs, the Commission proposes increasing the EU co-financing share by 10 percentage points (EC 2011).

Financial management rules

The following provisions are proposed for the qualification of financial streams at various levels of InFIs (EC 2011):

- EU contributions to InFIs are to be placed in interest-bearing accounts in member states or temporarily invested.
- Interest or other gains generated at the InFI level prior to investment in final recipients is to be used for the same purposes as the initial EU contribution.
- The EU share of capital resources paid back from investments is to be reinvested in accordance with the OP objectives in the same or other InFIs for at least 10 years after programme closure.
- EU share of gains/earnings/yields generated by investments are to be further invested in the same or other instruments in line with the OP, for management costs/fees, or for the preferential remuneration of investors operating under the market-economy investor principle.

Reporting

The new framework requires Managing Authorities to submit a specific report on operations relating to InFIs as an annex to the annual implementation report sent to the Commission. The reports must:

- Identify the programme and priority from which the CSF-Funds support is provided;
- Describe the InFI and its implementation arrangements;
- Identify the bodies entrusted with implementation;
- Include support paid into the InFI;
- Describe support paid or committed in guarantee contracts by the InFI to the final recipients by programme and priority or measure;
- List revenues of and repayments to the InFI;
- Show the multiplier effect of InFI investments, their value and participations;
- Describe the InFI contribution to achieving the programme indicators and the corresponding priority (EC 2011b).

Uniform conditions for the monitoring and provision of information to the Commission, including for InFIs, are to be set out in the implementing act.

Evaluating the proposals

These proposed general provisions should begin to address a number of shortcomings in InFI implementation under the Cohesion Policy. However, negotiations are continuing, so the final provisions may be quite unlike the proposals. More specific details are expected to be set out in the delegated and implementing acts for the 2014–2020 period that will include provisions about: the minimum requirements for the ex-ante assessment of InFIs; the combination of support to final recipients through grants, interest rate subsidies, guarantee fee subsidies and financial instruments; additional rules on eligibility of expenditure; rules

specifying the types of activities which may not be supported through financial instruments (EC 2011); the treatment of private investors; the multiplier ratios to be ensured; the basic parameters for selecting bodies to implement InFIs; and the transfer and management of assets (EC 2012a).

The following table provides an overall assessment of the proposals. It is important to note that the InFI's effect/impact varies according to the type of instrument used, the sector in which it is applied and the contextual conditions. The table provides a generic overview assessment of the proposals for InFIs in the Cohesion Policy.

Table 6. Overview assessment of proposals for InFIs for the 2014–2020 Cohesion Policy

Principles	Assessment of Proposals
European Added Value	Each InFI will be based on an ex-ante assessment that will, *inter alia,* individually evaluate the InFI's added value. InFIs are to be used in line with OP objectives that should be aligned with the Europe 2020 Strategy and ensure the best possible use of EU funds. As noted in the Commission's response to the 2012 ECA report (ECA 2012), when approving OPs, emphasis will be placed on ensuring alignment with the EU 2020 strategic priorities and their identification/fulfilment of ex-ante conditionalities, as well as on evaluating the rationale for the proposed form of support.
Additionality	The ex-ante assessment will identify any market failures or sub-optimal investment situations and investment needs, and be important for evaluating the InFI's additionality with a view to not crowding out private investments. The ex-ante assessment will also assess whether any other EU instruments are active in the area so as to reduce potential overlaps and ensure better disbursement of EU funds.
Correcting a market failure	The ex-ante assessment should identify whether the individual InFI addresses a market failure/gap.
Leverage and multiplier effect	The share of the ERDF, the ESF and the ESF which will be used for InFIs will only be known at the end of the 2014–2020 programming period because it depends on the MAs' uptake of the instruments in implementing their OPs. Some early Commission estimates suggest that the volume of ERDF resources that could be delivered through InFIs in the next programming period could increase by a factor of three (i.e. to approximately 15%) (EC 2012b). The leverage effect will depend on the particular InFI, the specific financial products developed and the sector in which it is applied. Options to maximise the leverage effect through, for example, informal agreements with private banks (such as co-investment schemes) could be explored on a case-by-case basis.
Budgetary stability and risk-sharing profile	The EU Structural and Cohesion Funds contributions used for InFIs are capped in order to limit the EU-budget risk to the amount allocated to the various instruments.
Efficiency of implementation setting	The efficiency of the three proposed implementation modes is not yet clear. Although implementing Option 1 (EU-level InFIs) may help address capacity constraints in some member states or regions that lack expertise on InFIs and might also improve coordination between various EU funding instruments, it implies that financing will circulate across different levels (EU, national and regional) and that might entail transaction costs.

