Financial Instruments for enterprise support

Final Report

Work Package 3

Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF)

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Directorate-General for Regional and Urban Policy

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Abstract

For many Member States financial instruments were a new approach to delivering Cohesion policy. Their increased use in 2007-13 created significant challenges especially for MAs with limited experience. The regulatory framework provided flexibility to accommodate domestic arrangements, but demanded considerable administrative capacity. FIs can be more sustainable than grants, generate better quality projects, and may be considered more cost-effective in some circumstances. However, their main rationale in the OPs has been to facilitate access to finance for SMEs, which became more important in the crisis. The scale of FI varies between countries, as does the share reaching final recipients. In most countries, FI are over 80% invested, but some very large FIs have been overcapitalised and the EU average is 61%. Governance arrangements tend to be context specific, but build heavily on existing public financial institutions. Implementing FI proved complex with demands for greater clarity and certainty met through successive changes to the Regulations and guidance, many of which have been consolidated into the 2014-20 regulatory framework. Monitoring systems for FI are weak, with little hard data on outcomes such as private funding, job creation and innovation, but some evidence that FI increase access to finance and can help develop private markets.

About this document

This document is the final deliverable of the Ex post evaluation of cohesion policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and Cohesion Fund (CF) Work Package 3: Financial instruments for enterprise support, No. 2014CE16BAT032. The evaluation was carried out by a consortium of three organisations: t33 srl (lead), EPRC - University of Strathclyde, Metis GmbH.

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Figures, Tables and Boxes

Abbreviations

AIR	Annual Implementation Report
COCOF	Committee of the Coordination of Funds
DG Regio	Directorate-General for Regional and Urban Policy
EC	European Commission
ECA	European Court of Auditors
EIF	European Investment Fund
ERDF	European Regional Development Fund
EU	European Union
FI	Financial Instrument (equivalent to FEI Financial Engineering Instrument)
FM	Fund Manager
GDP	Gross Domestic Product
HF	Holding Fund
IB	Intermediate Body
JEREMIE	Joint European Resources for Micro to Medium Enterprises
MA	Managing Authority
MTE	Mid-Term-Evaluation
OP	Operational Programme
NHF	Specific fund set up without a holding fund
NSRF	National Strategic Reference Framework
R&D	Research and Development
SF	Structural funds
SME	Small and medium-sized enterprises
ToC	Theory of Change
VC	Venture Capital

Glossary of terms

Equity	Equity investment means the provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and share in the firm's profits.
Exit policy/strategy	A policy/strategy for an investor to liquidate holdings for maximum return, including trade sales, write-offs, redemption of preference shares/loans, sale to another venture capitalist, sale to a financial institution and sale by public offering (including initial public offerings).
FEI Manager (= FI manager)	An individual or entity responsible for implementing the investment strategy and managing the portfolio of investments related to the HF or to the Financial (Engineering) Instruments. For 2014-2020 period normally referred to as Fund Manager.
Final Recipient	The enterprises, public-private partnerships, projects or any legal or natural person receiving repayable investments from a financial engineering instrument.
First Loss Portfolio Guarantees	FI credit risk protection, guaranteeing the lender reimbursement for the first losses in a portfolio of loans.
First Loss Portfolio Guarantees for Leasing	FI guarantees, e.g. covering losses of 80% of the lease amount on portfolios of new SME leases.
Financial Engineering Instrument	Financial Engineering Instruments are those set up under Article 44 of Council Regulation (EC) No 1083/2006[1]. As part of an OP, Structural Funds may finance: (a) financial engineering instruments for enterprises, primarily small and medium-sized, such as venture capital funds, guarantee funds and loan funds (examined under WP 3) (b) urban development funds, i.e. funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development (c) Funds or other incentive schemes providing loans, guarantees for repayable investments, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing.
Financial Instrument	A term used in preference to Financial Engineering Instrument for the next programming period.
Financial Intermediary	The body that acts as an intermediary between the supply and demand of financial products, normally between the MA or Fund of Funds and Final Recipients.
Fund Manager	An individual or entity responsible for implementing the investment strategy and managing the portfolio of investments related to Financial (Engineering) Instruments, being funds for equity, loans and guarantee funds.

[1] European Commission (2012): Revised guidance note on financial engineering instruments under Article 44 of Council Regulation (EC) n°1083/2006

Funding Agreement	Level I - between the Member State or the MA and the HF. Level II - between the Member State or MA (or the HF where applicable) and the individual Financial (Engineering) Instrument. Level II funding agreements are also referred to as operational agreements. Funding agreements must ensure correct implementation of the strategy, including goals to be achieved, target sectors and final recipients to be supported. Moreover the funding agreements must also contain rules, obligations and procedures.
Gap Analysis	A market assessment under the JEREMIE initiative to identify the potential for FEIs to address market failure in SME and enterprise financing.
Grant	A non-repayable investment.
Guarantee	A commitment by a third party, called the guarantor, to repay a lender on behalf of a borrower when the latter cannot pay it. As stipulated in the agreement between the guarantor, the lender and/or the borrower.
Holding Fund (HF)	It is set up to invest in venture capital, guarantee, loan, equity or urban development funds, or other incentive schemes. In the 2014-2020 period normally called Fund of Funds.
HF Manager	The individual or entity responsible for implementing the investment strategy and managing the portfolio of investments for an HF as set out in the funding agreement.
Loan	An agreement that requires the lender to make available to the borrower a sum of money for an agreed amount and time. The borrower must repay the loan after a certain period. Usually the borrower must pay interest.
Leverage Effect	This is the increase in funds available after co-investment. As per Article 140 of the Financial Regulation No 966/2012 the leverage effect of Union funds shall be equal to the amount of finance to eligible final recipients divided by the amount of the Union contribution.
Mezzanine finance	This combines the features of debt and equity. The term covers a variety of instruments. Mezzanine finance includes convertible shareholder loans, loan notes and preference shares. These instruments are unsecured.
Operational Agreement	An agreement between the Member State or the MA (or the HF where applicable) and the individual financial instruments. In the 2014-2020 period these are normally called funding agreements.
Risk Assessment	This is part of a risk management procedure and determines the quantitative or qualitative value of the credit risk ('valuation'). Quantitative credit risk assessment requires the estimation and calculation of risk (including 'expected loss' and 'unexpected loss'), which is the magnitude of the potential loss and the probability that the loss will occur.
Seed Capital	This is financing to study, assess and develop an initial concept. The seed phase precedes the start-up phase. The two phases together are called the early stage.
Start-up Capital	This is financing for product development and initial marketing for enterprises being set up, or already existing but not yet selling their product or service.
Venture Capital	Investment in unquoted enterprises by venture capital firms that manage individual, institutional or in-house money. In Europe, the main financing stages included in venture capital are early-stage (covering seed and start-up) and expansion. It is a subset of private equity. Offsetting the high risk

	is the expectation of a higher than average return on the investment.
Winding-up	A process that involves selling all the assets of a fund, paying off creditors, distributing any remaining assets to the principals, and then dissolving the fund. Essentially, 'winding up' is to be understood as 'liquidation'.

1 Executive summary

This study examines ERDF co-financed financial instruments (FIs) for enterprises in 2007-13. It is based on data analysis for 12 'stocktake' countries, a literature review, nine case study OPs and a seminar with stakeholders to refine the findings. For many Member States FI were a novel approach to delivering Cohesion policy. Their increased use in 2007-13 therefore created significant challenges, especially for MAs with limited experience in FI implementation. The regulatory framework provided the flexibility to accommodate domestic arrangements, but was also demanding in terms of the administrative capacity needed at national and regional levels. Domestic policymakers sought greater clarity and certainty in the regulatory framework, and these were met through successive changes to the Regulations and guidance. Many of these and wider lessons from 2007-13 have been consolidated into the regulatory framework for 2014-20.

What rationales and conceptual models underpin FIs for enterprises?

FIs can be more sustainable than grants, generate better quality projects, and be more cost-effective. In the context of enterprise support, FIs can address capital market imperfections; reflecting this, MAs systematically cited ***limited access to finance*** for SMEs as the rationale for FIs.

However, in practice we found that ***pragmatic considerations*** were often just as important. These include avoiding decommitment (ES, IT), or responding to Commission enthusiasm for FI (OP Bavaria (DE)). The rationale for using FIs, or not, is *context specific.* FIs may be used in *domestic* policy, but not in Cohesion policy, perhaps due to small allocations which make the administrative burden too high (Flanders (BE)) or because the OP focus is on projects that are less likely to generate returns. An important motivation in some regions was the *development of local financial markets* to offset agglomeration tendencies (OP North East England (UK)). Mid-term, the *financial crisis* was important in justifying use of FIs, which were readapted (OP COMPETE (PT)) or became the principal mechanism to stimulate recovery (OP Economic Growth (LT)). There is no evidence that FIs were viewed as an *alternative delivery mechanism* to grants, at least initially. The relationship between grants and FIs is not well articulated in the OPs, but the stakeholder seminar suggested increasing importance is being given to coordination. *Sustainability, cost-effectiveness* and *quality* of investment seem not to have been important motivating factors for many MAs. For most, the priority has been operationalising FI against the backdrop of a complex regulatory environment. Where there was limited experience in running FI, this typically overshadowed the long-term rationale of having funds to reinvest and among the nine case study OPs only two of them (North East England and Languedoc-Roussillon) had a clear legacy strategy.

Looking ahead, ***motivations are evolving***: indications are that MAs may approach the rationale for FIs with more rigour in future. Experience in some regions suggests that FI can sometimes be more attractive to higher quality projects than grants, and as the prospect of legacy funds becomes a reality, there is growing interest in the sustainability of FI. Moreover, although a 'theory of change' approach did not underpin policy design in 2007-13, a fine-grained analysis of potential FIs, is a valuable tool (under the now mandatory ex ante assessment) to align relevant interests and objectives and develop a common understanding of needs.

How much support has been provided through FIs and in what forms?

The Commission first published an annual summary of data reported by MAs on the implementation of FIs in 2012. The 2015 Summary Report records ***OP commitments of over €17 billion*** to FI by end 2014, almost €14 billion of which is accounted for by ERDF co-financed support for enterprises, compared with just €1.3 billion in 2000-6.[2] Countries vary widely in their use of FI: in *absolute* terms the largest commitments (€4.2 billion or over 30% of FIs to enterprises) are reported by Italy, but relative to private investment, FIs in Hungary, Lithuania and Portugal are more significant.

Collectively, *the 12 stocktake countries committed over €11 billion to FIs for enterprises* under the 2007-13 OPs. While most of this (94%) was paid into holding funds or specific funds, ***less than 60% of the OP contributions committed had actually been invested*** in final recipients by end 2014. There are several reasons for this ostensibly unsatisfactory overall performance: *a slow start in FI implementation* meant it was not always possible for investment to 'catch up' with payments; *the very poor performance of some very large funds* which, in aggregate terms, conceals quite high investment rates elsewhere; and *lack of experience and capacity* among some MAs and other stakeholders, which needed time to develop the skills needed.

In the stocktake countries some ***784 ERDF co-financed FIs for enterprises*** had been set up by end 2014. This figure comprises 37 holding funds, 410 funds set up within holding funds and 337 funds established outside holding funds, in other words, a total of 747 specific instruments. The number of FI varies widely between countries but is not straightforward to quantify meaningfully (from 2 (CZ) to 202 (PL)).

Fund size is very diverse: In the stocktake countries, individual funds range from just over €10,000 (HU) to some €550 million (IT), but vary widely in geographical scope, financial product and objectives. Some regional equity funds appear too small to have the critical mass referred to by the ECA; on the other hand, some large funds appear to be among the worst performing: there are 25 loan funds exceeding €50 million and by end 2014, six of these had lent less than 20% of their funds to final recipients. Overall, loan funds exceeding €50 million were just 55% invested by end 2014, while smaller funds (less than €50 million) were almost 82% invested. The impact of a few very large funds which have invested very small amounts is significant overall: three funds (two in Italy; one in Spain) together totalling €486 million (nearly 10% of all payments to loan funds in the stocktake countries) have each invested less than two percent in final recipients. This overcapitalisation is partly attributable to the avoidance of decommitment,[3] which in turn makes it difficult to conclude on the relationship between fund size, product type and efficiency / effectiveness.

Loans are the most widely used form of co-financed FI, accounting for almost half (361) of all FI in the stocktake countries (747). Guarantees are less widespread (126 funds) but typically larger in volume. Loans and guarantees account for about two thirds of the OP contributions paid to funds in 2007-13. There are 140 equity funds in the

[2] There are serious deficiencies in the quality of the data reported by the managing authorities. These include misunderstandings of the data requirements and incomplete returns. This means that conclusions about the scale of spend (and other quantitative indicators) must be treated with caution.

[3] The introduction of phased payments in 2014-20 reduces the scope for this.

stocktake countries. These are often regional and are more likely to be closely targeted (e.g. on innovative firms) than loan and guarantee funds.

What are the management and implementation structures?

The ***implementation of FIs is characterised by considerable diversity*** in governance and the funding agreements which determine project selection. The FI landscape is so varied that implementation mechanisms defy easy comparison. They can involve holding funds that feed numerous specific funds each run by one fund manager (OP Economic Growth, LT), or the same financial products offered through a national network of financial intermediaries (OP Economic Development, HU). The experience of major domestic players was often important (e.g. ČMZRB (CZ) and INVEGA (LT)). FI support can range from commercial terms offered by co-investment funds (Scottish Co-investment Fund, UK) to loans at submarket interest rates (OP Convergence Wallonia, BE).

Despite this diversity, ***key implementation challenges were similar***. The lack of guidance in the regulations created uncertainties, resulting in significant delays. The issues faced are well documented and were a significant obstacle to the smooth implementation of FIs in 2007-13 in some cases. In the Enterprise and Innovation OP (CZ) the effect of the regulatory dimension was particularly severe – even though Czech funds were among the first to be set up, uncertainties surrounding the precise requirements contributed to a suspension of the funds by the auditors. However, implementation challenges go beyond Commission guidance and regulations, with limited experience among many domestic players and domestic arrangements sometimes ill-adapted to repayable instruments.

It is extremely difficult to assess the scale of ***management fees and costs*** under co-financed FIs. For many FIs, fees and costs are not explicitly reported to the Commission, and detailed analysis of the relevant data did not even yield plausible results for the nine case study OPs, though they do suggest that management fees differ widely by type of product and intermediary. Fees may be particularly high for equity funds – in 18 funds, management fees and costs exceeded 20% of the amounts invested in final recipients. Also important, while uninvested funds are returned to the EU budget at closure, OP contributions to management fees are paid out as eligible expenditure. With one exception, case study MAs maintained that FI management fees were below the regulatory thresholds established by Article 43(4) of Commission Regulation (EC) No 1828/2006. It was rare (perhaps only in the UK) that fees were linked to performance indicators. Looking ahead, the 2014-20 regulations provide for stricter limits on OP contributions to fees, and require a performance-related component.

What does the monitoring and evaluation system show?

Overall the quality of information on FIs is poor. Even though the provisions on monitoring are an obligatory element of each funding agreement between MAs and fund manager, specific reporting by MAs to the Commission on FIs was not required until 2011, and the obligatory elements to be reported are few. Financial information submitted by MAs is as a result patchy and reporting requirements have sometimes been misunderstood. Because many elements of reporting remained optional, basic data is often missing and it may be unclear whether information is unavailable on a given FI, or

whether no investments have been made. Sometimes the amount invested in final recipients exceeds OP commitments, suggesting that either returns to the fund have been double-counted - they are no longer strictly OP contributions (HU, LT, PL) - or interest has been added to the OP contribution - which is *not* an error of interpretation (PL). However, it is not known to what extent this has happened, making it impossible to provide basic aggregate data on the extent to which OP commitments have been invested, let alone assessments of how much they cost to run and what impact they have had on jobs or investment.

The case study analysis suggests that there is generally ***no ongoing quality control of data monitoring by MAs*** beyond that arising from ERDF related audits, State aid inspections and ECA visits. Moreover, the monitoring systems set up by MAs usually have only a few indicators and these are generally inadequate to provide an impact assessment. Existing ***evaluations provide very limited evidence on the effectiveness*** of ERDF-supported FIs for enterprise support. Evaluations which assessed FIs in relation to recipient firms in general indicate that the SMEs created jobs and increased their turnover, but only in a few cases were outcomes measured in terms of the net effects of FI support. It remains unclear what capacity FIs have to contribute to regional development objectives. The relative efficiency of FIs as opposed to grants is also unknown and underexplored.

What are the outcomes and how effective have FI been?

Appraisal of the operational objectives of OP priorities within which FIs were implemented suggests that almost all of them were achieved, 70% to a high degree. For the strategic objectives (related to the regional economy or the SME sector), the appraisal was positive for fewer than half. For the majority of objectives, assessment of the FI contribution was impossible due to lack of data. However, FIs clearly improved access to finance for many enterprises (FIs under the Economic Growth OP reached over 7% of all SMEs in Lithuania), thus achieving an objective stipulated in almost every case study OP.

Analysis of OP contributions shows that out of €10.5 billion paid to holding funds and specific funds, only €615 million (less than 6%) came from ***private sources***. However, it is important to note that: not all OPs allow for private contributions; and that private funds maybe attracted 'downstream', but are not necessarily captured in the data collected by MAs. This partly accounts for the wide variations between countries, with the UK attracting relatively significant inputs from the private sector (more than 60% of the total across all stocktake countries), and smaller sums in France and Portugal. Some countries attract no private funding as part of OP contribution (e.g. BE, HU, LT). Some €400 million in private capital was attracted through equity FIs, mainly in the UK. The capacity to attract private funds for venture capital improved markedly during the period.

Leverage[4] varies widely in the case study OPs, ranging from 20.4 under the OP Bavaria (DE) equity FI, and 18 in the Languedoc-Roussillon (FR) guarantee scheme to around 1.2-2.2 in most loan FIs. Where the MA involved experienced venture capitalists, as in Bavaria (DE), North East England (UK) or Languedoc-Roussillon (FR), private funding was high in both absolute and relative terms. However, there may be other sources of funding that are not reported which could represent an important share of private

[4] Public and private funds attracted relative to the ERDF contribution.

contributions attracted by FIs, so the focus in the AIR on contributions to the OP underplays the likely role of private funds which come on top of OP contribution.