Principles	Assessment of Proposals
	Implementation of Option 2a ('off-the-shelf' instruments) may help speed implementation and reduce management costs of InFIs, thus responding to criticisms of existing InFIs. Such templates could also help to improve compatibility with EU rules. Given regional particularities, however, InFIs are not likely to be applicable in all scenarios. Implementation Option 2b (tailor-made instruments) can benefit from experience gained with existing instruments and may allow greater flexibility in terms of addressing regional issues. But it might also encounter the same issues of capacity constraints, etc. Under Implementation Option 3, member states can directly give the final recipient loans or guarantees, avoiding the need to set up a holding fund and speeding the lending process.
Visibility and awareness	Technical assistance and guidance for advisory services and capacity building are to be provided to MAs and final recipients (EC 2012a). However, since these details are not yet clear, the effectiveness of the proposals remains to be seen. General provisions relating to the visibility of grants and InFIs are to be set out in the delegated and implementing act. The DG REGIO is currently exploring setting up a technical assistance platform for MAs. It would be useful to involve the EIB or the EIF in this platform because of their experience in setting up multiple financial instruments under the Structural Funds in this programming period. Issues of limited awareness and visibility of InFIs in the current period call for increased efforts.
Transparency	The proposals require regular, detailed reporting by MAs in line with uniform conditions. If reporting heeds the provisions about quality and consistency, InFIs operations can be expected to become more transparent. The reports are also expected to cover InFIs' contribution to achieving the indicators of the programme and of the priority that is concerned.

4.6 Financial Instruments in EU external action: the new blending facilities

The European Union is committed to fulfilling the aid-effectiveness goals set out in the Paris Declaration (2005) and the Accra Agenda for Action (2008), as well as the European Code of Conduct on Division of Labour in Development Policy (2007). The European Commission, along with a number of EU member states and European development financiers, has launched new financing instruments for operations outside the EU that aim to translate these commitments into real action. Called *loan and grant blending facilities* (LGBFs), these instruments link EU-budget grants, which are sometimes topped up by member state grants, with loans by international and European Bilateral Financial Institutions (EBFIs), such as the European Investment Bank (EIB), the Agence Française de Développement (AFD), the KfW Bankengruppe, the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB). Other financiers, including local private financial institutions, can participate in project financing and indirectly benefit from the risk-dampening effect of EU grants and accredited financiers. However, direct access to EU grants (especially guarantees) is only for accredited (generally public) institutions.

The eight LGBFs that have been launched since 2007 are presented in Table 7.

Table 7. Overview of EU blending facilities in external action

Name of facility Region covered	Launch date	grant funds allocated	Participating financiers
ITF: Infrastructure Trust Fund for Africa 47 African Countries[18]	2007	€308.7 m from 10th EDF + €64 m from MS budgets (as of 31.12. 2010)	AFD, AfDB, BIO, COFIDES, EIB, FINNFUND, KfW, Lux-Development, MoF Greece, OeEB, PIDG, SIMEST, SOFID
NIF: Neighbourhood Investment Facility Countries eligible for the European Neighbourhood and Partnership Instrument (ENPI)[19]	2008	€700 m for 2007–2013 from EU budget + €64.4 m from MS budgets (as of 31.12. 2011)	AECID, AFD, CEB, EBRD, EIB, KfW, NIB, OeEB, SIMEST, SOFID
WBIF: Western Balkan Investment Framework Western Balkans[20]	2009	€166 m from EU budget + €10 m EIB, €10 m EBRD, €10 m CEB + €47.6 m in grants from MS budgets (+ Norway) (as of 31.12. 2011)	CEB, EBRD, EIB, World Bank Group, KfW, MFB, CMZR, OeEB, SID
LAIF: Latin America Investment Facility Latin American Countries[21]	2010	€125 m from the 2010–2013 EU budget	AFD, BCIE, IDB, CAF, EIB, KfW, NIB, OeEB
IFCA: Investment facility for Central Asia Central Asian countries[22]	2010	€20 m from the 2010 EU budget	NIF accredited institutions can participate.
Asia Investment Facility Asian Countries[23]	2011	€30 m from the EU budget	EIB, EBRD, NIB, ADB, AFD, KfW, OeEB, SIMEST, SOFID