There is insufficient reliable data for even a tentative global estimate of ***'revolved'*** funds. For some case study OPs there is a clear indication that monies have revolved for some loans funds (for instance 25% in OP Bavaria (DE), 20%-200%, depending on the FI, in OP Małopolskie (PL) and 64%-126% in OP Economic Growth (LT)). With the exceptions of North East England (UK) and – to a limited extent - Languedoc-Roussillon (FR), many of the FI in the case study OPs did not have a clear strategy for establishing a legacy. Among the case study OPs, few loan schemes (and no guarantee schemes) have reached the stage of revolving, partly due to the late start of the loan schemes and the average loan duration. For equity funds, the issue is different; most equity funds have been established for a fixed duration, typically 10 years. Although there are reported exits (with positive and negative results) from many funds, they involve fewer than 10% of the total number of deals. With the exception of OP North East England (UK), the future/final financial outcome, and hence the sustainability of the public money invested, has not been estimated (North East England expects its holding fund to generate close to 100 percent of ERDF plus the public sector match).

In terms of ***final outcomes*** such as productivity, job creation etc., too few MAs provide such data related to FIs to make an overall assessment of their impact. For example, job outcomes are reported in only five cases: in Bavaria (DE) some 513 jobs were created or safeguarded (which was below target); in North East England (UK) the figure was 1,953, of which most were in disadvantaged areas; in Małopolskie (PL) 162, which seems quite modest; while in OP Enterprise and Innovation (CZ) and OP Economic Development (HU) 5,780 and 61,896 jobs, respectively, were reported, which seem implausibly high. The case studies show that the effects of FIs on turnover, job creation, and the innovation capacity and competitiveness of supported companies are not systematically measured and it seems probable that this pattern is replicated more widely. Only North East England (UK) has collected data that shows the effects on innovation capacity.

Although some final recipients used FI funding to upgrade their technology and business processes, a substantial part of funding went into ***working capital*** rather than fixed investment. The scope for FIs to finance working capital represented important added value compared to grants, since it enabled support for business activity during the crisis when access to finance became more constrained. It also provides greater flexibility as some activities tend to be ineligible for grants since expansion is not based on fixed asset investment. Case study evidence suggests that around 60% of loan volumes (as a share of all co-financed loan and guarantee products) in Lithuania were for working capital. Working capital was also supported in other OPs (including Languedoc-Roussillon (FR) – 11%; Małopolskie (PL) – 9%; and Hungary c7.5%), but sometimes the scale cannot be estimated (OP COMPETE – PT) or eligibility is unclear (OP Enterprise and Competitiveness (CZ). Elsewhere, working capital is explicitly ineligible (OP Bavaria (DE); OP North East England (UK) and OP Technological Fund (ES)).

Last, ***softer evidence*** can also provide insights into how FIs have worked: FIs have had a tangible positive impact in improving access to finance for SMEs in Lithuania, in supporting the development of a sustainable regional revolving fund in North East

England (UK), in developing the business angel finance market in Bavaria (DE) and in nurturing regionally-based financial intermediaries in Małopolskie (PL) and Hungary.

Conclusions

The slow start to implementation in 2007-13 partly owed to the complex skill set required to establish FI and the lack of ***capacity*** in some managing authorities. These demands meant that often the most straightforward route was to entrust implementation to an existing body, such as a promotional bank. Such structures are not present everywhere, however, and the case study research and stakeholder seminar both highlighted the importance of past experience in systems which have evolved over more than one programme period. This enables policy design to benefit from learning and the evaluation of past approaches to contribute to the development of future policies. Effective links with the private sector are an important component of capacity and are needed to mobilise its resources and expertise. This requires incentives which align public policy objectives with private sector motives. In some cases FI can be used to develop capacity in the private sector e.g. Economic Development OP (HU) and Bavaria (DE).

The design and implementation of co-financed FI is *context* specific. This includes local economic conditions, banking / legal systems and previous experience with implementing FIs. Context matters because the underlying economic situation and existing institutional structures and practices set the parameters within which FI operate, affect how they work and influence domestic policy choices. In France, for example, the use of FI is comparatively limited, reflecting difficulties in adapting domestic law to the use of FI in Cohesion policy.

In terms of the economic context, this study confirms the need for a *quality* ex ante *assessment* of the market and of the size and nature of the funding gap. Such assessments were not obligatory in 2007-13, but are for 2014-20; these should provide a firmer evidence base for the scale and focus of policy than has sometimes been evident. In Spain, for example, there has been a significant underinvestment of FI under the Technological Fund OP, partly due to a mismatch between the geographical focus of the FI and the targeting of innovative projects, which are less prevalent in more disadvantaged regions.

An important lesson from this study is that the context can change and there may be a need to adjust the strategy during the course of implementation. Monitoring systems can play an important part in determining any adjustments needed, and provide information on effectiveness. This study shows that reporting by MAs to the Commission for 2007-13 has been insufficient for a concrete assessment of policy outcomes. Notwithstanding these shortcomings, it is important that monitoring is also adapted to context. Reporting mechanisms should be commensurate with the scale of funds in order for costs to be proportionate.[5]

The 2007-13 experience shows the importance of close coordination of the various actors involved from the outset. FI implementation is characterised by multilevel principal-agent

[5] For example, North West England (which was not one of the case studies) maintains a highly sophisticated bespoke real-time system for tracking FI investments by fund managers, but the cost of such a set up would be prohibitive in other contexts.

relationships, the definition of which requires detailed calibration: funding agreements need to be sufficiently attractive to fund managers to secure their involvement, but also enforceable so that the policy objectives are met; balancing the need for flexibility (to respond to changing circumstances) against the risk of 'objective drift' may be challenging.

The disparate nature and scale of the instruments deployed against the backdrop of diverse economic and institutional contexts, coupled with limited data makes it hard to draw concrete or comparative conclusions about the conduct and performance of FIs in 2007-13. Implementation of FIs in 2007-13 has faced challenges – the crisis, gaps in the regulatory framework, the complexity of the administrative structures and the skills required. If there is an overarching narrative, it is perhaps to be found in the role of ***time and experience*** in policy evolution. This may be a truism, but in spite of the challenges, FIs under some OPs have performed well in terms of investment in final recipients or development of local financial markets, for example, and arguably those that have performed best are those that were able to draw on the experience either of existing systems and structures or past programmes while committing funding allocations that could realistically be absorbed. Even among those FIs that have performed less well, the indications are that the experience of FIs in 2007-13 will inform and enrich the design and implementation of FIs in 2014-20, contributing to more mature and responsive policy instruments in future.

2 Introduction

2.1 Purpose of the evaluation

This study looks at the use of financial instruments (FIs) for enterprises in the 2007-13 Cohesion policy planning period.

Ex post evaluations are viewed as an important way of informing national and regional authorities, the general public, the European Parliament and other stakeholders involved about the outcomes of the 2007-13 Cohesion policy programmes. They examine the extent to which the resources were used, the effectiveness and the socio-economic impact. They also aim to identify factors contributing to the success or failure of programmes and highlight good practice.

We take this opportunity to thank all the stakeholders of the case study OPs who gave their time and provided valuable insights into and information on their programmes and instruments.

2.2 Scope of the evaluation

The methodology for the study was as follows:

- A stocktake of FIs in the 12 Member States (Task 1) which account for the majority (c.92%) of ERDF-funded FIs for enterprise support and most expenditure on FIs (c.86% of total planned equity/venture capital FI expenditure; 92% of loan/guarantee expenditure). The stocktake covers 108 European Regional Development Fund (ERDF) Operational Programmes (OPs) in 12 Member States.[6]
- A survey of the literature (Task 2), focused on a 'theory of change' approach to understand how and where FIs might work, in what conditions and for whom.
- Nine case studies (Task 3), based on nine selected OPs in different Member States, which explore the key issues for all FIs within that OP. The key features of FIs in the case study OPs are outlined in the table below.
- A stakeholder seminar (Task 4) "Financial Instruments for enterprise support: Lessons from 2007-2013" held on 11 September 2015, which was an important milestone towards the final report.[7]

[6] The countries covered by the stocktake are Belgium, Czech Republic, Denmark, Germany, Spain, France, Hungary, Italy, Lithuania, Poland, Portugal and the United Kingdom.

[7] The seminar discussed and deepened the emerging findings of Tasks 1 (Taking stock of support), 2 (Literature review), and 3 (Case studies). A total of 47 participants attended the seminar which was interactively structured and consisted of plenary sessions and breakout ('world café') groups. The seminar provided an opportunity to hear the views of stakeholders such as representatives of Managing Authorities (MAs) and Intermediate Bodies (IBs), chambers of commerce / enterprise associations, the European Commission, European Investment Fund (EIF), the academics / advisors associated with the study as external experts, the country experts involved in case study drafting and representatives of parallel ex-post evaluations commissioned by DG Regio.

Table 1: FIs in the case study Operational Programmes

OP name	Guarantee FIs	Loan FIs	Equity FIs	Mixed	FI in Holding Funds	Holding Funds	EIF-managed	FI not in HF	No of final recipients	OP contribs paid/ committed to HF or SF (€m)	FI as a % of total OP ERDF commitments	FIs as % of total ERDF committed for enterprise support
CZ: OP Enterprises & Innovation	0	1	0	1	0	0		2	3,774	234.5	4.3	5.7
DE: OP Bavaria	0	1	3	0	0	0		4	582	101.0	9.7	21.1
ES: OP Technological Fund	1	1	0	1	0	0		3	860	527.0	28.3	28.3
FR: OP Languedoc-Roussillon	0	0	0	1	1	1	1	0	1,308	30.0	6.0	14.7
HU: OP Economic Development	17	77	25	43	162	1		0	14,767*	710.9	19.3	20.9
LT: OP Economic Growth	4	15	5	0	23	2	1	1	5,540	265.8	8.7	25.1
PL: OP Małopolska	3	11	0	0	0	0		14	1,544	38.6	2.9	13.3
PT: OP COMPETE	0	0	25	2	26	1		1	6,831	271.4	9.3	10.3
UK: OP North East England	0	1	6	1	7	1		1	771	167.9	17.4	30.7
Total	**25**	**107**	**64**	**49**	**219**	**6**		**26**		**2347.2**		

Source: Own calculations from 2015 Summary Report, situation at 31 December 2014. *Data as of 31 December 2013 as the situation at 31 December 2014 was not reported by the MA.

The full stocktake was included in the First Intermediate Report presented to the European Commission in March 2015; this report includes only a summary.

The nine complete case study reports have also been published separately. This report provides a comparative overview of case study findings. In addition, the executive summaries of the case studies are included in the country annexes appended to this report. The findings in this report are structured around the five main evaluation questions outlined in the following section.

2.3 Evaluation questions

The aim of this ex post evaluation is to assess the rationale, implementation and early evidence of effectiveness of FIs implemented under Cohesion policy programmes in 2007-13.

The detailed evaluation questions outlined in the Terms of Reference (ToR) for the evaluation can be clustered into five groups.

- What are the rationales and conceptual models that underpin financial instruments?
- How much support has been provided through financial instruments and in what forms?
- What are the management and operational structures for financial instruments, and how well are they working?
- What does the monitoring and evaluation system show?
- What are the outcomes and how effective have financial instruments been?

The detailed list of task-specific evaluation questions (EQs) is presented in the Annex (6.4, 6.5)

3 Method/Process followed

3.1 Process/Methodology

The evaluation included three core elements - stocktaking, literature survey and case studies – designed to provide quantitative and qualitative dimensions, as well as the capacity to test empirically the principles suggested by the existing literature on FIs and the scope to enrich that literature. Figure 1 summarises the overall methodology of the study.

More specifically, the **stocktake** (Task 1):

- examined all ERDF programmes in the 12 Member States specified in the Terms of Reference, to identify and collect data for each FI scheme for enterprise support. Information was gathered on: (a) the private markets for FIs; (b) the main forms/packages of support offered; (c) the rationale for support and the types of business targeted; (d) the management and operational structure; (e) the amount of support provided; (f) effectiveness (where available) of the schemes;
- cross-checked the above as far as possible with the data reported by Member States to the European Commission in their annual summaries of data on FIs, published beneficiary data, as well as with the results of the parallel ex post evaluation Work Package 0 (data collection and quality assessment);
- used the outcome to select nine OPs for in-depth analysis under Task 3. These were chosen to be broadly representative of the different FI schemes in the 12 countries in terms of forms/packages of support and rationale. The selection of OPs also took into account of the availability of reliable data, as well as the presence of significant or interesting FIs.

The stocktake was carried out in parallel with an **examination of the existing literature** (Task 2) at EU and national level. The literature review sought examples of where and why publicly-funded FIs for enterprise support worked (or did not work), and studies comparing the performance of private sector with publicly-backed venture capital funds. The aim was to identify the main theories of change and contribution stories underpinning how FIs might work, taking account of the context, type of support, target recipients, as well as the performance and final results.

Desk research on FI schemes and the literature review fed into Task 3, the **nine case studies.** These were the core of the evaluation. The case studies enabled a more in-depth analysis of the specific FIs set up in the programme areas. The case studies were also intended to 'test' the theory of change approach, with a fine-grained analysis of the 'micro steps that lead from inputs to outcomes'. This approach posed challenges for the evaluators, notably those conducting the case studies, since it involved evaluating interventions according to logics that may not have been explicit at the programme or policy design stage.

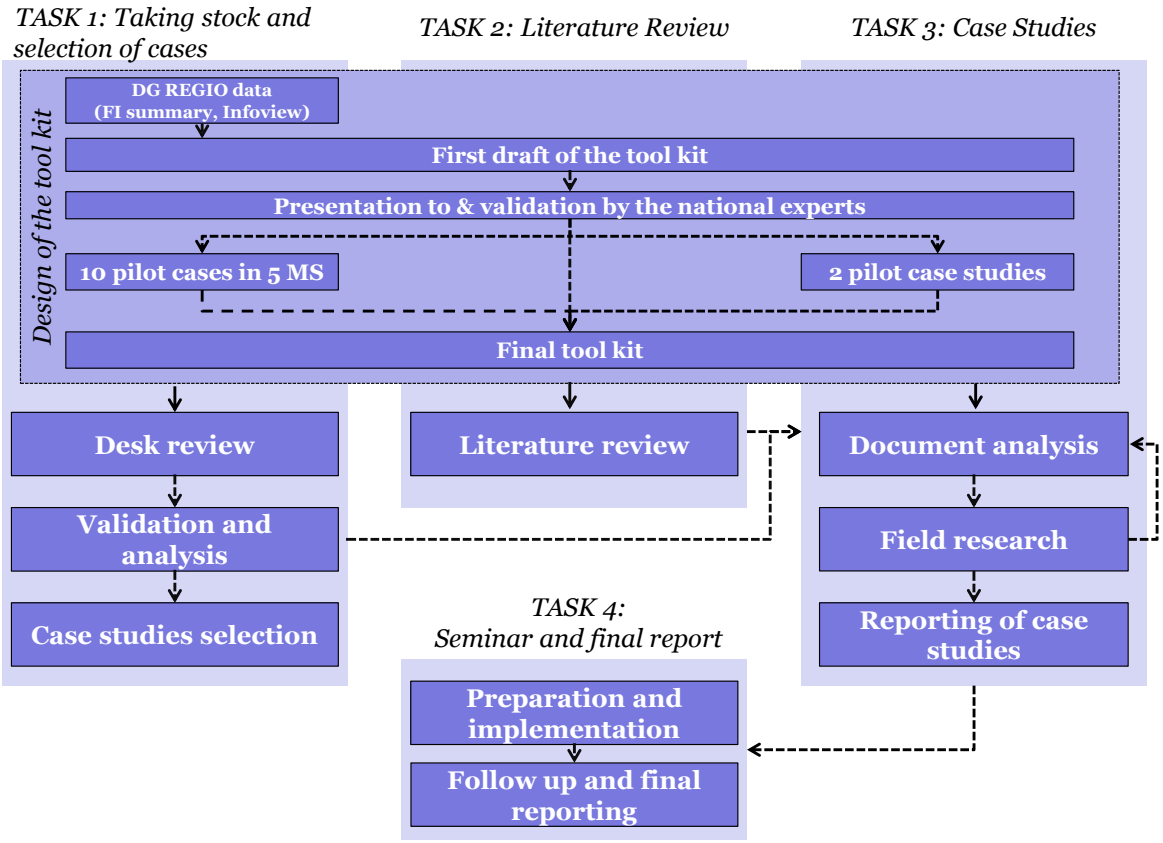
The structure of the case studies included:

- mapping a conceptual model, identifying the desired change to be achieved through the FI scheme and providing information on the context for implementation and the steps to reach the outcome;

- checking how the FI worked in practice, assessing implementation activities e.g. set up, management, performance of the FI e.g. leverage, revolving of funds, and outcomes e.g. age, size and sector of supported enterprises;
- comparing the expected impact of the policy according to the theory of change with the actual results, and drawing evidence-based conclusions about when, where and how FIs work or do not work.

Case studies involved both desk review of the relevant documents and field research. Two pilot case studies were undertaken to enable feedback to be incorporated in the remaining case studies at an early stage of the process.

Figure 1: Overall methodology (Tasks 1 to 4)



Source: Consortium

The final task of the evaluation – the **seminar** (Task 4),– brought together the study team with representatives of the MAs, Commission officials and experts in the fields of theory-based evaluation and FIs (on whose expertise the study has drawn from the outset). The seminar involved the discussion of the rationales and conceptual models underpinning implementation of FIs, management and operational structures, monitoring and evaluation systems, and the outcomes and effectiveness of FIs. Key findings and

some outstanding questions were explored with the stakeholders and yielded significant information which has in turn fed into this Final Report.

Goals and Theory of Change (ToC) of FIs

On the basis of the available literature, the Terms of Reference for the study proposed a theory-based evaluation - specifically **theory of change** - to address the evaluation questions. Theory of change approaches have been widely used in the field of development policies but are new to Cohesion policy. Applying a theory of change approach at different scales and in a multidimensional context was a significant challenge for the study team.

Box 1: What is a Theory of Change? What is a theory-based evaluation approach?

Theory of change (ToC) is defined as a way to describe the set of assumptions that explain both the mini-steps that lead to a desired long term goal and the connections between policy or programme activities and results that occur at each step of the way.[8]

A theory based evaluation approach follows several methodological steps. First, a reconstruction of the theory underpinning the intervention (including the preconditions for the achievement of the goals), the development of evaluation questions (EQs) and success indicators that cover the richness of the theory. Second, attention is focused on the theory, the verification of theory-specific EQs and the success indicators against available evidence. This either confirms the postulated ToC or indicates implementation gaps. The better the preconditions have been understood, the more likely it is that the expected outcomes will be achieved.

Task 2 developed **generalized ToCs** for different types of firms (start-ups, mainstream SMEs, social enterprises, high growth firms) and for different types of FIs (loans, guarantees, equity finance). The detailed results are presented in the annex (6.6). However, these remained at a generalised level and cannot reflect the complexity of real world instruments.

The research found that ToC differ not just by instrument, but also by specific instance. In other words, the ToC underpinning FIs are *sui generis* and the role and design of FIs depends critically on the objectives being pursued, the context in which FIs are applied, and the underlying assumptions concerning their design and implementation. Also crucial, FIs must be viewed as part of a wider economic and social policy landscape, including non-financial support and the development of appropriate linkages between different sources of finance, including different FIs, the role of the private sector and availability of non-repayable funding.

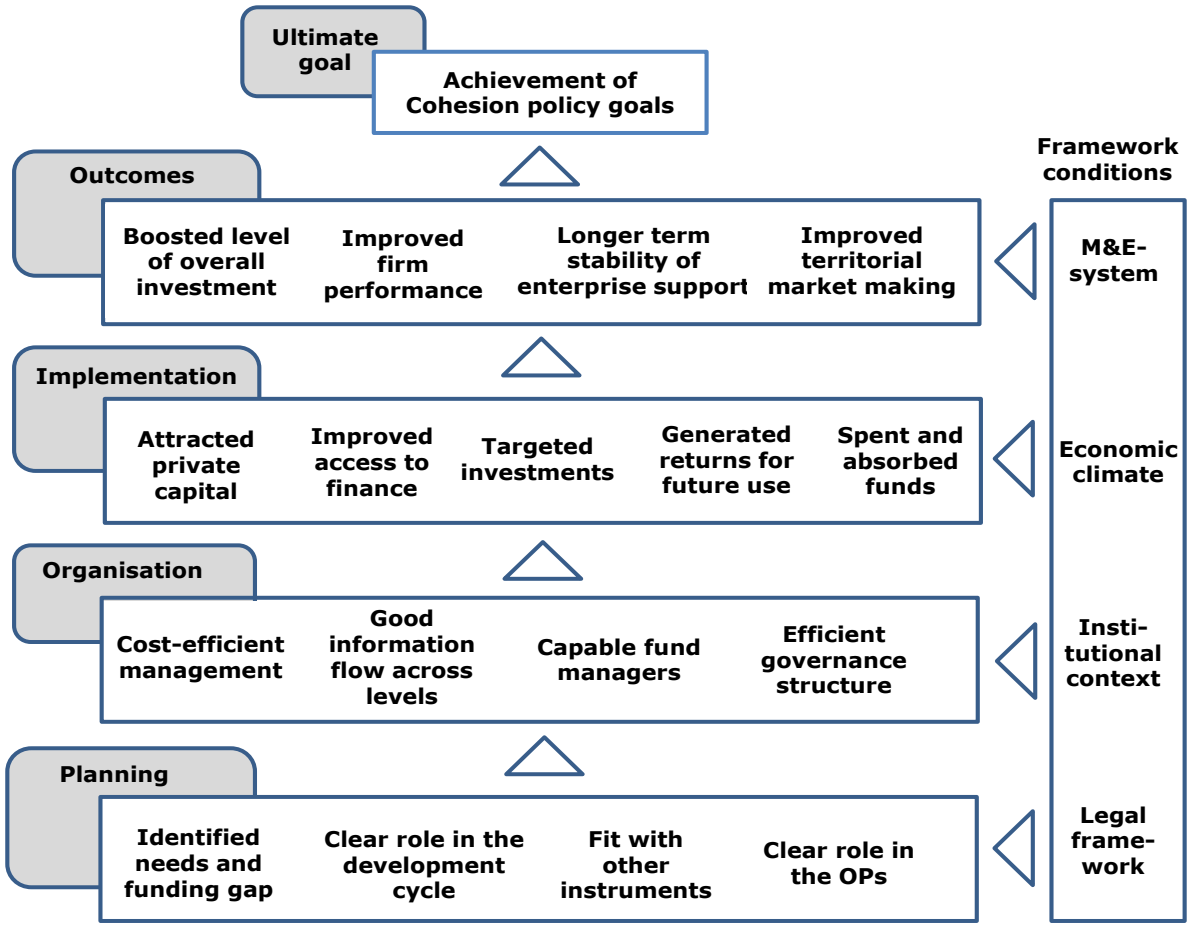
[8] EVALSED - The resource for the evaluation of Socio-Economic Development : Sourcebook - Method and techniques (09/2013), p54 f http://ec.europa.eu/regional_policy/en/information/publications/evaluations-guidance-documents/2013/evalsed-the-resource-for-the-evaluation-of-socio-economic-development-sourcebook-method-and-techniques

Because the context and pre-conditions differ, so must core elements of the implementation structure and the design of policy instruments. In consequence, it was not possible to develop conceptual models for all types of FIs supported across 12 Member States (108 OPs) in sufficient detail to show how financial instruments are expected to work and achieve their stated goals, and to be able to verify this in the Task 3 case studies in a meaningful way.

An alternative approach was therefore taken and simple retrospective ToCs were constructed for each OP which could later be verified. The broad lines of the plausible ToCs developed under Task 2 then helped to assess the context specific ToCs developed for the Task 3 case studies.

The following figure presents an overall ToC model of FIs. The model provides all the core elements, from the planning phase to the expected outcomes. The key elements are linked together in a causal pathway. It demonstrates clearly that many pre-conditions need to work in practice for FIs to be appropriately targeted and successfully implemented.

Figure 2: Overall ToC model of FIs



Source: Consortium

Task 3 aimed at the reconstruction of specific ToCs for all types of FIs supported in the nine case study programmes (nine OPs). This task was partially successful and could be regarded as a theory driven (but not theory-based) approach.[9] The case studies demonstrate compellingly that there are serious limitations to organising the evaluation of FIs around a ToC when a policy intervention has not been designed on the basis of a theory of change. This may reflect the fact that FIs have been viewed less as an alternative delivery mechanism for achieving OP goals by MAs than as a means of addressing a gap in the availability of finance for SMEs.

In the case studies, national experts refer to OP intervention logics,[10] which are different from theories of change. In the 2007-13 period, ERDF programmes defined highly simplified intervention logics of policy objectives at different levels (OP, priority axes, and measures) and a limited set of corresponding (core) indicators to measure achievements. The OP intervention logic lacks the intermediate steps and the specific assumptions characteristic of a ToC. The OP intervention logic does not determine the pathway of preconditions, or change in conditions, needed for an OP to reach its long-term objectives. No details are given on the conditions (assumptions) that connect the activities to the 'short-term results' and to the very broad macro-level outcomes.

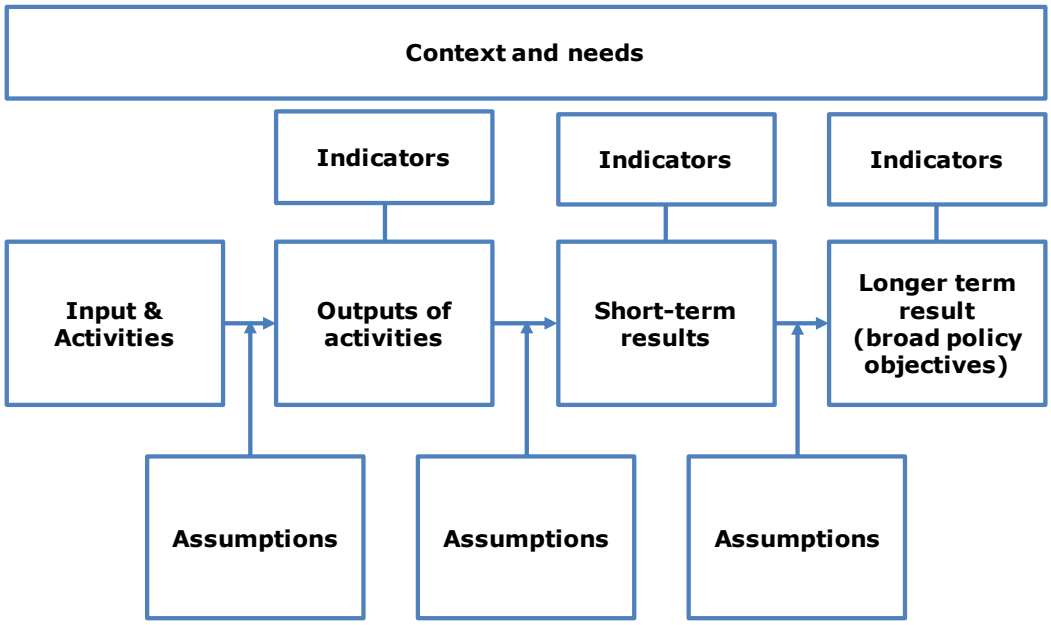
Although a ToC approach was not used in developing the FIs under the OPs, the case studies attempted to retrospectively develop an 'enriched OP intervention logic' for sets of FIs under each OP. National experts examined to what extent FIs had a rationale or set of hypotheses driving interventions, and to what extent there was an *implicit* ToC at work and tried to map this. The lack of documentary evidence was in part overcome by the interviews with OP stakeholders. These interviews helped to trace the preconditions necessary for FIs to work effectively within the framework of Cohesion policy. Accordingly, simple ToCs could be posited, even in the absence of an explicit ToC.

The standard model to map out a simple ToC is given in the figure below. The simple ToCs for FIs served to constitute the evaluation framework for verification; experts could only make case studies `theory-driven´ by establishing the extent to which there were hypotheses and assumptions for interventions.

[9] Thanks to Heléne Clark, ActKnowledge, for clarification of this issue

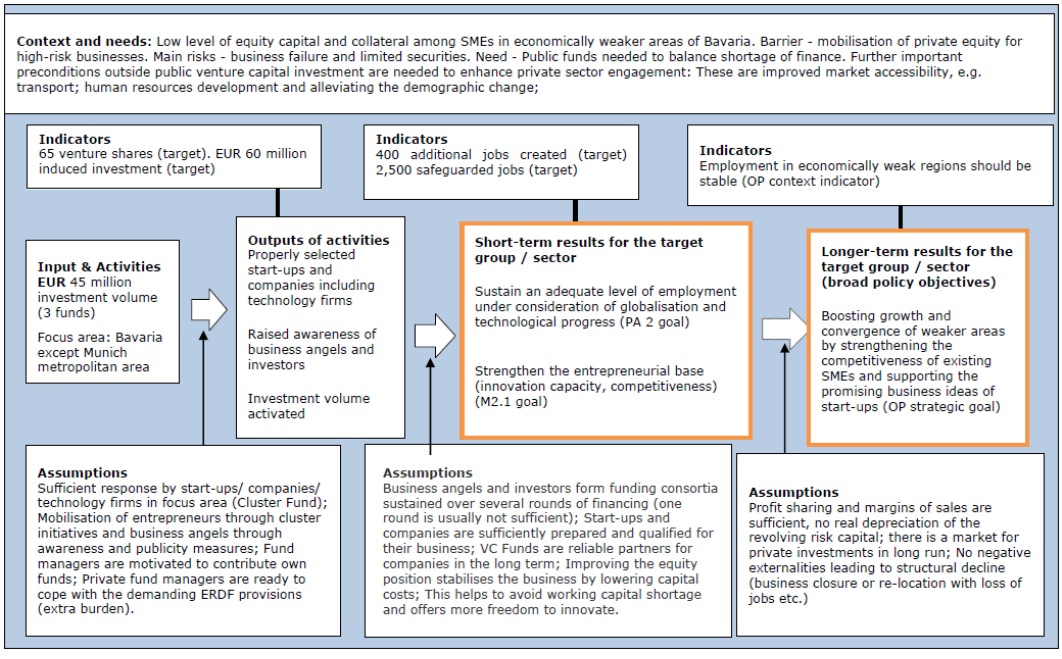
[10] 'Intervention logic' is the term commonly used in EU Cohesion policy for the programme logic showing the interaction between the hierarchy of OP objectives and measures. The evaluation framework (evaluation questions, indicators) is connected to the intervention logic.

Figure 3: Standard model for simple ToCs (´enriched OP intervention logic`) for FIs under the case study ERDF OPs



Source: Consortium

Figure 4: Risk capital FIs in the OP Bavaria, Germany (example)



Source: Case study ERDF OP Bavaria

The following overview demonstrates that the development of a retrospective ToC at the level of individual instruments was only possible in very few cases (e.g. Bavaria - Loan Fund; UK - pilot Creative Content Fund). The most relevant unit of analysis varied with each case. In most cases only summary ToC could be created for a number of instruments (e. g. in Lithuania, one ToC for 24 FIs, Hungary - one ToC for one loan product, three guarantee products and three equity products). The conceptual model of FIs in the programme documents is in most cases rather generic. Measured against the standards of a fully developed ToC, in many cases it was not possible to reconstruct a substantive justification and consistent intervention logic at the level of the financial instrument (the key elements of a ToC to help develop a clear rationale for FIs are presented in the annex 6.9).

Figure 5: Level of detail of ToCs

OP name[11]	Total no of FIs	Level of detail of ToC		
		Guarantees	Loans	Equity
DE: OP Bavaria	4	-	1 ToC for 1 loan scheme	1 ToC for all 3 risk capital funds
FR:OP Languedoc-Roussillon	3	1 ToC for 3 FI products: a co-financing fund, a seed loan fund and a guarantee fund		
UK: OP North East of England	8	-	1 ToC for the JEREMIE fund of funds (7 products) and 1 ToC for the pilot Creative Content Fund	
CZ:OP Enterprises & Innovation	4	1 ToC for Credit Fund (with 2 sub-programmes)	1 ToC for Guarantee Fund (with 2 sub-programmes)	-
PL: OP Małopolskie	14	1 Toc for loans (7 funds) and guarantees (3 funds) and loans to SMEs affected by natural disasters (4 funds)		-
LT: OP Economic Growth	24	1 ToC for 24 FIs		
PT: OP COMPETE	27	-	1 ToC for VC funds, finance line for Business Angels and Loan funds (27 products in total)	
ES: OP Technological Fund	3	1 ToC for guarantee fund	2 ToCs for loan funds	-
HU: OP Economic Development	11	1 ToC for EDOP including five loan products, three guarantee products and three VC products		

Source: Case study research

The following section illustrates **theory-driven examples** and **gaps** in the Theory of Change framework.

The **OP Bavaria** (DE) case study identified relevant pre-conditions for risk capital funds to function well, for example:

[11] Order of case study countries by 2007-13 SMAF Index, see First Interim Report (March 2015) p 35

- Business angels are mobilized through effective awareness and publicity measures
- Business angels and investors form a funding consortium that can follow the various rounds of financing
- Start-ups and companies receive intensive non-financial support to build up their business competence
- Funds are long-term stable partners for the companies.

These pre-conditions, which are not included in the programme documents - but critical for success - were checked in the case studies to understand if they worked out in practice.

In the **OP North East of England** (UK), the conceptual model of FIs was well-developed**.** The design of the FIs built strongly on the experience of the previous financing periods. The seven product funds under a JEREMIE holding fund (FBNE), as well as the pilot fund for the commercial creative sector, the Creative Content Fund (CCF), **show a very clear and distinctive profile** and the OP offered few grants to businesses (only small consultancy grants). A **number of studies** were undertaken to assess specific market issues and needs related to the creative sector. Research undertaken in 2007 identified the main weaknesses. The evaluation of a previous pilot - the Design and Creative Fund – had identified barriers and challenges at both the investor and the investee levels. In addition a set of progress indicators was introduced relating to longer term goals and shorter term preconditions.

In **Hungary, the OP Economic Development** focused on longer-term targets including promoting growth and job creation, but without specifying the mechanism to achieve these goals. A number of assumptions influenced the decision not to favour specific regions or economic sectors and the preference for very small businesses. The rationales and underlying assumptions for these decisions are not explained. For example it is not made clear why microcredit was considered essential to growing the Hungarian economy. Other assumptions were: that many financial intermediaries in competition would lead to better financial products; that attracting private money would increase growth; that local business development centres provide better outreach of FIs because they understand local conditions. Many such assumptions underlie the theory, some of which may be better represented as precondition outcomes to be examined and tested through evaluation.[12]

The theory-driven approach has the **benefit** of identifying the strategic and operational objectives for the FIs and some implicit assumptions for performance monitoring. These assumptions were checked to see if they were implemented (or whether this is likely). The operational and strategic goals and assumptions in the 'enriched OP intervention logic' were checked in detail in 'assessment grids' based on the evidence collected in the case studies (see outcomes chapter). In addition, indicators were proposed that can capture the effects of the FIs such as the change in firm growth or innovation capacity, or, if there are no data available, proxies, such as employment or investment. In most cases, however, no data for this proposed set of indicators are available and therefore the indicators cannot be quantified.

[12] based on a comment by Dana Taplin, ActKnowledge, July 2015

The "enrichment" of the simple OP intervention logics with a ToC perspective for the evaluation purpose was, however, not grounded in a thorough consultation with the policy makers. Developing a comprehensive and meaningful ToC retrospectively would require the joint involvement of many stakeholders. Underestimating the time and effort necessary to develop an effective theory has been a key barrier to the effective use of ToC in planning and evaluation.[13]

A theory based approach (had it been adopted at the outset of the OP) would enhance subsequent evaluation by drawing out the hypothesised intermediate outcomes or preconditions between Cohesion policy goals and the immediate outputs or outcomes of the OP. This could provide a meaningful research design for measuring correlation and causation.