[18] Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo Brazzaville, Democratic Republic of the Congo, Eritrea, Ethiopia, Djibouti, Gabon, Equatorial Guinea, São Tomé & Principe, Ghana, Togo, Guinea-Bissau, Republic of Guinea, Côte d'Ivoire, Liberia, Kenya, Somalia, Lesotho, Swaziland, Madagascar, Malawi, Mali, Mauritania, Mauritius, Comoros, Seychelles, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Cape Verde, Gambia, Sierra Leone, Sudan, Tanzania, Uganda, Zambia and Zimbabwe

[19] Ukraine, Belarus, Moldova, Armenia, Azerbaijan, Georgia, Russia, Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority of the West Bank and Gaza Strip, Syria and Tunisia

[20] Albania, Croatia, Bosnia and Herzegovina, Kosovo, Montenegro, FYROM and Serbia

[21] Argentina, Bolivia, Brasil, Colombia, Costa Rica, Cuba, Chile, Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua, Panamá, Perú, Paraguay, Uruguay and Venezuela

[22] Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan

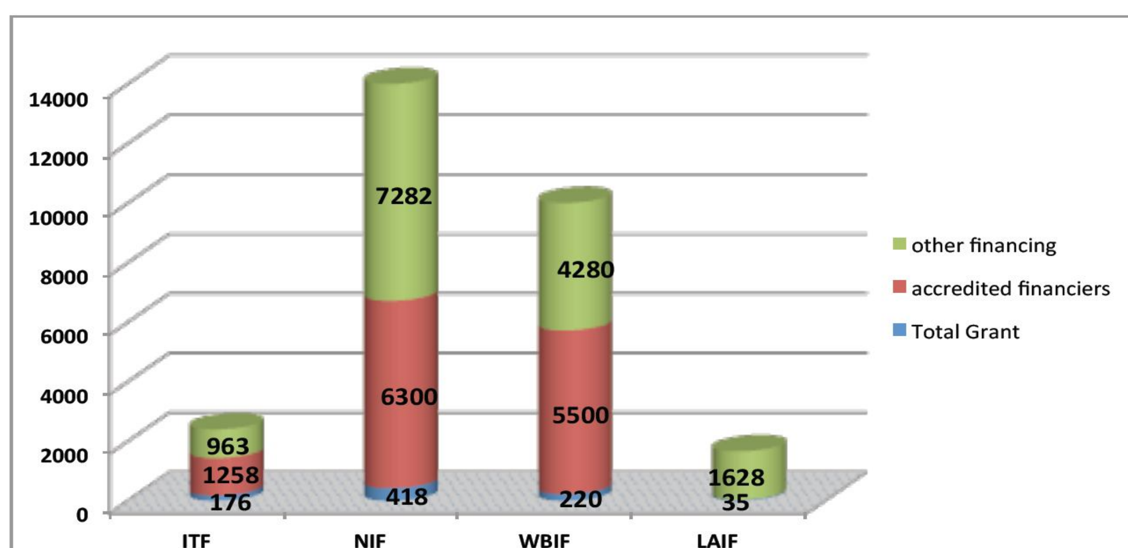
[23] Afghanistan, Bangladesh, Bhutan, Cambodia, China, DRP Korea, India, Indonesia, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand and Vietnam

Name of facility Region covered	Launch date	grant funds allocated	Participating financiers
Caribbean Investment Facility ACP Caribbean countries[24]	2012	€40 m from 10th EDF	EIB, NIB, CDB, IDB, others joining
Investment Facility for the Pacific ACP-Pacific countries[25]	2012	€10 m from 10th EDF	EIB, AFD, KfW, AUSAID, ADB, NZAID, WB

Source: Núñez Ferrer et al. (2012, forthcoming).

The uncontestedly positive results of these instruments in terms of leverage and multiplier effects are reviewed in detail in Núñez Ferrer and Behrens (2011) and Núñez Ferrer et al. (2012, forthcoming). Grants offered by the European Commission and EU member states in the framework of the facilities – with important loans granted by participating accredited financiers and other financial institutions, as well as the recipients' own contributions and private sector investments – have leveraged substantial volumes of additional development finance. For a grant element of €848.7 million, European donors have provided additional development finance in the form of concessional loans worth €14 billion for projects with a total value close to €28 billion – which represents a multiplier effect of over 30. The costs of the blending instruments are modest: The combined European Development Fund (EDF) and EU budget funds for development come to €14 billion, and the overall EU Official Development Assistance (ODA) totals €53.4 billion for 2010.