3.2 Limitations – robustness of findings

Considerable care was taken in the stocktaking exercise, but it is important to be aware of the limitations of the data collected. The study team cross-checked the information gathered by national experts as part of the stocktaking exercise with the data reported by Member States to the European Commission in their annual reporting of data on FIs. Most data collected under Task 1 was additional to the coverage of data available to the Commission, so it could not be checked against this source. At the same time, a check of the FI summary data reported by the managing authorities and a crosscheck with other sources, including published beneficiary data and the results of the parallel ex post evaluation Work Package 0 (data collection and quality assessment),[14] showed:

- There were many blank values in the FI summary data because much of the information provided by MAs was optional rather than compulsory (there were few gaps in the compulsory data). Also, FIs may not have reached the relevant stage of implementation when reporting. This meant that empty values were a 'structural feature' of the dataset. However, there were also some ambiguities in the use of blank and zero values, i.e. blanks used to represent zero values and vice versa. This made data interpretation difficult.
- Some data points only partially covered the relevant issue. For example, management costs and fees included a high number of zeros. Other remuneration of the fund managers, such as from their own contribution or fees charged to final recipients, was not covered by the data. Similarly, private contributions made outside the OPs were only partially covered by the data.
- It is impossible to clarify the nature of specific data. For example, contributions disbursed by the FIs that were higher than those paid to the FIs could reflect MAs reporting revolving amounts, although these are no longer part of the OP, contributions from the fund manager's own resources, additional amounts generated through treasury operations (e.g. interest), or fund managers being reimbursed by HF or managing authorities only after disbursing money to final recipients. This also applies to FIs with contributions to final recipients that were lower than contributions paid to the FI.

[13] Heléne Clark, ActKnowledge, external expert to the study.
[14] While 2013 and 2014 FI summary data has been checked, crosscheck was carried out for 2013 FI summary data only.

- Unrealistic values were identified as well as data that looked implausible when considered in combination with other FI information, such as unrealistically high or low amounts invested per contract.
- Some reporting mistakes were found, including misinterpretation of the definition of SMEs, set-up dates that were outside the programming period, and misclassification of FIs by type of implementation.
- Comparison of data for jobs created, reported by Work Package (WP) 0 and the summary data, suggested some reporting errors. These appear to include MAs not counting FI jobs in the total for core indicator 1 in the Annual Implementation Reports (AIRs).

While such shortcomings are understandable considering the complexities of the information and the fact that 2012 was the first year that MAs were formally required to report on FI data, the data limitations make detailed comparisons across FIs difficult. Case studies were used to verify the inaccuracies and inconsistencies wherever possible. However, analysis of the case studies which are based on a sample of nine OPs (out of a total of 108 in 12 Member States) may lead to specific and non-representative findings.

Preparation of the case studies was also challenging. First, there are definitional issues around some of the required information and data, e.g. leverage effect, multiplier effect, and amounts committed, paid and actually invested. Second, in most cases, access to important documents such as funding agreements, agreements between holding funds and financial intermediaries or audit reports was not possible. This problem was partly solved by using interviews and other data sources. There was also a major gap in reliable data on the economic performance of companies participating in enterprise support schemes.

Box 2: Division of roles in data reporting – specifities of FI reporting

When referring to reporting/monitoring of FI data, the distinction between the different roles of the European Commission and the Member States in terms of the specific reporting requirements for FIs should be taken into account:

- the reporting from FI to the Managing Authority (MA), who has the ultimate responsibility for the implementation of the programme (in line with the shared management principle), and;
- the reporting from MAs to the European Commission on operations comprising support through FIs. Such reporting is *a priori* limited to OP resources. It should be noted that reporting requirements introduced for FIs in the Annual Implementation Reports (AIRs) are quite extensive and specific compared to those for grants.

4 Answers to evaluation questions

This part of the report is structured around the five main evaluation questions which the study sought to address, specifically:

- What are the rationales and conceptual models that underpin financial instruments?
- How much support has been provided through financial instruments and in what forms?
- What are the management and operational structures for financial instruments, and how well are they working?
- What does the monitoring and evaluation system show?
- What are the outcomes and how effective have financial instruments been?

4.1 EQ1: What are the rationales and conceptual models that underpin financial instruments?

The overarching rationale for the use of FIs in public policy is that facilitating access to finance through the use of repayable instruments contributes to sustainable economic growth. An important dimension to the rationale for FIs concerns the extent to which they are a substitute for, and can be articulated with, grants or non-repayable support. In other words, FIs are (potentially) an alternative, more sustainable policy delivery mode.

Key findings

- The role and operation of FIs is often driven more by pragmatic considerations - such as interest in diversifying the range of policy instruments, pressure to ensure that the available EU resources are spent or to maintain funding for existing support schemes - than by an in-depth consideration of the design of FIs, the change they would bring about and the contribution they would make to OP objectives.
- The design and implementation of FIs is highly context specific, limiting the extent to which lessons may be transferable.
- The gap analyses should play a crucial role in the rationale for FI use, but often the design of FIs was not based on specific studies, and the quality and usefulness of some gap assessments is questionable.
- OP commitments to FIs are not always justified by demand – the low absorption rates of some FIs casts doubt on the accuracy of the financing gap assessment and are sometimes indicative of the avoidance of automatic decommitment.
- There is no optimum fund size as such. Even if the literature suggests that very small equity funds can be relatively costly and lack the critical mass to be effective and spread risk, very large funds may be prone to 'objective drift' or may struggle to absorb the funds allocated.
- Neither cost-effectiveness nor quality of investments appears to have been important in deciding to use FIs; sustainability and the provision of a legacy were not high on the agenda.
- Although the relationship between the use of grants and repayable instruments was not well articulated in the OPs, in practice consideration has been given to

the different roles of different measures within a priority axis and to using them in a complementary way.

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

Against this background, this section addresses the first evaluation question by briefly reviewing the wider **financial context** in which ERDF co-financed FIs for enterprises operate. It goes on to consider the role of **FIs in economic development policy**, before considering **the need for finance** and the **rationales** for using financial instruments under Cohesion policy programmes.

4.1.1 The financial context for FIs

Markets for finance vary between different types of enterprise. In general, SMEs face greater obstacles in accessing finance than do large firms, which are more likely to be able to secure capital from equity markets or by issuing corporate bonds. The economic context for such firms has been particularly difficult in the period under study, with many countries seeing a sharp decline in lending to SMEs and venture capitalists withdrawing from the early-stage market.

Access to finance is the second most pressing problem for SMEs across Europe, after finding customers.[15] Conventional analysis suggests that access to finance is likely to be especially difficult for certain categories of SME, notably start-ups, small and/or young firms, high tech enterprises, and for entrepreneurs from disadvantaged or underrepresented groups.[16] These categories of firm are important for different dimensions of economic and social cohesion policy. For example, despite the fact that most SME employment is among older SMEs, young SMEs are responsible for most new job creation,[17] and a very small proportion of new firm starts accounts for the majority of

[15] European Commission (2013) SME's Access to Finance Survey

[16] Siedschlag, I *et al* (2014) *Access to External Financing and Firm Growth,* background study for the European Competitiveness Report 2014, ESRI.

[17] Criscuolo, C., P. N. Gal and C. Menon (2014), "The Dynamics of Employment Growth: New Evidence from 18 Countries", OECD Science, Technology and Industry Policy Papers, No. 14, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5jz417hj6hg6-en; NESTA (2008) The vital six percent: how high growth innovative businesses generate prosperity and jobs.

net benefits in terms of investment, employment and exports.[18] Increasing policymaker attention has focused on high growth firms (and a subset thereof, so-called 'gazelles'[19] – young high growth firms) defined as those with at least 10 employees and an average growth rate (turnover or employees) of over 20% per year over three years. Comprehensive data on high growth firms are rather poor; however, OECD research suggests that such firms typically account for 2.5% to 6% of the total firm population when measured by employment growth, but higher levels when measured on the basis of turnover. [20]

Support for this segment of the business population has become a focus of policymaker interest partly owing to the sharp contrasts in entrepreneurship between Europe and the US: six of the top ten 'most admired' corporations worldwide – Apple, Amazon, Google, FedEx, Starbucks, Southwest – are US firms started after 1970;[21] no European companies feature in the top ten, and those in the top 50 are all of longstanding (BMW, Nestlé, Volkswagen, Unilever).[22] Apple, Microsoft and Google – all established since 1970 – feature in the top ten of the FT Global 500 by market capitalisation; the only European firm to do so is the Swiss pharmaceutical firm Roche.[23]

The relevance and availability of different sources of finance varies by type of enterprise and by country. Although this study aims to evaluate 'financial instruments', it is important to acknowledge that this term includes forms of intervention that are extremely diverse and have little in common with one another beyond the fact that they are intended to be repaid. Also important, the boundaries between public and private are often blurred and in many countries there is a longstanding tradition of public sector involvement in the provision of finance for example through business development banks (*Landesbank* in Germany; BGK in Poland), other funds and structures (BPI and its predecessors in France) or the operation of guarantees which may involve mutual and/or public backing (Invega in Lithuania).

Discussions of financial instruments conventionally distinguish three main types of measure: loans, guarantees and equity. These categories are, however quite broad, and each encompasses instruments that differ in their target market, the terms on which they are operated and the mechanisms by which they are governed.

Traditional loan finance is one of the least expensive forms of external funding, suitable for comparatively low risk operations and businesses with sufficient cashflow to service capital and interest repayments; debt finance also enables entrepreneurs to retain control of their business. Guarantees are typically coupled with loans, in principle in order to facilitate access to capital by firms which would not be able to obtain it otherwise, and are offered by various types of guarantor. Equity is more suited to the small number of

[18] Henrekson, M and Johansson, D (2010) Gazelles as job creators: a survey and interpretation of the evidence, Small Business Economics, 35 (2), 227-244; Rigby et al (2007) Are gazelles leaping ahead? Innovation and rapidly growing small firms, study for DG Enterprise and Industry: http://grips-public.mediactive.fr/knowledge_base/view/128/grips-mini-study-on-gazelles/

[19] Mitusch, K. and Schimke, A (2011) *Gazelles – High Growth Companies*, final report, INNOVA.

[20] http://www.oecd.org/industry/business-stats/39974588.pdf

[21] Gimeno, J (2012) Where are Europe's Gazelles? http://knowledge.insead.edu/blog/insead-blog/where-are-europes-gazelles-2751 ;

[22] Fortune (2014) World's most admired corporations: http://fortune.com/worlds-most-admired-companies/2014/

[23] FT Global 500: http://www.ft.com/cms/s/0/988051be-fdee-11e3-bd0e-00144feab7de.html#axzz3T2izlnjd

potentially high growth firms which lack the cash flow to cover debt and interest repayments, but may offer high returns to investors in the long term.

Loans are the main source of private financing for SMEs – over 60 % of SMEs have used them.[24] This reflects their relatively low cost and the absence of implications for firm ownership and control. Loan volumes vary widely between countries – (from 15-20% of GDP in the Czech Republic and Poland, to highs of over 60% of GDP in Denmark, Spain and Portugal).[25] In most countries (particularly Portugal, the United Kingdom, Hungary, Lithuania and Spain), levels of lending to firms fell in the wake of the economic crisis, with the volume of small loans falling even more sharply; only in Germany were levels of firms applying for finance and receiving it stable in 2007-13. In part this is a reflection of a more difficult borrowing climate – with firms reporting increasing difficulties in obtaining all or part of the finance sought. Rejected applicants tend to be very small, young and in the service sector. Also important, the proportion of firms refusing bank loan offers on grounds of cost is low, partly reflecting the fall in interest rates, and supporting the view that finance constraints are volume not cost based. Case study research showed that in some cases the supply side was so affected by the crisis that public FIs had to take a much greater and less targeted role than originally intended (Lithuania and Compete (PT)).

Importantly, however, the fall in lending has also been a product of demand, with fewer firms confident about investing in a difficult economic climate. The case studies showed that patterns of demand for loans have been quite different between countries and regions. In some cases, e.g. Languedoc-Roussillon, Czech Enterprise and Innovation OP, North East England and Bavaria, the demand for ERDF co-financed loans (and sometimes other instruments) was hardly influenced by the crisis, while in others demand actually weakened so much that the instrument had to be redesigned. This was in particularly the case in Lithuania, Hungary and Portugal and to a lesser extent in Małopolskie and Spain.

The strength of the underlying domestic finance provision determined how FIs were used in the crisis, so where this is strong (as in DE), the use of FI was not affected by the downturn, but where this was weaker (as in PT and LT), the use of FIs had to be adjusted to deal with wider problems of access to finance

The fall in demand is not solely a result of hesitation about investing, but also reflects 'fear of rejection' - thought to be a new phenomenon in the wake of the crisis.[26] This factor is important because it implies a need for support in developing investible propositions, but not necessarily a finance gap. This is an important policy issue and points to the need for intervention in the form of training, advice, mentoring, and so on to improve the skills and confidence of entrepreneurs in dealing with lenders.

Equity and venture capital finance are considered of limited relevance by most (80%+) SMEs.[27] The equity market is small and specialised in most countries and is arguably only well-developed in the United Kingdom. There are signs that angel investors and syndicates thereof are becoming more important as venture capitalists withdraw

[24] European Commission (2013) ibid.
[25] Calculated from ECB and Eurostat data
[26] Hutton, W and Nightingale, P (2012) *The Discouraged Economy.* London: The Work Foundation.
[27] European Commission (2013) SME's Access to Finance Survey

from the early stage market, but in most countries apart from the United Kingdom, and to a lesser extent France and Portugal, the market can be viewed as embryonic. Crowd funding is currently marginal but is expected to grow. Even in countries where venture capital is more important, it remains niche – VC investors are highly selective and deals number in the hundreds and low thousands annually.

The **guarantee** market is difficult to assess. Many guarantees involve public backing and guarantees have been an important policy tool in the recession, with terms often relaxed to enable firms to borrow working capital. In terms of volume, guarantees are only important in a few countries – notably Italy, Hungary and Portugal; however, in terms of reach they are far more significant than equity, with many thousands of guarantees issued annually in some countries.

4.1.2 The role of FI in economic development policy

Against the backdrop of the financial context, a key issue is the role of publicly-funded FIs in economic development policy and how well FIs work in addressing identified market imperfections. A number of studies have made detailed assessments of FIs in relation to recipient firms or the outcomes of specific schemes, though many such studies assess outcomes that were not necessarily part of the initial policy rationale. There is also a growing body of policy evaluation work, case studies and analyses of implementation, which are less focused on specific outputs or policy outcomes, and markedly less rigorous in seeking to establish the net effects of policy, but often give a more rounded perspective on the implementation of policy measures, yielding insights into processes and the practical operation of schemes, which condition how measures operate in reality. In the main, the academic literature on FIs is focused on different dimensions of the 'access to finance' question. Much of the literature focuses on publicly-backed venture capital rather than the more frequently used loan funds. Few studies consider the rationale for the form of intervention –repayable mechanisms as opposed to grants – or the relative efficiency of public funds disbursed in repayable form and their capacity to draw in private funding.

Several academic studies consider **firm level impacts of FIs**, such as the effects on profits, survival or sales. Findings include:

- a government-backed credit guarantee scheme in Italy improved the financial circumstances of beneficiary SMEs because it shifted the structure of their debts towards longer-term lending.[28]
- government-backed venture capital did not affect sales or employment growth among a sample of EU high-tech entrepreneurial investee enterprises observed from 1993-2010.[29]
- a French guarantee scheme led to an increase in investment and employment, but not in the number of new start-ups; also that the scheme significantly increased the risk of defaults, raising concerns about risk-shifting.[30]

[28] D'Ignazio, A and Menon, C (2013) The causal effect of credit guarantees for SMEs: evidence from Italy, Temi di Discussione, Banca d'Italia: http://www.bancaditalia.it/pubblicazioni/econo/temidi/td13/td900_13/en_td900/en_tema_900.pdf

[29] Grilli, L and Murtinu, S (2014) Government, venture capital and the growth of European high-tech entrepreneurial firms, Research Policy, 43(9), 1523-1543.

- a wide-ranging meta-evaluation of English-language evaluation literature reported limited evidence that access to finance policy interventions improved firm performance and a need for more evidence on how different types of access to finance measures contribute to better or worse firm and economy-wide outcomes.[31]
- a study of microfinance in Belgium found qualitative benefits among recipients – in terms acquiring experience and skills, personal life satisfaction, self-esteem and better social and economic integration, *even* among owners of aided businesses which had ultimately failed. [32]

A number of studies compare **public and private sector financial instruments**:

- a dual picture emerges on the efficiency and effects of government venture capital programmes for young innovative firms in a wide-ranging review of academic and policy-oriented literature on the financing of innovative ventures:[33] pure public sector venture capital operations tend not to be very effective, but funds that co-invest with the private sector show more positive effects. This suggests that much depends on the specific design of the instrument.
- analysis of a sample of 865 young biotech and pharmaceutical companies across seven European countries found that syndicates between private and governmental venture capital investors, in which the private investor takes the lead, are the most efficient form in terms of innovation production and that this outperforms all other forms.[34] In other words, syndicates perform better than standalone investors at promoting innovation, and mixed syndicates better than homogenous private ones, but private partners should lead mixed syndicates for optimal outcomes.
- firms funded by both public VC and private venture capitalists obtain more investment than enterprises funded purely by private VCs, and much more than those funded purely by public VCs. Also, markets with more public VC funding have more VC funding per firm and more VC-funded firms, suggesting that public VC finance largely *augments* rather than displaces private VC finance. There is also a positive association between mixed public/private VC funding and successful exits, as measured by initial public offerings (IPOs) and acquisitions, attributable largely to the additional investment.[35]

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30 Lelarge, C, Sraer, D and Thesmar, D (2010) Entrepreneurship and Credit constraints: Evidence from a French Loan Guarantee Program, in Lerner, J and Schoar, A (eds.) International Differences in Entrepreneurship, University of Chicago Press: http://www.nber.org/chapters/c8218.pdf

31 What Works Centre for Local Economic Growth (2014) Access to Finance, Evidence Review 4, http://whatworksgrowth.org/wp-content/uploads/2014/01/14-10-31-Access-to-Finance.pdf

32 Proximity Finance Foundation and CeFiP/KeFiK (2007) L'impact de la microfinance en Belgique, http://www.fonds.org/02Documents/Impactstudie%20microfinanciering%20FR.pdf

33 Manigart, S et al (2014) Revue de la littérature relative au financement des jeunes entreprises innovantes, Institut Wallon de l'évaluation de la prospective et de la statistique: http://www.iweps.be/sites/default/files/evaluation_thematique_financement_spinoff.pdf

34 Bertoni, F and Tyková, T (2012) Which form of Venture Capital is Most Supportive of Innovation? Discussion paper no 12-018: http://ftp.zew.de/pub/zew-docs/dp/dp12018.pdf

35 Brander, J Du, Q and Hellmann, T (2014) The Effects of Government Sponsored Venture Capital: International Evidence, Review of Finance Advance Access, 1-48.

- public VC-backed firms underperform private VC-backed ones, and do not grow more than non-VC-backed companies.[36] The impact of public venture capital is still not statistically significant (even though positive) when public funds target young firms, except when public funds co-finance with private funds and both target young firms.

The **geographical dimension of FI** is of particular relevance in the context of Cohesion policy. Academic research shows that the financial environment for firms differs not only between countries, but also within them, i.e. there are significant differences between regions in the availability and type of investment capital, with the tendency for entrepreneurial finance to focus on the metropolitan regions.[37] Indeed, financial systems are inherently spatial, characterised by complex institutional geographies that both reflect and influence their functioning.[38] This, in turn, produces geographical effects on the ability of entrepreneurs to access finance, which typically work to the disadvantage of peripheral regional economies.

The typical approach of governments to stimulate venture capital in the regions has been to establish hybrid funds with private sector fund managers which comprise a mixture of public and private money, with private investors given certain incentives that either increase their up-side or reduce their down-side, or both.[39] However, it is debatable whether constraining equity funds by restricting their investments regionally is good practice[40] - although there may well be regional-level resistance to the idea of funds being pooled, notably, but not only, in the context of Structural Funds co-financed measures. More generally, the literature suggests that small VC funds have a number of disadvantages, i.e. limited ability to diversify funds and to make follow on investments (thus fully sharing in successful investments).[41] In addition, Nightingale *et al* suggest that the key problem with regional VC funds is one of 'thin' markets in disadvantaged regions[42] - these regions lack an appropriate eco-system to support venture capital investing. Another important consideration is that of crowding-out private sector finance, an issue which became a concern in the context of publicly-backed loans in Finland. [43]

There is also evidence of *positive* effects of FIs on disadvantaged areas. A study of Small Business Administration guaranteed lending in the US showed a correlation between the level of guaranteed lending and the level of employment in a local market.[44] However, crucially, this correlation was only significant in low income areas, perhaps suggesting a

[36] Grilli, L and Murtinu, S (2013) New technology-based firms in Europe: market penetration, public venture capital and timing of investment, paper to 4th European Conference of Corporate R&D and Innovation CONCORDi-2013, Seville, September 2013: http://iri.jrc.ec.europa.eu/concord/2013/papers.html

[37] Mason, C and Harrison R (2002) *The geography of venture capital investments in the UK*, Transactions of the Institute of British Geographers, 27, 427-451.

[38] Martin, R (1999) *Money and the Space Economy*, Chichester: Wiley.

[39] Murray, G C (2007) Venture capital and government policy, in H Landström (ed) *Handbook of Research on Venture Capital*, Cheltenham: Edward Elgar, pp 113-151.

[40] Veugelers R (2011) Mind Europe's early equity gap, Bruegel policy contribution, Issue 2011/18. December 2011.

[41] Murray, G C (2007) *Op. cit.*

[42] Nightingale, P et al (2009) From Funding Gaps to Thin Markets: Designing Hybrid VC Schemes for the 21st century, SPRU, University of Sussex for BVCA and NESTA.

[43] Ministry of Employment and Economy (2012) *Evaluation of Finnvera Plc*, Final Report, Innovation 28/2012.

[44] Craig, B, Jackson, W and Thomson, B (2008) Credit market failure intervention: Do government sponsored small business credit programs enrich poorer areas? *Small Business Economics,* 30, pp345-360.

crowding-out effect in more prosperous areas, but also providing support for arguments in favour of regionally-discriminating guarantee schemes.

The case studies reveal two distinct approaches to the regional development dimension: regional development goals and general territorial development issues play a significant role in the design and/or implementation of FIs in some OPs, but not others. Interestingly, this does not depend on whether the OP is national or regional in scope. In Bavaria (DE), OP Economic Development (HU), Małopolskie (PL), OP COMPETE (PT), North East England (UK), regional development issues are important. The FIs in these OPs pursue explicit regional development goals, mainly closing development gaps/disparities between the region(s) or within the region, thus in most cases addressing the sub-regional or even local level. This is most pronounced in the Bavaria OP. Nevertheless, FI tend to be aimed at regional development *generally* and it is rare that individual instruments are restricted to disadvantaged regions.

An important dimension of operating FIs is the extent to which they can foster the development of private markets. For example, an important aim of the North East England (UK) FI strategy was to offset the impact of the London-centric financial services sector; interestingly, in the new period, stakeholders expressed an interest in developing markets beyond the main urban areas in the region. In Hungary, the involvement of intermediaries throughout the country was an important aspect of the 'territorialisation' of access to finance.

4.1.3 Assessing the need for finance

At least part of the justification for publicly-funded financial instruments hinges on the presence of a **'funding gap'**, but the presence or scale of such a gap is not tangible in a general sense, and can only be meaningfully assessed in relation to specific sectors, target groups and / or localities. Although it was not compulsory at the time, most case study Operational Programmes designed their co-financed FIs on the basis of market gap analyses. In five cases, fairly comprehensive dedicated studies on the financial markets were undertaken, three of them by the EIF. In two cases, the MA chose not to undertake such a study, but to rely on prior experience with FIs both within the MA and the intended fund manager (Bavaria (DE) and OP Małopolskie (PL)). These gap analyses by and large made a reasonable attempt to identify the relevant issues, especially given the relative novelty of the process and experimental character of the FIs, and were sufficient to enable the identification of a plausible financial product mix within the FI, accompanied by targeting of enterprise groups. In general, however, they contained little or no quantification of the respective market gaps identified.

In two cases (OP Economic Growth OP (LT), COMPETE (PT)), the study was considered very useful but could not be applied in their entirety, as they did not take into account the changes caused by the financial crisis because it had been completed in 2007. By contrast, in a third case (Languedoc-Roussillon (FR)), the gap analysis and subsequent FI design and implementation were not affected by the crisis.

Only in the cases of the OP Enterprises & Innovation (CZ) and OP Technological Fund (ES), does there seem to have been no adequate analysis of the market situation available to the MA prior to introducing EU co-financed FIs.

It is generally accepted that a financing gap exists where viable projects cannot be financed - in other words, firms that have the ability to use funds productively do not have access to those funds. Assessing the nature and scale of the gap is however, acknowledged to be very difficult, although pragmatic methodologies exist which help quantify the market failures or suboptimal investment situations, and investment needs.[45] Many managing authorities are, of course, currently engaged in commissioning such studies for the new funding period, an ex ante assessment of the funding gap having become an obligation for those using co-financed financial instruments in 2014-20.[46]

Figure 6 : Overview of Market Gap Analysis

OP Name	Total No of FI	Guaran-tees	Loans	Equity	Quality of market gap assessment
DE: OP Bavaria	4		X	X	No dedicated analysis, based on MA & FM experience
FR: OP Languedoc-Roussillon	3	X	X	X	Useful and robust study by European Investment Fund
UK: OP North East England	8		X	X	Good, detailed market assessment
CZ: OP Enterprises & Innovation	4	X	X		No specific analysis
PL: OP Małopolskie	14	X	X		No dedicated study MA & FM experience
LT: OP Economic Growth	24	X	X	X	Analysis by EIF was good but designed for normal economic conditions not for the crisis
PT: OP COMPETE	27		X	X	Useful study by European Investment Fund
ES: OP Technological Fund	3	X	X		No specific analysis; FIs were not part of the OP at the beginning
HU: OP Economic Development	11	X	X	X	Sufficient, lacks quantification

Source: Case study research

4.1.4 Rationales for implementation of FI

The stocktake of FI in 12 countries reviewed the stated rationales for FI alongside the market situation, the types of FI deployed and the sectors and size of firm targeted. The most striking feature to emerge from the analysis is the **lack of clear patterns and**

[45] Kraemer-Eis, H and Lang, F. (2014) Guidelines for SME Access to Finance Market Assessments (GAFMA), EIF Working Paper 2014/22.
[46] Regulation 1303/2013, Article 37.

trends relating the rationales for FI use and either the market situation or the characteristics of the FIs chosen.

Restricted access to finance for enterprises to start-up and grow, either in terms of availability or quantity of credit, is identified as a problem in all the countries studied. This is overwhelmingly the main rationale given for FI use. Related objectives are in evidence in almost all the countries considered: lack of appropriate finance available on the market and unwillingness of commercial banks to lend (DE, DK, HU, PL and UK); credit rationing (ES, IT, FR, LT and PT); and strict banking rules affecting bank finance (BE - specifically, the Basel III provisions, which regulate the banks' risk profiles for loans and equity investments).

Restricted access to finance may arise from information asymmetries which make banks unwilling to lend except under onerous terms and conditions. The **cost of credit** was highlighted as a rationale for FI use in some countries (CZ, DE, FR and PL). Information asymmetries and perceptions about the risk of investing may make it difficult for firms to access funding for innovative projects, especially in the R&D sector. Risk sharing to encourage private sector funders to participate in investment activity is a frequent motivation (BE, DE, ES, LT, PL, PT and UK); this is often the rationale provided for (but not restricted to) equity FIs. Stakeholder participants at the seminar mentioned a number of additional specific rationales for FI use - the need for the 'territorialisation' of the financial services sector, which is too concentrated on large urban agglomerations, mainly capital cities, and responding to specific situations, notably flood damage, where grants (or insurance) might have been expected to be used.

Increasing the **cost-effectiveness of public funds** is stated as an additional rationale in most countries (CZ, DE, DK, ES, FR, IT, LT, PT), while improving the quality of investments is not cited at all.

Very few FIs explicitly target specific **disadvantaged groups** or sub-regional territories. Among the case studies, only Bavaria (DE) and to a limited extent North East England (UK) have this type of focus (although North East England (UK), the OP Economic Development (HU) and OP Małopolskie (PL) all monitor the geographic distribution of investments).

Few stated rationales for FIs mention the wider context of the pursuit of Cohesion policy goals, although several do specify the potential of FIs to create jobs. Contribution to wider Cohesion policy goals should be an explicit goal within the relevant OP priority under which the FI is being funded, but at the level of the individual FI and certainly once an FI is 'marketed', reference to the wider goals is notably absent. There was a strong focus on the delivery of regional development goals in only three of the case studies (Bavaria (DE), Małopolskie (PL) and North East England (UK)).

Interestingly, **sustainability**, and the prospect of a legacy is rarely mentioned. As was evident at the stakeholder seminar, the emphasis during the period has been on spending and absorbing funds rather than on seeking returns. Nevertheless, although practical implementation issues have dominated policy agendas, the seminar revealed growing interest in the capacity of FIs to generate returns for future use and it may be that the legacy rationale plays a greater role in the next planning period.

There are also **no clear patterns** with regard to the link between stated rationale for FIs and the type of FIs, the size of firm or the sectors targeted. Most of the FIs target general SMEs, with less support available for individuals, micro-sized firms and large firms. Similarly, most of the schemes are rather generic in terms of sectoral targeting. The exceptions are equity FIs, which are more frequently used to target specific sectors, for example in DE, where sectors with R&D/innovation potential such as nanotechnology, ICT, bio-technology and medical engineering are targeted, and the United Kingdom, where individual regional-level equity FIs target strategic, regionally-significant sectors. However, there is not always a clear link between the choice of a sector-specific approach and the market situation, or the stated rationale for incorporating FIs under the OP.

The lack of clear patterns and trends makes it **difficult to assess the logic of the approaches taken** at this level. There is no clear divide in approach between those countries with lengthier experience with FIs and those with none, in terms of size of Member State or Structural Funds budget; approaches vary widely also within countries, and between regions in a Member State. This suggests that the choice of FI and the approach taken are determined only in part by the market situation, and that the choice and approach are likely to be determined by a very specific set of circumstances at programme level. To look for such patterns would imply that the use of FIs within Structural Funds programmes has been based on an intervention-logic type approach; and that individual FIs were designed following OP analysis and a gap assessment.[47] However, gap assessments did not always take place, those that were carried out had weaknesses, and in any case, market conditions changed dramatically during the period in many countries from what was envisaged when the OPs were drafted.[48] This led directly to the introduction of new FIs and substantial expansion of some existing FIs during the period. In addition, many other factors are likely to have influenced the choice of instruments and targets, including previous experience with particular instruments, the influence of expert advisors and stakeholders, and the domestic support environment.

Across the case studies, the rationale for the introduction or non-introduction of EU-co-financed guarantee schemes is not readily visible. There are several large guarantee programmes (e.g. ES, CZ) and also extremely small guarantee schemes (fund size ~ €1 million) alongside them, and several regional guarantee schemes operating in parallel (as in PL). The opportunity to benefit from lost-cost capital may be more influential in offsetting up guarantee schemes than the needs of the regional economy. Sometimes the rationale for the 'non-use' of an instrument may be clear - in the UK, guarantees are not co-financed by the ERDF since a long-standing domestic scheme is already in place. The equity schemes in the case studies seem to have been designed carefully to serve particular aims. In most cases, equity instruments are set up after a thorough market analysis. Equity FIs are typically operated through a holding fund structure, increasing the flexibility to switch commitments between funds and instruments. The number of equity FIs is high in several cases (25 in OP COMPETE (PT) and seven in North East England (UK), a regional OP).

[47] This intervention logic-type approach has been mandated in the 2014-20 Structural Funds regulations, by introducing the requirement for an ex ante assessment to be carried out before any funds are committed to FIs.

[48] For example, the concise market gap analysis undertaken in Lithuania was deemed to no longer reflect the financing needs of the country's SMEs after the onset of the crisis.

There is also the question of whether stated rationales provide the complete picture, as there were arguably **'parallel' motivations for the use of financial instruments** in 2007-13. The enthusiasm of the Commission for financial instruments, and encouragement at programme negotiation stage to include FIs[49] was confirmed by the case studies as a positive influence (as well as the encouragement by the EIF, which was noted in at least three cases- Languedoc-Roussillon (FR), OP Economic Growth (LT) and OP Małopolskie (PL). The strong Commission support for FI use encouraged MAs to consider the introduction of "experimental" EU co-financed FIs. This is reflected in the relatively small amounts committed into FIs in most OPs (compared to total OP resources, or even total enterprise support).

The potential for FIs rapidly to absorb funds to at least delay the prospect of de-commitment[50] was not mentioned directly by stakeholders in the case study research. However, in a small number of cases, this does seem a likely motivation since the disbursement to the beneficiary appears out of proportion to probable demand from final recipients. The stakeholder seminar confirmed that financial instruments had sometimes been used to postpone possible de-commitment. While this was not widespread, it was cause of some 'oversized' funds.

At the stakeholder seminar, one participant noted that a motivating factor for FI use was that audit was easier than for grants, since checks did not generally need to be made below the level of the final beneficiary.[51]

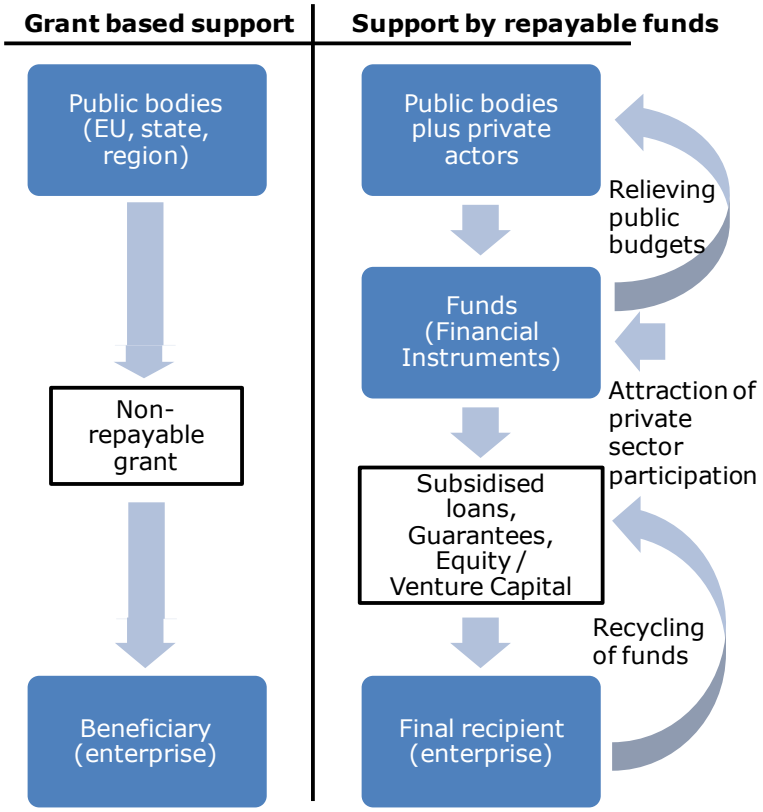
The focus of this study is on FI for enterprises, so it not surprising that it should place considerable emphasis on the issue of access to finance. However, it is important to note that FI are essentially an **alternative delivery mechanism** (see Figure 7) for OP objectives. In principle, FI are more sustainable (because support is repaid), more efficient (because they may be able to attract private finance) and more able to enhance the quality of investments because of the due diligence in investment decision-making and the psychological impact of the support being lent rather than given.

[49] Prof Danuta Hübner (November 2010) *EU Perspective on today's regional policy and the relevance of financial engineering instruments*, Speech at Conference on JEREMIE and JESSICA: Towards successful implementation, 29-30 November 2010, Brussels.