Figure 7. Total Grants, financiers' loans and other funding in the LGBFs (EUR million)



Source: Núñez Ferrer et al. (2012, forthcoming) The data is from the facilities' annual reports. The ITF figures only list projects that were in an investment phase on 24.03.2011, while figures for the other facilities are for all projects approved to 31.12.2011. The LAIF figures are from the DG DEVCO website: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/projects_en.htm

[24] Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago

[25] Cook Islands, East Timor, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Salomon Islands, Tonga, Tuvalu and Vanuatu

Proposals for these instruments foresee a considerable increase in funding from the EU budget but no precise figures have been published. A platform for external cooperation to increase coherence between the different instruments is being considered. While the Commission units that deal with the blending mechanism for external action are beginning to cooperate more closely, the platform must ensure appropriate rules for all blending instruments.

Despite the positive aspects of the blending facilities, caution regarding the use of debt instruments in developing countries is necessary as they may not be suitable for many poverty eradication programmes. The focus on 'profitable' projects leads to the selection of projects that need revenue-raising sources, thereby cutting off the poor from related benefits. As debt instruments, they also may be unsuitable for highly indebted countries. Rules are needed to ensure a pro-poor approach while avoiding excessive indebtedness.

Table 8. Overview assessment of blending instruments in EU external action

Principles	Assessment of current blending instruments
European Added Value	The InFIs present one of the few cases in which the aid-effectiveness goals set out in the Paris Declaration (2005), the Accra Agenda for Action (2008) and the European Code of Conduct on Division of Labour in Development Policy (2007) have effectively been put into practice. The coordination of the InFIs has considerably increased the EU's influence in the development strategies of beneficiary countries. Acting as a single development instrument, the EU's combined development funding power competes for influence with other large IFIs, such as the World Bank. This is achieved with very low EU-budget investment.
Additionality	The instruments' annual reports indicate a real increase in development finance wherever the instruments are introduced, thereby creating additional funding. The risk of substituting other funding is limited and the instruments are designed to involve local financial institutions. While the risk of crowding out local finance or finance by other IFIs does exist, this is being addressed by drawing the financial institutions into the facilities as financiers and co-financiers.
Correcting a market failure	The instruments offer risk guarantees for development finance, thus allowing projects that otherwise could not have seen the light of day. The coordination of financiers and the European Commission further increases effectiveness and improved targeting of the market failures identified in developing countries.
Leverage and multiplier effect	The leverage and multiplier effect are estimated to be extremely high, presently estimated at 30 times the EU-budget contribution.
Budgetary stability and risk-sharing profile	The risk is capped to the level of the EU-budget contribution.
Efficiency of implementation setting	Coordinating the development actions of the various EU institutions and member states promotes coherence and helps avoid duplication of efforts. The structure of the facilities is designed to make donors and financiers pool their resources and know-how to support the respective EU regional development strategies. This is of particular importance for development projects that a single actor could not tackle alone because of the magnitude of the financing, risk or management capacity, or that could not have been implemented without a grant element.

Principles	Assessment of current blending instruments
	The emergence of LGBFs has qualitatively improved the effectiveness and impact of development assistance, increasing the added value of EU development financing by avoiding duplications of effort and uncoordinated parallel projects, as well as by merging individual projects into one larger, more coherent project. There are, however, some problems of coherence and structure. While the facilities' basic architecture – a strategic board, an operational board and a financiers group – is similar, the rules about their composition, set-up or use of grants differ because of the ad-hoc manner in which they were developed. Some of the differences are dictated by needs on the ground or by various EU regional strategies. Others are shaped by the preferences of different DGs, which – on behalf of the European Commission – have set up the facilities based on their regional responsibilities as well as the various EU funds (e.g. the European Development Fund, the European Neighbourhood and Partnership Instrument, the Development Cooperation Instrument or the Instrument for Pre-Accession Assistance) that are utilised. A third set of differences stems from the absence of basic principles for *all* facilities. For example, the basic parameters on loan grant blending were established by the Working Group on the Additionality of Grants in the Framework of Blending Mechanisms called for by the ECOFIN Council in 2009 (see EC 2009), whereas the grant instruments that the facilities could offer (that are presented in the same report) have not all been used and each instrument has picked up some and not others. This must be addressed in the future EU Platform for Development and Cooperation. Funds are variously provided by the different facilities. Only the Infrastructure Trust Fund for Africa (ITF) has a fully common trust fund for member states contributions and European funds. The NIF has separate trust funds for the member states and for the EU-budget grants. The Western Balkan facility has five funds, one from the European Commission, one from the member states and three from partner International Financial Institutions (the EBRD, the EIB and the CEB). To eliminate unnecessary complexity, the West Balkan Investment Framework (WBIF) should merge all five funds into one this year. Separate grant funds are not a problem *per se* except for the additional administrative complications and costs that may be incurred by the parallel management of different funds. The question of whether the European Commission should eventually manage trust funds is being addressed in the financial regulations review.
Visibility and awareness	The LGBFs have increased joint European action for development and elevated European visibility in the concerned regions. The facilities have also become centres for strategic dialogue with beneficiaries on large-scale development projects and collaboration and coordination platforms for financiers. The visibility and coordination with beneficiary countries have increased awareness of the different instruments at all levels.
Transparency	Because they were recently established, the facilities do not yet have unified standards for monitoring and evaluation. Individual project monitoring is currently ensured by the lead financial institution, which has a primary interest in ensuring the project's development and sustainability. To justify the facilities to donors and European institutions, a project's progress and development impact must be reported (for reasons of 'accountability').

Principles	Assessment of current blending instruments
	Selective minimum monitoring and evaluation requirements could increase comparability and provide a coherent basis for information about how operations perform under the various facilities – without causing excessive surcharges to the lead financier. Because the procedures were assessed for the financiers' accreditation, the European Commission should generally accept the lead financiers' standards – insofar as they are compatible with EU reporting obligations.

5. CONCLUSIONS

InFIs bring a new dimension to the EU budget. They allow for EU financial support to expand considerably by mobilising funding from public and private financial institutions with limited risk and low levels of resources. Although these instruments could replace other types of grant support, they should instead be viewed as being complementary. InFIs also allow for greater distinction between different projects or between those parts of individual projects that need direct grants and those that, at least partially, can be realised with loan funding. By combining grants and loans, InFIs impact the overall cost-benefit balance of projects, enabling projects and sector investment programmes that otherwise would not have seen the light of day. Grant elements help to reduce the overall costs and risks of projects, and make projects bankable by overcomming market failures or other financial barriers. They raise the creditworthiness of projects. But InFIs cannot be used for projects with benefits that are largely of a 'public good' nature, since most such benefits cannot be directly priced and do not produce revenue.

Appropriate governance structures are required for InFIs to avoid overlaps, inconsistencies and differences in reporting, implementation and monitoring. Because InFIs are market driven, proper governance structures would allow for flexibility by taking into account the financial instruments' strengths and weaknesses. Instrument choice and market decisions should largely be left to financial institutions, while EU institutions should develop the policy objectives and rules for evaluation and monitoring. The proposed equity and debt platforms and the envisaged EU Platform for Cooperation and Development should develop coherent rules for the efficient use of internal and external InFIs. These 'platforms' could be modelled on the current FIEG and chaired by the DG ECFIN. However, they should be complemented by a policy steering group with representatives from the EU budgetary arms (the European Council and the European Parliament) and technical groups composed of financiers.

Proposals for the next MFF address many shortcomings and concerns. But the financial instruments would be able to greatly increase their potential by pooling resources to allow for larger risk spread and by lowering the capital requirement (from the extremely conservative 100% coverage) in order to create a much larger multiplier effect. Similarly, the re-use of reflows to recapitalise instruments and enable operations to continue sustainably and efficiently should be adopted as a general principle.

For funds under shared management, European Commission proposals for the 2014–2020 EU Structural and Cohesion Funds expand and strengthen the use of InFIs, building on experience gained during the 2007–2013 period and also introducing a number of novelties. In particular, the proposed ex-ante assessments of the instruments will be critical, *inter alia,* for evaluating the InFI's added value and identifying any market failures or sub-optimal

investment situations and investment needs, and will also be important for evaluating the instrument's additionality in order to not crowd out private investments. These assessments should help reduce potential overlaps between different InFIs and ensure better disbursement of EU funds. The high quality of these assessments must be ensured. To that end, reporting provisions are strengthened in the proposals, with MAs required to submit a specific report on operations relating to InFIs in an annex to the annual implementation report sent to the Commission. These reports must address the multiplier effect of investments and the InFI's contribution to achieving the indicators of the programme and of the priority concerned. If the quality and consistency of these reports are in line with the stated provisions, the transparency of the InFIs operations can be expected to improve.