[50] A practice which was in evidence from early on in the current period – see Michie R and Wishlade F (2011) 'Between Scylla and Charybdis: Navigating FIs through Structural Fund and State Aid requirements', IQ-Net Thematic Paper No. 29(2), European Policies Research Centre, University of Strathclyde, Glasgow.

[51] Later workshop sessions revealed some participants to be of the opposite opinion, having found that auditors were more accustomed to auditing grants, causing difficulties in the audit of FIs.

Figure 7: A model of grant vs FI support



Source: Forster, B, Grajewski, R (October 2014)[52], p12, own adaption

In terms of the **balance between grants and FIs** in Structural Funds programmes, the rationale for MAs introducing FIs in place of non-repayable measures (aside from the possible 'parallel' motivations discussed above) is largely related to their revolving nature, which has the scope to increase the efficiency of these investments and reduce deadweight. The capacity to attract private investors and boost the overall level of investment in the economy was another purported benefit of FIs use. This included the potential multiplier effect of FIs, whereby private resources leveraged could increase the overall amount spent on regional development (in practice, this effect has been limited).

There is a trend away from offering grant support to businesses in some Member States due to concerns about deadweight and fostering a 'grant culture'. Indeed, addressing the 'grant culture' was one the main rationales for using FIs to emerge from the stakeholder seminar. It has been argued that publicly-backed finance for SMEs should be provided on a repayable basis, unless there is a clear and strong rationale for providing grants (or soft loans), and that such a rationale would exist only in certain circumstances.[53] In this

[52] Forster, B, Grajewski, R (October 2014) Beurteilung von alternative Finanzierungsarten und –instrumenten zur Umsetzung von investiv ausgerichteten Fördergrundsätzen der GAP; Thünen Working Paper 29

[53] Regeneris and Old Bell (2014) A Thinkpiece, Grants for SMEs in Wales. Report to Welsh European Funding Office.

context it is perhaps worth observing that the 2014-20 Common Provisions Regulation effectively takes an opposing view, requiring ex ante quantification and justification of the need for FI, but not of the need for grants.

In general, there was little, if any, explicit articulation of the relationship between grants and FI. Moreover, the existing literature offers little – no studies were identified that focus on the rationale for the *form* of public intervention – grants as opposed to repayable mechanisms – or the relative efficiency of public funds disbursed in repayable form and their capacity to draw in private funds; these issues are mentioned in some studies, but have not been the primary focus of any. This issue was, however, explored in the stakeholder seminar, which suggested a growing recognition of the need explicitly to consider how different instruments dovetail with one another. Some seminar participants considered that grants were more suitable for certain types of project than FIs – such as greenfield investments involving infrastructure and early R&D activities. However, it was also noted that the eligibility criteria for FIs are more flexible, with more opportunities for working capital to be supported than with grants. Stakeholders considered that this support is often what SMEs actually need, rather than funding to contribute to fixed asset investment. Sectoral coverage of FI is also more flexible with scope to support trade and retail activities which are not really suited or often eligible for grants. Some stakeholders noted that the application process for loans is typically easier than for grants and this is considered important by viable firms (who are motivated by the need to obtain access to finance without excessive bureaucracy rather than by 'free' money). Several seminar participants shared the view posited by one stakeholder (Bavaria – DE) that a viable firm would prefer a loan covering 80% of its needs than a grant covering 20%.

An important issue in 2007-13 is that grants were implemented sooner than loans – so often firms applied for a grant first, then sought out other sources. So, if FIs were open to applications earlier in the planning period, uptake might be higher.

Sometimes loans and guarantees are offered in combination with grants. The rationale for this has been to make the FIs more attractive, especially for small and micro enterprises, or to allow a 'smooth transition' from conventional grant-based funding to repayable instruments. When FIs are offered along with non-financial measures e.g. advisory support, the motivation is to offer all-round support to enterprises to enhance their competitiveness, besides adapting the intervention to the needs of the market / SMEs.

In the case studies, MAs seemed to be more concerned with how and whether to combine grants with FIs and less with combining non-financial support with FIs. Non-financial support is usually provided alongside equity, but it is frequently informal and rarely from the same OP. Combining loans with non-financial support is less common; combining guarantees with non-financial support is rare, but it is possible that final recipients receive such support through lenders rather than associated with the FIs as such. Both public and private intermediaries operating FIs tend to consider it within their remit to provide non-financial support alongside funding (e.g. OP Languedoc-Roussillon (FR), OP Economic Development (HU), OP Economic Growth OP (LT), OP Małopolskie (PL), OP North East England (UK)). This is an important aspect of support provision and potentially a major advantage of FIs over grants insofar as FIs create an opportunity to develop an ongoing relationship between the beneficiary (i.e. the financial intermediary)

and the final recipient which in turn has the scope to increase the number of 'investible propositions' in the locality.

4.2 EQ2: How much support has been provided through financial instruments and in what forms?

The use of FIs in Cohesion policy has increased significantly over successive programme periods, and ERDF co-financed FIs for enterprise support make up the vast majority of Cohesion policy FIs. Although financial instruments have gained a higher profile in the 2007-13 period, the overall levels of commitment remain relatively modest as a share to total Cohesion policy expenditure.

Key findings

- The number of financial instruments offered is surprisingly difficult to quantify, partly owing to the lack of a concrete definition of what constitutes an FI and partly owing to the variety of arrangements for their implementation.
- There are few obvious patterns to policy and the domestic context is important in shaping Cohesion policy use of FIs.
- Loans are the most widespread type of financial instrument; they are often preferred by policymakers because of their simplicity and ease of setting-up, and by firms because they do not imply loss of control.
- There are fewer guarantee instruments, but some are large national schemes.
- There is a broadly similar number of equity schemes, but these are more likely to be regional in scope.
- Funds vary considerably in size – from around €10,000 to €550 million, but definitional issues confuse the overall picture.
- Loans predominate (more than 50% of payments to funds). Equity is significant in DE, PT and the UK; guarantees in IT.
- Support and advice is sometimes offered alongside FIs, provided under other OP priorities.
- Three types of 'spend' can be identified: OP contributions committed (policy intent); OP contributions paid to holding funds or specific instruments; OP contributions invested in final recipients (firms).
- There are serious flaws in the data available, so caution is required in reaching firm conclusions.
- OP contributions committed vary widely – in absolute terms IT accounts for 30% of the total; relative to private investment, FIs are more significant in importance in HU, LT and PL.
- Some 65% of OP payments (but less than 60% of OP commitments) to funds had been invested in final recipients by end 2104.
- Some large loan funds (>€50m) have invested very limited sums and account for a significant proportion of the 'underinvestment'.

The section provides a stocktake of the main packages and forms of support being offered under ERDF co-financed FIs for enterprise support in 2007-13 in the case study countries. The section starts with a brief overview of the implementation of FIs for enterprise support in the 25 EU Member States which implemented FIs for this purpose

during the period. There then follows an overview of the main features of each type of FI as they are being implemented in the countries concerned.

The use of FIs in Cohesion policy has increased significantly over successive programme periods, and ERDF co-financed FIs for enterprise support make up the vast majority of Cohesion policy FIs. Accurately assessing the scale of FIs for enterprise support in the 2007-13 period however was hampered by the lack of systematic reporting until 2011, before which time reporting on FIs by managing authorities was not obligatory.[54] The first summary report on FIs was published by the Commission in 2012; successive reports have improved the quality and comprehensiveness of data, but many gaps and inconsistencies remain. The most recent report was published in 2015 and ostensibly covers the situation as at end 2014.[55]

4.2.1 Forms of support

In the countries covered by this study some 784 ERDF financial instruments for enterprises had been set up by the end of 2014. This figure comprises 37 holding funds, 410 funds set up within holding funds and 337 funds established outside holding fund structures, in other words, a total of 747 specific instruments.

Table 2: Overview of FI in the stocktake countries

	HF	FEI	NHF
BE			9
CZ			2
DE			36
DK			3
ES	2	2	7
FR	2	17	101
HU	1	168	1
IT	12	14	68
LT	2	23	1
PL	9	128	74
PT	2	36	9
UK	7	22	26
Total	37	410	337

Note: HF=holding funds; FEI=specific funds set up within holding funds; NHF= specific funds set up outside a holding fund.
Source: 2015 Summary Report.

[54] An amendment to Council Regulation (EC) No 1083/2006 obliged Member States to report on FIs in the Annual Implementation Report: (Regulation (EU) No 1310/2011 of the European Parliament and of the Council of 13 December 2011 amending Council Regulation (EC) No 1083/2006).

[55] European Commission (2015) Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006 (hereafter referred to as "2015 Summary Report").

The number of FI varies widely between countries and, as explained in Box 3 is not straightforward to quantify. For the purposes of the 2015 Summary Report (and its predecessors) every funding agreement signed between a managing authority and a holding fund or directly with a specific fund, as well as each contract between a holding fund and a specific fund, is reported as a separate financial instrument.

Box 3: What is a financial instrument?

Quantifying the use of financial instruments is not straightforward.

FIs were not defined precisely in the 2007-13 Structural Funds regulations. The General Regulation stated that to qualify as a financial engineering instrument, an OP contribution must target the specific final recipients/type of investments referred to in Article 44 (i.e. enterprises) and take the form of repayable investments (i.e. equity, loans and/or guarantees). Article 43(2) of the Implementing Regulation specified that co-financed financial engineering instruments must be set up either as independent legal entities governed by agreements between the co-financing partners or shareholders, or as a separate block of finance within a financial institution.

The template monitoring report provided with the February 2012 revised COCOF note[56] supplied a form for managing authorities to complete and submit with their AIRs. This invited information on Holding Funds (Form I) and on Financial Engineering Instruments /Financial Intermediaries and provided a box for the 'total number of financial engineering instruments supported (no. of agreements signed)'.

Member States have reported different circumstances in different ways:

- funding from two different OPs into one instrument has been reported variously as one FI (e.g. Hungary) or two FIs (e.g. UK).
- some entries seem to represent new tranches of funding to the same FI, but have been reported separately, perhaps because they involved a new agreement being signed, e.g. Poland.
- a fund procured for delivery at local level with the same terms and conditions with many financial intermediaries is reported as many FIs, though it may essentially be only one 'financial product' – e.g. Poland and Hungary.

Importantly, the number of FIs is distinct from the number of financial products (i.e. loans, guarantees, equity) since a given FI may comprise several different financial 'products' – i.e. there is a significant number of 'mixed' financial instruments.

[56] Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006 COCOF_10-0014-05-EN (12/02/2012).

Table 3: Specific financial instruments by product in the stocktake countries

	Loans	Guarantees	Equity	Mixed	Other	Not classified	Total
BE	8			1			**9**
CZ	1			1			**2**
DE	16		17	3			**36**
DK	2			1			**3**
ES	5	1		3			**9**
FR	62	15	16	3		22	**118**
HU	80	17	27	45			**169**
IT	24	32	7	8	2	9	**82**
LT	15	4	5				**24**
PL	129	57	11	5			**202**
PT			33	6	6		**45**
UK	19		24	5			**48**
Total	**361**	**126**	**140**	**81**	**8**	**31**	**747**

Note: 'Not classified' refers to measures where the type is unclear, typically because no expenditure has been reported as reaching final recipients by type of instrument.

Source: Own calculations from 2015 Summary Report.

Loans are the most widely used and well-established form of co-financed FI. Loan funds are widely viewed as relatively simple and quick to launch compared to other types of support, and the market uptake also tends to be more rapid.[57]

Loan FIs mainly aim to provide access to credit for micro enterprises and SMEs to finance expansion and investment, working capital and innovation/R&D-type activities. A very wide range of loan sizes is offered in the stocktake countries, and terms also vary considerably. There are no 'typical' loan FI within countries since support is tailored to the market being addressed, which generally varies by region and firm size. For example microfinance FIs may be included within portfolios where other loan measures operate on different terms.

[57] Michie R and Wishlade F, with Gloazzo C (2014) Guidelines for the Implementation of Financial Instruments: Building on FIN-EN – sharing methodologies on FINancial ENgineering for enterprises, Report to Finlombarda SpA.

Table 4: Overview of loan FIs in the stocktake countries

MS	Market situation	Loan size range	Loan duration	Interest rate below market level	Non-financial support
BE	Credit rationing and need for collateral	N/A	5-20 years	Yes	Yes, advice and management
CZ	Low levels of lending generally; limited finance for micro-businesses and start-ups	0.5 –15 million CZK (c€18,000 - €500,000	'long-term'	Yes	No
DE	Lack of commercial loan finance for SMEs	€5,000-100,000 (micro) to €4-10 million	3-20 years	Yes in about half the schemes	No, except NRW/EU Mikrodarlehen Business counselling
DK	Regional challenges e.g. in sparsely populated regions	e.g. up to DKR 5 million (€700,000)	e.g. 2-7 years	No	Capital management, project plan, loan application
ES	Credit rationing and need for sharing risk re R&D	€50,000-€5m	1-10 years	Yes in about half the schemes	No
FR	Credit rationing	N/A	N/A	Mostly yes	Business and management advice, training
HU	Lack of access to finance for SMEs	HUF 1-20 million (c€3,000-€60,000)	1-10 years	No	No
IT	Lack of access to finance for SMEs	N/A	N/A	Mostly yes	Advisory, management and technical support
LT	Need for risk sharing/ improved borrowing conditions for SMEs	N/A	1-10 years	Mostly yes, No for "Small loans to SMEs" funds	No
PL	Lack of capital for SMEs	N/A	3-10 years	Yes	Partial: financing, training
UK	Lack of sufficient finance/ gaps in commercial finance	£1,000 - £5 million (€1,400-€7 million)	3-7 years	N/A	Partial

Note: The stocktake exercise gathered information on whether or not loans were offered at below market rates (as a ‚yes' or ‚no' answer);it is not possible to generalise about what rates were offered. These often vary within countries and may in any case be set on a case-by-case basis.

Source: Consortium research.

Around half the loan funds in the stocktake countries lend at below market interest rates. This suggests that offering finance on terms that are more attractive than are available commercially is as relevant an objective as simply improving access to finance. Interest rates are generally calculated in relation to reference rates on a case-by-case basis taking account of the creditworthiness of final recipients, and subject to the State aid ceilings. In addition to interest rate subsidies, repayment holidays or much longer term loans (in some cases up to 20 years) than would be available commercially make publicly backed loans more attractive. Even where terms were not relaxed and the measure did not comprise an interest rate subsidy (in the sense of the Commission reference rate), the simple fact of being able to access capital is important to SMEs, which often lack collateral or track record in support of loan applications, and was especially so in the crisis when credit was highly constrained.

Non-financial support is often available alongside loan FIs (slightly less than half of cases). Where it is not described as 'part' of the FI, it may still be available under other OP priorities. For example, in Germany, several ERDF programmes offer business advice, incubator facilities, R&D/technology transfer etc. as separate measures for SME support. Only the NRW/EU Mikrodarlehen offers non-financial support alongside financial support, so that in general there is no perceived need for soft-support measures as part of FIs. In a very few cases, grants are available alongside loans. For example, the Combined Micro Credit (Hungary) is aimed at making loans more attractive for micro enterprises by combining them with non-refundable grants.

Guarantees provide support to firms unable to obtain finance (typically loan finance) due to a lack of collateral. Guarantees encourage banks or financial institutions to advance credit to SMEs by making a commitment to pay the SMEs' debt if they default. There are also examples of counter-guarantee FIs,[58] which secure guarantees rather than loans, as in Italy and Belgium. Guarantees can be operated at national or regional level. Guarantee FIs are used in ten of the stocktake countries (not in Denmark or the UK) - see Table 5 - which also indicates the justification given for the use of guarantees, where this is made explicit.

[58] A counter-guarantee is a guarantee given by a guarantee agency/bank to another bank issuing a guarantee.

Table 5: Overview of guarantee FIs in the stocktake countries

MS	Market situation	Guarantee fee subsidy
BE	Credit rationing and lack of collateral among SMES	Yes
CZ	Low ratio of SME loans as % of GDP and low provision of microfinance for start-ups	Yes
DE	Insufficient collateral of SMEs (Berlin)	Yes
ES	Credit rationing	Mostly no, yes for JEREMIE, Canarias (ES)
FR	Credit rationing	Mostly no
HU	SMEs face difficulties in finding financing on the market	No
IT	Credit rationing	N/A
LT	Need for improved borrowing conditions for SMEs	Mostly no, yes for Guarantee Fund (LT)
PL	Lack of capital for SMEs	Yes
PT	Difficulties in accessing bank financing and capital markets	Yes

Source: Consortium research.

Equity FIs are less widely used than other forms of FIs under Structural Funds programmes; within the stocktake countries they are not used in Belgium or the Czech Republic. Equity FIs tend to be used to support innovative firms and business start-ups with high growth potential (and therefore high returns), but also high risk (and potentially high losses). Non-financial support is frequently available for equity FIs, which is to be expected given that equity investments are larger and that investors take ownership of part of the undertaking and have a stake in the success or failure of the venture.

Most of the equity FIs are regional in scope (and comparatively small in size). Such approaches have been used in a number of countries under domestic policy. This has typically involved hybrid funds comprising public and private money, manged by private sector fund managers, and with private investors given incentives that either increase their up-side or reduce their down-side, or both.[59] However, the literature suggests that small regional funds have a number of disadvantages:[60]

- the costs of due diligence and management support are largely fixed and small funds account for a much higher proportion of operating costs. According to the European Court of Auditors, providing access to finance with fund sizes below critical mass is very likely to be unsustainable, as the overhead costs and the risks

[59] Murray, G C (2007) Venture capital and government policy, in H Landström (ed) *Handbook of Research on Venture Capital*, Cheltenham: Edward Elgar, pp 113-151.
[60] Murray, G C (2007) *Op. cit.*

associated with investments or loans cannot be spread over a sufficient number of SMEs.[61]

- Returns to venture capital investing are skewed, with fund performance depending on a small number of 'winners'. Hence, diversification is essential but, small funds are less able to fully diversify their fund.
- Small funds can only make small initial investments and have limited ability to make follow-on investments. This means that they are unable to fully share in successful investments and they are exposed to dilution if their investee businesses raise further finance from elsewhere.