The Structural and Cohesion Funds propose three implementation modes for using InFIs that could improve operations: EU-level InFIs, 'off-the-shelf' instruments, and more direct funding to beneficiaries without a holding fund. While EU-level InFIs might help address capacity constraints in some member states or regions, it might also entail transaction costs. 'Off-the shelf' instruments could help to speed implementation and reduce management costs but may fail to respond to regional specificities.

The proposed provisions should begin to address the shortcomings of InFIs under the Structural Funds. More specific details of the instruments will be set out in the envisaged delegated and implementing acts for the 2014–2020 period which might include provisions, *inter alia,* on minimum requirements for the ex-ante assessment of InFIs, the combination of InFIs with grants and the eligibility of expenditure. The Commission has already made details about the envisaged delegated and implementing acts available to the Council and the European Parliament. The delegated acts will be finalised following the adoption of the Common Provisions Regulation. Parliament's thorough and active engagement – finalising the Common Provisions Regulation and discussing the delegated and implementing acts – will help to ensure that the new provisions for InFIs are effectively implemented. In the years ahead, it will be important to review the regular reports on InFIs by the MAs and the European Commission to assess whether the instruments are operating as envisaged.

In relation to the area of external action, the proposed blending instruments give a new dimension to EU development plans and a positive addition to existing aid. Nevertheless, greater coherence is needed between the instruments, as well as clearer and more consistent reporting. It is also important to ensure that the development objectives and the need to assist the poor are not neglected in the pursuit of revenue-generating projects. Special attention must be given to avoid beneficiary countries becoming over-indebted.

The European Commission proposals for the 2014–2020 Multiannual Financial Framework introduce marked improvements to the InFIs by reducing overlaps and improving monitoring. But further improvements are necessary to maximise the impact and efficiency of InFIs.

For all InFIs we recommend:

a) Expanding the efficiency and multiplier effects:

Use more realistic capital requirements to cover defaults, thereby allowing higher leverage and multiplier impacts.

Reduce fund fragmentation in specific areas and regions. Pooling the resources, even for earmarked funding, will permit a higher leverage and multiplier for the risk spread.

Allow for reflows from the instruments to recapitalise them and generate more guarantee support.

b) Developing better governance structures:

Coherent basic rules on the obligations and benefits for financial institutions are necessary. Ad-hoc differences in implementation and remuneration of financiers, as well as monitoring, reporting, calculation of leverage and multiplier factors, etc. must be eliminated.

Procedures regarding budgeting, delegated management, award funding, monitoring processes, implementation rules, risk exposure, leverage, reporting and accounting must be presented for all financial instruments in a simple, transparent manner in formats that can easily be compared.

The proposed debt and equity platforms, including the platform for external cooperation and development, should be chaired by one service of the European Commission, preferably the DG ECFIN, as is the case for the FIEG. The Platform should, however, have a steering committee with representatives from the Council and the European Parliament, as well as key stakeholders. A technical group with financiers will also need to be established to develop the implementation rules.

Regarding the 'blending' facilities in external action, an excessive shift to loan based mechanisms that could reduce the impact of poverty alleviation and increase poor countries' indebtedness must be avoided.

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INTERVIEWS

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ANNEX. INNOVATIVE FINANCIAL INSTRUMENTS IN THE 2007–2013 PERIOD

Funds under centralised or joint management						
Acronym Full name	Budget in € m (2007-2013)	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
CIP GIF High Growth and Innovative SME Facility	623 Actual budget 2007–2011: 408	Equity investment through venture capital funds	1,900	i) Contribute to establishing and financing SMEs and reducing the equity and risk-capital market gap that prevents SMEs from exploiting their growth potential (with a view to improving the European venture capital market); and ii) support innovative SMEs with high growth potential, especially those engaged in research, development and other innovations	EU–27+ European Economic Area + Turkey, Croatia, Montenegro, FYROM and Serbia	EIF
CIP SMEG07 SME Guarantee Facility	506 Actual budget 2007–2011: 393	Loan guarantee, micro-credit guarantee, equity and mezzanine guarantees, securitisation guarantee	9,400	(a) Debt financing via loans or leasing to reduce difficulties SMEs face in accessing finance; stimulating job creation by increasing available debt financing through loan guarantees; (b) micro-credit financing to encourage lenders to play a greater role in the provision of smaller loans by providing micro-credit guarantees and optional grants to intermediaries to partially offset the high administrative costs of micro-credit financing; (c) guarantees for equity or quasi-equity investments in SMEs to provide seed capital and/or capital in the start-up phase, as well as mezzanine financing through the provision of equity guarantees; and	EU–27+ European Economic Area + Turkey, Croatia, Montenegro, FYROM and Serbia	EIF

Funds under centralised or joint management						
Acronym Full name	Budget in € m (2007-2013)	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
				(d) securitisations to support the creation of SME debt- finance portfolios by mobilising additional debt financing for SMEs		
RSFF Risk-Sharing Finance Facility	1,000	Risk-sharing	4,800	Improve access to finance for research projects	EU–27 + European Economic Area + Western Balkans	EIB
LGTT Loan Guarantee Instrument for Trans-European Transport Network Projects	500 (200 of the LGTT budget to be utilised in the pilot phase of the Project Bond Initiative)	Risk-sharing	12,000	Facilitate increased private sector involvement in financing TEN-transport infrastructure to mitigate post-construction revenue risk during the early operational phase and encourage demand-risk-based public-private partnership schemes	EU–27	EIB
Marguerite Fund The 2020 European Fund for Energy, Climate Change and Infrastructure	Up to 80	Equity EU direct-equity participation in the Marguerite Fund	Current size of fund: 780 Target size: 1,500	Contribute to infrastructure projects in key policy areas (TEN-T, TEN-E, renewables) through equity investment in special purpose vehicles	EU–27	None

Funds under centralised or joint management						
Acronym Full name	Budget in € m (2007-2013)	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
EPMF European Progress Microfinance Facility	100	Micro-credit guarantee EU direct-equity participation in Progress Micro-finance Fund which provides equity to micro-finance institutions	Current size of fund: 178 Target size: 225	Increase access and availability of micro-finance for disadvantaged groups and people at risk who want to establish micro-enterprises, or for existing micro-enterprises	EU–27	EIF and EIB
TTP Technology Transfer Pilot Project	2	Equity or quasi-equity investment		Facilitate knowledge transfer from universities and research bodies to the marketplace, especially to SMEs; invest in and support technology transfers between universities and research institutions and enterprises, especially SMEs – such as the creation of 'spin-offs' and/or the implementation of licensing or collaboration agreements	EU–27	EIF
JASMINE Joint action to Support Micro-finance Institutions in Europe	5	TA / Capacity building	N. A.	Promote a favourable legal and institutional and environment for micro micro-credit in European regions; support non-bank financial intermediaries who want to help the micro-credit scene reach high standards in terms of governance and lending practices	EU–27 regions	EIF

Funds under centralised or joint management						
Acronym Full name	Budget in € m (2007-2013)	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
ELENA European Local ENergy Assistance	97	TA / PDS	1,600	Develop investment programmes that can be replicated in other cities and regions; accelerate the introduction of energy efficiency and renewable energy sources, notably through innovative financial techniques and practices, often at early market penetration	MS, FYROM and EEA members (Iceland, Lichtenstein and Norway)	EIB, KFW, CEB and in future EBRD
EEEF European Energy Efficiency Fund	146.3 EU direct- equity participation	TA / awareness-raising from the TA facility	Current size of fund: 265 Target size: 600	Support energy efficiency and greenhouse-gas reduction by promoting energy efficiency and small-scale renewable energy investment in a municipal context	EU–27	EIB

Funds under shared management						
Acronym Full name	Budget in € m	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
JEREMIE Joint European Resources for Micro to Medium Enterprises	Ca. 700	Equity, loans and guarantees	N. A.	Help managing authorities design and implement programmes facilitating SME access to finance; facilitate the use of financial engineering products such as venture capital, guarantees, etc.	EU–27 regions	EIF
JESSICA Joint European Support for Sustainable Investment in City Areas	Ca. 63	Loans/equity provided by urban development funds to PPP or other structures	N. A.	Help the authorities in EU member states to establish financial engineering mechanisms to support investment in sustainable urban development and energy efficiency	EU–27 regions	EIB, CEB
JASPERS Joint Assistance to Support Projects in European Regions	35 in 2010	TA / PDS	N. A.	Assist the 12 Central- and Eastern-EU member states and Croatia in the preparation of major projects to be submitted for grant financing under the Structural and Cohesion Funds	EU–12 and Croatia	EIB, EBRD, KfW