As noted earlier, it has been argued that the problem facing regional public sector venture capital funds is not simply their size, investment model or ability to support investee firms, but that the key issue is that of 'thin' markets[62] – disadvantaged regions in particular lack an appropriate eco-system to support venture capital investing. This implies, among other things, the need for more emphasis on developing investible propositions.

Table 6: Overview of equity FIs in the stocktake countries

MS	Market situation	Focus	Non-financial support
DE	Need to strengthen equity provision for innovative SMEs	Many equity FIs support both start-ups and expansion projects, some specifically target young entrepreneurs	No
DK	Identified funding gap in the private capital market	Specific enterprises considered unattractive for traditional VC funding	No information available
ES	Lack of adequate capital for businesses	Seed and expansion	No, except JEREMIE Barcelona - networking support ('business angels' action line only)
FR	Lack of capital for business in general, and start-ups in particular	Sectors supported by venture capital are related to the competitive clusters identified in the "Pôle de compétitivité" or sectors with a "structuring role" in the regional economy	Often provided with advisory support, delivered by the scheme (e.g. SORIDEC in Languedoc Roussillon) or some intermediate bodies
HU	Share of VC directed at the early period of enterprises and start-ups is low	Seed and expansion phases, in innovative, technology-oriented sectors (Exception: the Széchenyi Capital Investment scheme is open not only to innovative sectors but also more traditional ones).	No
IT	Gaps in terms of lack of	Flexible - cover support for seed,	Partial

[61] European Court of Auditors (2012) *Financial Instruments for SMEs Co-financed by the European Regional Development Fund, Special Report No. 2*, 2012.

[62] Nightingale, P et al (2009) *From Funding Gaps to Thin Markets: Designing Hybrid VC Schemes for the 21st century*, SPRU, University of Sussex for BVCA and NESTA.

MS	Market situation	Focus	Non-financial support
	capital for business start-ups or support investments considered too risky for the private sector	start-up and expansion stages	
LT	Lack of capital for SMEs	All sectors eligible, priority is generally given to IT, high-tech (incl. cleantech) and innovative sectors	Partial - Only for equity FIs: business / management advice, B-plan, networking, training
PL	Capital gap in SME financing, especially at set-up, early and expansion stage and for innovative start-ups	VC funds provide equity investments up to €1.5 million to ventures at seed, early or expansion stage	More extensive support for equity FIs: strategy, research, etc.
PT	Lack of capital for business start-ups / capital	VC funds support SMEs in early stage and expansion phases in different themes: innovation, internationalisation, audiovisuals	Partial - Only for equity FIs: advice, management support, networking
UK	To fill gaps in early stage capital available	Broad coverage – often a 'portfolio' approach used to cover different sectors/stages	advice, etc. plus innovative measures

Source: Consortium research.

In contrast with loans and guarantees, equity FIs vary widely in terms of focus, and have differentiated target sectors and markets. The majority of equity FIs focus on a single phase, such as early stage capital or the expansion of existing companies. Among the case study OPs there are examples of co-investment schemes in which the public sector invests alongside the private sector on a *pari passu* basis, (OP Languedoc-Roussillon (FR), OP Economic Development (HU), OP Economic Growth OP (LT), OP Małopolskie (PL), OP North East England (UK)), although they operate in slightly different ways.

Case study OPs and the role of FIs in the development cycle

Loans also predominate among the nine case study OPs. €1.4 billion OP contributions were committed to loan funds, €561 million to equity funds, and €340 million to guarantees funds.

FIs can have different roles in the firms´development cycle (e.g. support in the growth stage) in developing particular sectors (e.g. tourism) or specific territories (e.g. to support economically weaker regions). However, FI are typically rather general in scope - aimed at filling a finance gap, but not necessarily with a focus on a gap affecting particular market segments, sectors or territories. For instance in the OP Economic Growth (LT) all the FIs are national, address all sectors and were introduced to tackle the servere lack of external finance for SMEs. Only five FIs under the JEREMIE HF were aimed at different types of enterprises. Also in the OP Małopolskie (PL), the FIs basically address all sectors with a few schemes concentrating on particular sectors or territories, e.g. tourism, rural areas and small towns.

With respect to the lifecycle of firms, a broad coverage is achieved in different ways (e.g. through one fund or several specific, targeted ones). Some funds support SMEs at all stages of their development (e.g. loan and guarantee products in OP Małopolskie (PL), OP Economic Growth (LT)). In other cases the different phases of the enterprise life cycle, from seed to growth and expansion stages, are covered by a cascade of different specific funds (e.g. Bavaria (DE), North East England (UK), and the OP Technological Fund (ES), which has three thematic FIs restricted to the later stage/growth phase (see table 7 below)). Only a few funds, however, specifically target the early business start-up phase (e.g. the ERDF cluster fund in Bavaria); and in some of the case study OPs such support is missing altogether – i.e. it is not part of more generic funding (e.g. in the OP Enterprise & Innovation (CZ), where there is no seed or start-up capital funding).

Among the more generic FIs, there is an overlap between loan and guarantee schemes since they provide very similar products to final recipients. Usually, the financial intermediary (generally a bank) chooses which FI to use in a particular case. In other cases the FI-products are clearly differentiated according to firm size and capital needs. Here there is minimal overlap between the products.

In some cases FI design was modified during implementation. For instance start up support in CZ under a credit and guarantee fund only operated for six months (due to internal reasons), and in other cases the design of FIs was affected by the economic crisis. Although some targeting was part of the ToC (start–ups, innovation–oriented enterprises and SMEs operating in less-developed regions), the economic crisis resulted in some FIs providing more mainstream funding than had originally been envisaged (e.g. in Lithuania).

Table 7: Case study FIs according to role in firms' development cycle

OP name	Total no of FIs (exc. HF)	No of FIs according their role in companies' development cycle				
		Seed	Start-up	Later Stages	Growth	Expansion
DE: OP Bavaria	4	1 VC			1 L	
			1 VC			
				1 VC		
FR: OP Languedoc-Roussillon	3	1 L				
				1 VC		
					1 G	
UK: OP North East of England	8	1 VC	1 VC	1 VC		
		1 VC		1 VC		
		1 VC				
			1 L			
CZ: OP Enterprises & Innovation	4		1 L + 1 G	1 L + 1 G		
PL: OP Małopolskie	14	14 L, G (territorialized)				
LT: OP Economic Growth	24	24 FIs, specific role only for 5 FIs under JEREMIE HF				
PT: OP COMPETE	27	2 VC	2 VC			2 VC
					1 VC	
			1 VC			
			1 VC			
					1 L	
ES: OP Technological Fund	3			1 G (Exploration, prototyping)		
				1 L (Product development)		
				1 L (Commercialisation)		
HU: OP Economic Development	11		3 L + 1 G		1 G	
		1 VC			2 L	
			2 VC			
Total	**98**					

Source: Case study research. **G**uarantees, **L**oans, **V**enture **C**apital.

4.2.2 Quantification of support provided

Financial instruments have increased in prominence in the 2007-13 period, from an estimated investment in FI of €0.6 billion in 1994-99 to some €1.3 billion in 2000-6,[63] the 2015 Summary Report records (OP) commitments to FI totalling over €17 billion by end 2014. Almost €14 billion of this is accounted for ERDF co-financed support for enterprises.[64] The 12 'stocktake' countries in this study account for just over 80 per cent of OP ERDF commitments to FI for enterprises among the EU28 (FI were not used in Croatia, Ireland or Luxembourg in 2007-13).

There are three distinct phases in the 'spending' process for FIs:

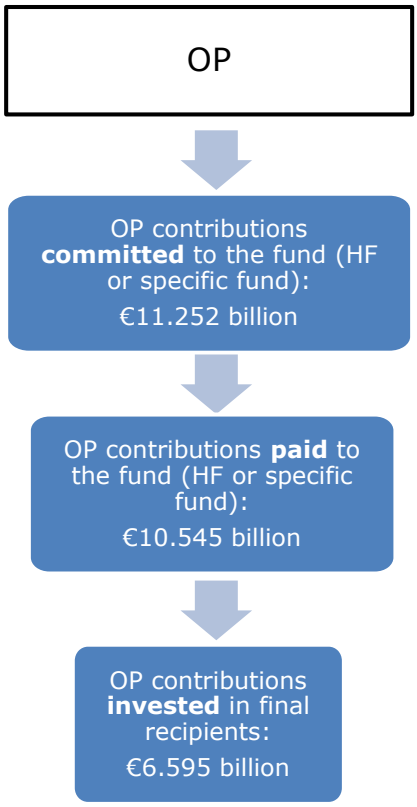
- OP contributions committed in funding agreements (*OP commitments*)
- OP contributions paid either to holding funds or specific funds; OP contributions paid by holding funds (where they exist) to specific funds (*OP payments*)
- OP contributions reaching final recipients (e.g. SMEs) through financial products – i.e. loans, guarantees and equity (*OP investments in final recipients*).

Taking the stocktake countries as a group, by end 2014 some 58.6% of OP commitments had been invested in final recipients.

[63] CSES (2007) Comparative Study of Venture Capital and Loan Funds Supported by the Structural Funds, report to European Commission.

[64] Article 44 of Regulation 1083/2006 also provides for financial instruments to be used for urban development and energy efficiency projects; and around 6 per cent of OP commitments to enterprise FIs are co-financed by the European Social Fund.

Figure 8: Phases and progress in FI 'spend' in the stocktake countries

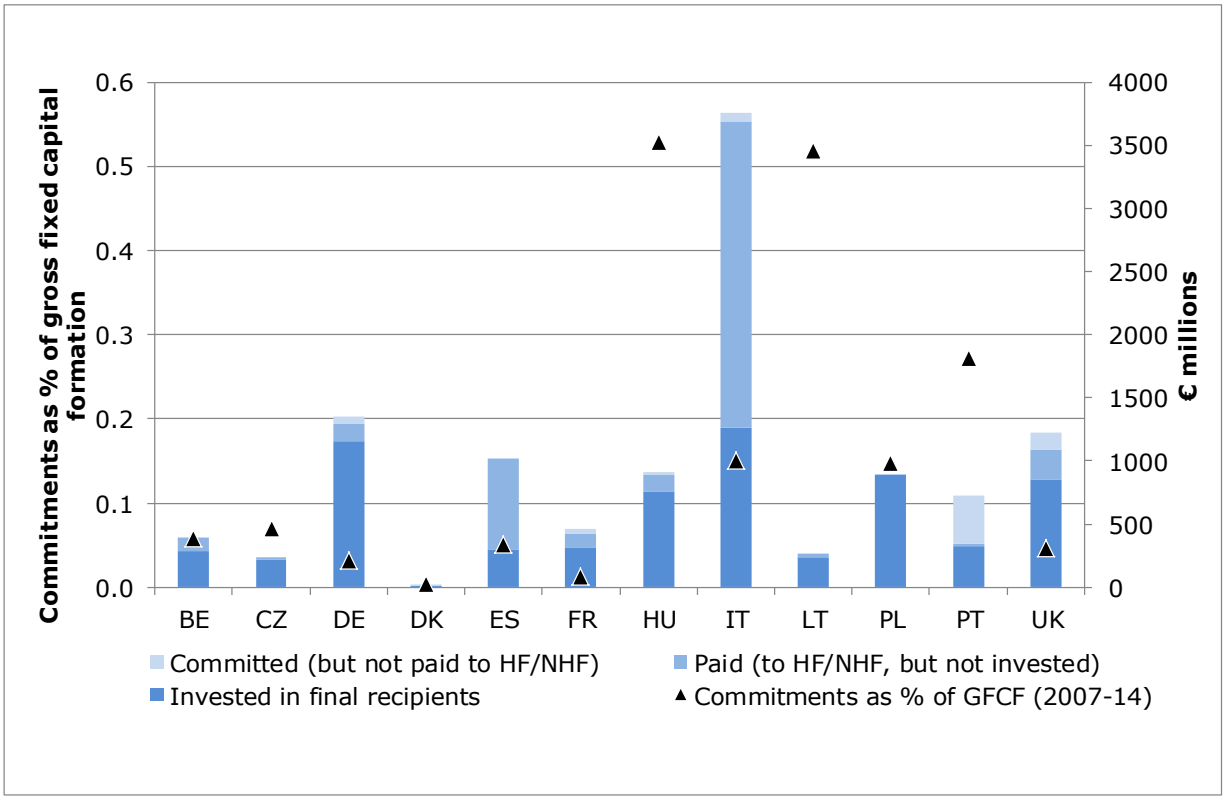


Source: Consortium calculations from 2015 Summary Report data.

OP commitments to financial instruments

OP commitments could, in principle, be seen as a broad indicator of policymaker intent regarding the scale of FI spend. Countries vary widely in their use of FIs. In absolute terms the largest volume of OP commitments to FIs are in Italy (over €3.7 billion for 2017-14), which accounts for over a third of OP commitments to FIs by the stocktake countries. Relative to gross fixed capital investment (a proxy for private investment), however, Hungary, Lithuania and Portugal have committed higher sums. Significantly, widespread use of FIs in domestic policy is not necessarily reflected in the scale of OP commitments to FIs. This may be because, given the complexities of Structural Fund administration, the programme is too small to justify the setting up of specific instruments, and this is left to domestic policy (as in Flanders – all FI commitments in Belgium are accounted for by Brussels and Wallonia) or because policymakers opt to focus Structural Funds spending on particular types of project that are perceived to be less amenable to the use of FIs, even though repayable support is an established part of domestic economic development policy.

Figure 9: OP Contributions committed to FI vary widely in stocktake countries



Note: The whole column reflects the volume of commitments. Gross fixed capital formation (total period 2007-2014) is used as a proxy for private investment.
Source: Consortium calculations from 2015 Summary report and Eurostat data.

OP Payments to financial instruments

Importantly, as both Figure 9 and Table 8 show, not all OP commitments made in funding agreements had actually resulted in **OP payments** to holding funds or specific funds by end 2014, but the extent of this varies by country.

Table 8: OP commitments to FI paid to holding funds or specific funds

	OP payments to funds as % of OP commitments
BE	100.0
CZ	100.0
DE	95.7
DK	81.0
ES	100.5
FR	91.0
HU	97.9
IT	98.3
LT	100.0
PL	99.4
PT	47.7
UK	88.3
Total	93.7
EU28 Total	93.5

Note: Figures exceeding 100 per cent may not involve errors, but could be due to the inclusion of interest on treasury operations or phasing of reimbursements to financial intermediaries.
Source: Consortium calculations from 2015 Summary report data.

Table 8 shows that in some countries (notably Portugal, and to a lesser extent Denmark, the United Kingdom and France) significant sums committed to FIs have not actually been paid to holding funds or specific funds.

The volumes of OP contributions committed to holding funds and specific funds vary widely between OPs. Of the 107 OPs in the stocktake countries, 45 have committed more than €100 million to holding funds or specific funds. Only Denmark and France do not have any OPs that have committed more than €100 million to FIs. As would be expected, the OPs committing large sums include national or multi-region programmes (Czech Republic, Spain, Italy, Hungary, Poland, Portugal). In other OPs, while the absolute amounts may not be not be large, FIs may be significant within the programme, accounting for 40% or more of ERDF commitments to support for enterprises.

The amounts allocated to specific financial products varies between stocktake countries. In terms of the funds paid to specific instruments, loans predominate overall, as illustrated in Table 9. However, equity is particularly significant in Germany (about a third of the total) and in the United Kingdom equity is more important than loans in terms of payments to funds. Guarantees are significant in Italy and to a lesser extent Poland and Spain, but elsewhere payments to guarantee funds are low.

Table 9: OP contributions paid to specific financial product funds (€m)

	G	L	E	Mixed	N/A	Other	Total
BE		367		29			**396**
CZ		75		159			**234**
DE		751	483	62			**1296**
DK		10		4			**14**
ES	70	739		213			**1021**
FR	58	82	163	19	50		**371**
HU	7	530	231	77			**845**
IT	1324	1376	125	260	213	35	**3332**
LT	49	159	35				**243**
PL	329	611	20	28			**989**
PT			218	121		17	**356**
UK		215	474	314			**1003**
Total	**1836**	**4914**	**1749**	**1286**	**263**	**52**	**10101**

Note: 'N/A' covers measures where the type is unclear, typically because no expenditure has been reported as reaching final recipients by type of instrument. 'Other' includes, for example, interest rate subsidies or guarantee fee subsidies when combined with loans and guarantees in a single financing package.
Source: Consortium calculations from 2015 Summary report data.

At the level of specific instruments, whether within holding funds or not, ***fund size varies extremely widely.*** [65] Among guarantee funds, they range from €10,657 (Hungary)[66] to €550 million (Italy). Among loan funds, they range from €43,568 (also Hungary)[67] to €379 million (Spain). Last, among equity funds, they range from €390,135 (Poland) to €85.1 million (Germany).

[65] Among funds set up that have had monies paid to them – it is not always the case that funds have been paid.
[66] In this context, it should be recalled each funding agreement constitutes a financial instrument and that in Hungary, FIs are implemented through a large number of financial intermediaries who essentially operate the same measure(s) in different localities.
[67] See previous footnote – the same applies.

Table 10: Fund size in stocktake countries (amounts paid to holding funds or specific funds)

	Guarantees					Loans					Equity				
MS	Min	Median	Max	<€1m	>€100m	Min	Median	Max	<€1m	>€100m	Min	Median	Max	<€1m	>€100m
BE						5.6	42.4	92.2	0	0					
CZ						75.4	75.4	75.4	0	0					
DE						0.00	22.5	237.9	1	2	1.4	25.0	85.1	0	0
DK						0.4	4.8	9.2	1	0					
ES	70.0	70.0	70.0	0	0	0.8	24.6	379.0	1	2					
FR	0.3	3.0	18.7	3	0	0.00	0.5	26.0	34	0	2.0	6.1	68.4	0	0
HU	0.00	0.02	4.5	16	0	0.00	3.0	52.8	29	0	1.1	6.3	47.5	0	0
IT	3.6	12.3	550.0	0	2	5.0	47.4	202.0	0	3	7.0	20.0	24.8	0	0
LT	1.8	4.8	37.4	0	0	0.00	7.5	36.1	2	0	4.2	6.3	10.4	0	0
PL	0.00	2.4	43.7	10	0	0.2	2.4	45.2	18	0	0.4	1.3	4.5	4	0
PT											0.00	3.8	32.0	5	0
UK						0.5	4.0	61.3	3	0	2.9	18.3	45.5	0	0

Note: These data refer to sums actually paid to specific funds whether in holding funds or not; sums committed are higher but data are considered unreliable at instrument level. In some cases, no sums appear to have reached a given fund, in which case the minimum is recorded as zero.
Source: Consortium calculations from 2015 Summary report data.