External instruments						
Acronym Full name	Budget in € m	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
FEMIP Facility for Euro-Mediterranean Investment and Partnership	128 (risk capital) + 105 (TA) + 1 (FEMIP Trust Fund)	Equity, TA, contributions to FEMIP trust fund		Economic development and the integration of the Mediterranean partner countries with two priorities: supporting the private sector and creating an investment-friendly environment	Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia	EIB
WBIF Western Balkans Investment Framework	87 until now	TA / co-financing		Supporting investments in priority infrastructure, private sector (including SMEs) and energy efficiency projects to be financed by grants from COM, IFIs, MS and other donors and loans provided by IFIs	Candidates and potential candidate countries	EIB, EBRD, CEB, MS through their public financial institutions
NIF Neighbourhood Investment Facility	700	TA, interest rate subsidies, risk capital		Covering investment needs of the EU neighbouring region for infrastructures in transport, energy, environment, social (e.g. construction of schools or hospitals), etc. The NIF also supports the private sector particularly through risk capital operations targeting small and medium-sized enterprises.	ENP countries, Russia, Algeria, Libya and Syria	EIB, EBRD, CEB, AFD, KfW, NIB
EU-A ITF EU-Africa Infrastructure Trust Fund	60 + 48.7 EDF resources	Grants, interest rate subsidies, TA		Contributing to achieving the EU-Africa Partnership strategic objectives by funding infrastructure in the region and supporting anti-poverty efforts, sustainable economic growth,	Sub-Saharan African countries	EIB, AfDB

External instruments						
Acronym Full name	Budget in € m	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
				social development, environmental protection and regional integration		
AIF Asia Investment Facility	15 in 2011 15 in 2012 – from the EU budget	TA, interest rate subsidies, risk capital		Promoting additional investments in key infrastructure with a focus on climate-change relevant and 'green' investments in environment, energy, as well as SME's and social infrastructure	Asian countries	EIB, EBRD, NIB, ADB, AfD, KfW, OeEB, SIMEST, SOFID
CIF Caribbean Investment facility	40 in 10th EDF 2012	TA, interest rate subsidies, risk capital		Contribute to strengthening regional integration and access to basic social services through improving physical infrastructure and related services, thereby supporting several EU crosscutting themes and Millennium Development Goals (MDGs)	ACP Caribbean Countries	EIB, NIB, CDB, IDB, others joining
IFP Investment Facility for the Pacific	40 10th EDF 2012	TA, interest rate subsidies, risk capital		Contribute to strengthening regional integration and access to basic social services through improving physical infrastructure and related services, thereby supporting several EU crosscutting themes, in particular climate change and MDGs	ACP Pacific countrries	EIB, AFD, KfW, AusAID, ADB,NZAID, WB

External instruments						
Acronym Full name	Budget in € m	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
ACP Investment Facility	3.2 (revolving fund from EDF resources)	Loans, equity, guarantees; blending with EIB own-resources loans, interest rate subsidies and TA possible		Contribute to economic development, particularly of the private sector, in the ACP countries	African, Caribbean and Pacific States (ACP), Overseas Countries and Territories (OCT)	IFI, EIB
GEEREF Global Energy Efficiency and Renewable Energy Fund	80	EU is shareholder of the Fund providing TA and equity	Current size of fund: 108 Target size: 200	Expand renewable energy, energy efficiency and other clean-energy-technologies markets and services in developing countries and economies in transition; maximise leverage of public funds through investments in regional sub-funds with the objective of promoting public and/or private sustainable energy partnerships and encourage technology transfer and deployment	African, Caribbean and Pacific States, North Africa, Eastern Europe, Latin American and Asian countries	EIF

External instruments						
Acronym Full name	Budget in € m	Type of EU support	Total investment at beneficiary level in € m	Objectives	Geographic coverage	Entrusted Entity
EFSE European Fund for Southeast Europe	Ca. 70	EU is shareholder of the Fund providing loans, equity and guarantees	Size of fund: 732	Overall: Provide development finance in Southeast Europe, focusing on the needs of micro-enterprises and SMEs; contribute to strengthening the financial sector; deliver SME, rural and housing development products. Specifically: increase access to finance for micro-enterprises and attract private investors to the Western Balkans	Western Balkans, Moldova, Romania and Bulgaria	EIF
GGF Green for Growth Fund	38.6 in Fund 5 for TA	EU is shareholder of the Fund providing direct lending and on-lending through local financial institutions, additional TA Facility	Current size of fund: 128 Target size: 400	Broaden the financing base of EE and RE investments in the target region; increase awareness of energy efficiency and small renewable energy products among companies and private households; help broaden and deepen financial sector servicing the development needs; harmonize and coordinate donor initiatives	Western Balkans and Turkey	EIF

Source: Information compiled from the EP, EIB and EC.