Fund sizes are also extremely varied in the case study OPs, as reflected in Table 11.[68]

[68] Data on the fund size in the case study OPs cannot be directly compared to the fund size in the stocktake countries. Case study data refers to commitments and not to sums actually paid to specific funds. This may in principle explain higher figures in the case study data. Also not all case study data is from 2014 and this may also explain some differences. In addition some FI are classified as 'mixed' and do not appear in the stocktake country data. Some discrepancies (e.g. maxima exceed those in the stocktake table) exist in OP Enterprises & Innovation (CZ), OP Economic Growth (LT), OP COMPETE (PT), and OP Economic Development (HU).

Table 11: Fund sizes are extremely varied in the case study OPs (amounts paid to funds)

OP name	No of FIs (exc. HF)	Range of Fund size (min-max), €m OP contribution paid to funds		
		Guarantees	Loans	Equity
DE: OP Bavaria	4		56	9-16
FR: OP Languedoc-Roussillon	3	14	2	11
UK: OP North East England	8		8	3-33
CZ: OP Enterprises & Innovation	4	2-156	2-74	
PL: OP Małopolskie	14	1-14	1-5	
LT: OP Economic Growth	24	1-37	1-34	1-8
PT: OP COMPETE	27		38-143	1-81
ES: OP Technological Fund	3	70	142-314	
HU: OP Economic Development	11	4-13	5-167	19-185
Total	**98**	**1-156**	**1-314**	**1-185**

Notes: The figures concern the position by 2013/14.
Source: Case study research

OP investments in final recipients

Arguably the key question in quantifying support is to what extent FIs have reached final recipients – i.e. individual enterprises. A detailed analysis is hampered by the quality of the data available. An important issue here is that, in some cases, it is evident that revolved sums have been included in the sums invested in final recipients; in principle these are no longer OP funds and should not be recorded as such. In other cases, interest accruing to funds under management has also been invested in final recipients.[69] The inclusion of these sums makes it impossible to determine precisely to what extent OP payments to FIs have been invested in final recipients. There are also gaps in the data and evidence of misunderstandings in the data requirements by managing authorities. Nevertheless, it is clear that there are wide **variations in the extent to which funds committed to FIs have been invested** in final recipients – as reflected in Table 12.

[69] Technically these *are* OP resources.

Table 12: Proportion of OP payments to FI invested in final recipients (% by end 2014)

	Guarantees	Loans	Equity	Mixed	Total
BE		72		83	73
CZ		96		89	91
DE		100	74	74	89
DK		91		123	100
ES	100	20		34	28
FR	220	106	39	172	83
HU	105	95	69	105	89
IT	47	40	37	7	38
LT	100	100	81		97
PL	87	93	67	92	90
PT			82	118	92
UK		72	91	85	85
Total	**63**	**66**	**73**	**67**	**65**
EU28 Total	**74**	**73**	**75**	**70**	**71**

Note: These data should be treated with caution. Investment rates exceeding 100 percent suggest inclusion of returns in amounts invested.
Source: Consortium calculations from 2015 Summary report data.

Setting aside issues associated with data gaps and the inclusion of revolved funds, it appears that in most of the stocktake countries, FIs are 85% percent invested in final recipients or more. However, in Italy and especially Spain it is significantly less and these two countries account for most the 'underinvestment' across the EU28 as a whole. Indeed, the aggregate performance of FI in terms of investments in final recipients is skewed by the performance of some large funds. Taking loan funds as an example (since these account for the bulk of OP contributions paid to funds), **the larger funds have invested a smaller proportion of OP contributions than loan funds as a whole (see Table 13).** Specifically, while loan funds exceeding €50 million are on average 55% invested, smaller loan funds in the stocktake countries are about 81% invested on average. In reality, though, there is no evidence that large funds *per se* are likely to have a lower investment rate (there are many small funds that have invested little), but the poor performance of a few very large funds has a significant impact on overall rates of investment both in the countries concerned and at the level of the EU28.

Table 13: Proportion of OP payments invested by loan funds >€50m in the stocktake countries

MS	Specific fund (FEI or NHF)	Set-up date	OP contributions paid to fund	OP contributions invested in final recipients	% invested
ES	JEREMIE-IDEA	2009	379.0	129.3	34.1
ES	ICO INNOVACIÓN-FONDO TECNOLÓGICO	2013	314.3	4.3	1.4
DE	KMU-Darlehensfonds Sachsen-Anhalt	2008	237.9	277.1	116.5
IT	DM 23/07/2009- Fondo rotativo (inclusi Contratti di Sviluppo)	2011	202.0	57.8	28.6
IT	POR CReO FESR Regione Toscana 2007-2013. Fondo Unico Rotativo	2011	131.8	105.1	79.7
DE	Darlehensfonds Thüringen Dynamik	2010	120.0	120.3	100.3
IT	Fondo rotativo finanziamento agevolato DM 6 agosto 2010	2010	105.0	1.3	1.2
IT	Fondo Rotativo PON Contratti di Sviluppo	2012	95.0	17.2	18.1
BE	Loan Fund of INNODEM2 SA	2009	92.2	57.6	62.5
DE	KMU-Fonds, Berlin	2008	91.6	71.3	77.9
IT	Fondo FIT PIA Innovazione - Rome	2009	90.5	17.3	19.1
IT	Jeremie 007/01	2011,2012	89.0	66.4	74.6
IT	Fondo FIT PON "Legge 46/82 - generalista"	2009	85.0	27.6	32.4
CZ	Credit Fund E 2007, Praha	2007	75.4	72.5	96.1
BE	Loan Fund of IMBC - CONVERGENCE	2009	72.3	49.7	68.7
BE	Loan Fund of FONDS DE CAPITAL A RISQUE - CONVERGENCE	2009	68.5	57.2	83.5
IT	Fondo di rotazione per il finanziamento agevolato degli investimenti innovativi delle PMI	2009	67.4	144.1	213.7
IT	Fondo rotativo finanziamento agevolato DM 6 agosto 2010	2010	67.0	1.0	1.5
DE	NRW/EU.Investitionskapital	2007	65.0	59.4	91.3
IT	FRIM Fesr - Milano	2008	64.1	22.6	35.2
UK	Scottish Investment Bank Loan Fund	2010	61.3	9.1	14.9
DE	LfA Förderbank Bayern, München	2010	60.0	66.4	110.6
HU	Mikrofinanszírozó Pénzügyi Szolgáltató Zárkörűen Működő Részvénytársaság, Budapest	2007	52.8	50.9	96.4

MS	Specific fund (FEI or NHF)	Set-up date	OP contributions paid to fund	OP contributions invested in final recipients	% invested
BE	Loan Fund of NOVALLIA SA	2009	50.0	29.2	58.4
IT	Fondo regionale per la reindustrializzazione nelle aree industriali (FRAI)	2012	50.0	5.6	11.1
	All loan funds >€50 million		**2787.1**	**1519.9**	**54.5**
	All loan funds <€50 million		**2129.4**	**1726.3**	**81.1**

Note: Data should be treated with caution, not least since some funds are 'over' invested. The overall figures do not adjust for this and treat blank returns as zero (only among loan funds <€50 million).
Source: Consortium calculations from 2015 Summary report.

The data shortcomings and the mixed pattern of fund performance are replicated at case study level: in a significant number of OPs less than two-thirds of funds had been invested; elsewhere, absorption rates exceeding 100% point to the inclusion of revolved funds, undermining an accurate understanding of fund performance.

Table 14: Absorption rates at end 2013/2014 are variable and there are data problems in the case study OPs, as in the stocktake countries generally

OP name (cut off date)	Total no of FIs	% OP contributions invested in final recipients			
		Guarantees	Loans	Equity	Total
DE: OP Bavaria (end 2013)	4		84%	78%	82%
FR: OP Languedoc-Roussillon (end 2013)	3	44%	50%	35%	41%
UK: OP North East England (end 2014)	8		65%	92%	90%
CZ: OP Enterprises & Innovation (end 2014)	4	87%	96%		90%
PL: OP Małopolskie (end 2014)	14	50%	80%-100%		84%
LT: OP Economic Growth (end 2013)	24	166%	108%	78%	117%
PT: OP COMPETE (end 2014)	27		59%	37%	45%
ES: OP Technological Fund (end 2014)	3	307%	12%		51%
HU: OP Economic Development (end 2014)	11	64%	97%	90%	94%

Source: Case study research

The following key explanatory factors for weak absorption emerged from the case study research:

- Late start up of funds (case study OPs in ES, LT, FR, HU, PT, UK-pilot Creative Content Fund)
- High concentration of resources in Convergence regions with low innovation capacity (ES). Focus on weaker regions with low number of technology-oriented enterprises (DE)
- Uncertainty of legal framework (ES, HU, DE, PT, CZ)
- Economic slowdown and budgetary problems in the public administration (ES)
- Combination of OP-funded loans and guarantees but no clear legal framework for combined support (PL)
- Problems with audits related to the management and control system (CZ, PT)
- Lack of accompanying measures to communicate the FI-package to enterprises (FR)

The specific reasons for weak absorption vary widely depending on the local context, as illustrated in the following examples.

In the French OP Languedoc-Roussillon, the JEREMIE contribution invested in final recipients by the three funds was 41% of the total. Payments to final recipients by December 2013 were: 50% of the financial resources allocated to the seed loan; 35% to the co-investment fund; and 44% to the guarantee fund. The lack of non-financial support, including awareness-raising, the small size of the instrument and the experimental character of the JEREMIE mechanism, made it difficult to communicate the JEREMIE FIs to enterprises.

In the Polish OP Małopolskie, the guarantee funds have a generally lower level of performance - the average investment rate at end 2014 was slightly below 50%. During OP implementation, there was competition between the guarantees offered by the fund managers and other guarantees offered by banks. Introduction of the latter caused a sudden loss of market demand for OP products and thus significant underperformance of the guarantee FIs. In addition, the MA faced implementation challenges connected to combining OP-funded loans with guarantees, where the legal framework appeared to be ambiguous.

Under the Portuguese OP COMPETE, only half of the ERDF money allocated to FIs was effectively disbursed (end 2014). The credit line funds and the finance line for Business Angels performed well. However, some venture capital FIs disbursed less than one-third of planned funds. Problems associated with capturing private investment or in establishing a single fund instead of three led to termination of the respective projects at the beginning of 2012 and consequent adjustment in the previously approved venture capital funds. A further implementation problem was experienced with the Portugal VC initiative (PVCi), a project application approved in 2009 and managed in partnership with the EIF. It was annulled in 2012 because it was not possible to guarantee that the specific OP regulations as well as EU regulations related to VC supported by ERDF funds would be complied with.

Under the Spanish OP Technological Fund by the end of 2014, the small-volume ICO Guarantee Fund had a disbursement rate of more than 312%. The medium-volume CDTI Loan Fund disbursed almost 35% of allocated funds. The large-volume ICO Loan Fund was established at the end of 2013 but only 1% had been disbursed by the end of 2014. Two out of three FIs were established too late to be spent during the programming period. In addition, the Technological Fund OP struggled with absorption rates due to difficulties in finding final recipients for R&D business investment in Convergence regions.

4.3 EQ3: What are the management and operational structures for financial instruments, and how well are they working?

The implementation of FI is highly demanding in terms of administrative capacity and the varied skill sets required. This chapter addresses aspects of FI management and implementation at the level of the stocktaking countries (12 MS) and case studies (9 OPs) such as governance and management structures, set up times, management fees and costs, performance and success indicators, project selection criteria, capacity building, and the approaches taken to exit strategies and risk management. This section also presents good practice examples for FI management.

Key findings

- Management and operational structures vary widely across Member States and regions. There is no obvious link between the types of FI and the type of management structure chosen. This implies that choices have been driven by a complex range of factors, conditions and assumptions. Involving diverse fund managers creates wider access for SMEs, because of their different specialisms.
- Set up of FIs within existing structures minimises operational costs and helped to speed up implementation. Set-up times were fastest when no selection process was followed. Where national institutions did not have the necessary expertise or capacity, the use of external expertise (such as the EIF) was very helpful.
- The early stages of the programme period were characterised by considerable uncertainty. The regulatory provisions were thin and still geared towards grants. FIs were being implemented in areas dominated by a 'grant culture', where FIs as such and the related specificities of Structural Funds were not well understood. All in all, only a few FI where operational before 2010 and quite a considerable number of funds began operating only in the year 2013.
- Experience and relationship building among key stakeholders are important for successful implementation. The level of human resources responsible for FIs within the MAs varies hugely between Member States and regions. In some cases the political will to introduce FIs preceded the administrative capacity and experience of MA/IB, which now needs to catch up. As good practice example capacity building with EIF support helped to manage the holding fund for JEREMIE Languedoc-Roussillon (FR). North East England (UK) represents an example of a region maturing in experience of the use of FI.
- Management fees and costs are difficult to assess owing to their structure. Fund managers are predominantly selected through competitive selection processes, but the case studies suggest that management fees (and costs) differ widely depending on the nature of the FI and the bodies involved in implementation.
- The financial crisis had a significant impact on the focus of some FI, involving a shift towards financing working capital (in case study OPs in LT, PL and HU). Overall, only a small share of investments is made in innovative enterprises. Setting up VC markets to finance high growth enterprises is only a minor focus of FIs.

4.3.1 Management and operational structure

Managing authorities had a range of **operational structures** open to them in establishing financial instruments: whether or not to use holding funds; whether to procure fund managers or entrust; whether to establish funds as a separate legal entity or as a block of finance within an existing institution. In terms of outcomes, ***no obvious patterns emerge*** in organisational arrangements – four of the stakeholder countries do not use holding funds; the remaining eight use a mix of holding funds and specific funds outside holding funds; some holding funds comprise large numbers of specific funds; some, surprisingly, only one; some countries operate both national and regional level holding funds; and there is EIF involvement in several holding funds, but not in most, in spite of the large number of gap analyses undertaken by the EIF.

Table 15: Number of holding funds and specific funds in the stocktake countries

MS	Holding Funds	Specific Funds under Holding Funds	Specific Funds (non-Holding Fund)
BE			9
CZ			2
DE			36
DK			3
ES	2	2	7
FR	2	17	101
HU	1	168	1
IT	12	14	68
LT	2	23	1
PL	9	128	74
PT	2	36	9
UK	7	22	26

Source: Own calculations from 2015 Summary Report.

There are a number of ***potential advantages to using holding funds*** to manage FIs. These include increased flexibility, the scope for a more strategic view and a portfolio approach to diversifying risk, securing match funding at the level of the holding fund at a sufficient scale to attract EIB funds and the pooling or delegation of some administrative tasks at holding fund level. Use of holding funds also has ***disadvantages***. It can involve an additional layer of management fees and a higher level of overheads due to the need for extra monitoring and scrutiny to mitigate 'objective drift'. This raises questions about the efficiency of models where there are holding funds containing only a single specific instrument. Among participants at the stakeholder seminar, opinion on the usefulness of holding funds was divided. Many MAs were strongly in favour, due to their flexibility and the option of moving funds between instruments, scale factors, and the expertise and knowledge a holding fund manager can bring. At the same time, other MAs remained sceptical of the potential benefits, citing the additional layer of costs and reporting, and the potential loss of control – especially as it is the MAs which ultimately remain answerable to the Commission.

There is ***no obvious link between the types of FI and the type of management structure*** chosen, and as there are many combinations across Member States and regions, this implies that choices have been driven by a complex range of factors, conditions and assumptions.

The case studies illustrate how widely the simple governance model for implementation of co-financed FIs has been translated 'on the ground', with complex arrangements reflecting national (or regional) support structures. Where these are weak or new (OP Languedoc-Roussillon (FR), OP Enterprises & Innovation (CZ)), structures tend to be less complicated, whereas with well established, strong national support structures (already using FI) this regularly leads to more complex structures for implementation of EU co-financed FIs (Bavaria (DE), North East England (UK), Małopolskie (PL), OP COMPETE (PT)).

The complexity of the approach chosen also reflects the degree of centralisation of Structural Funds management and implementation. Although it might be expected that smaller countries and regions would apply simpler governance structures, this is not generally the case: sub-regional structures are integrated in the delivery mechanisms of some regional OPs (Bavaria (DE), North East England (UK), Małopolskie (PL)); however, in most national programmes, the regional delivery mechanism (i.e. how final recipients are reached) does not much affect the governance structure (OP Enterprises & Innovation (CZ), OP Technological Fund (ES), OP Economic Development (HU), OP Economic Growth (LT), OP COMPETE (PT)). Delivery of FI to final recipients is done either through regional entities with a strong (direct) link to the MA or holding fund (OP Economic Development (HU), OP COMPETE (PT)) or directly from the (specific) fund.

Most fund managers (below holding fund level) were selected through a competitive process (public procurement or call for applications). In only two cases (OP Enterprises & Innovation (CZ), OP Technological Fund (ES)), public bodies were directly appointed to manage the FIs. In three case studies, the fund managers are all public (OP Enterprises & Innovation (CZ), OP Technological Fund (ES), Małopolskie (PL)), in three they are all private (Languedoc-Roussillon (FR), North East England (UK), OP Economic Growth (LT)) and in the remaining three they are mixed private/public. Beneficiaries (fund managers) tend to be (a) banks or other financial institutions, private and publicly owned; (b) venture-capital companies (including business angel entities), all private; and (c) regional or sectoral support institutions, predominantly public.

Table 16: Case study management structures

OP Name	Total No of FIs (excl HF)	No of FM	No of HF	Funding agree'ts (inc HF)	FM selection *	Legal Status of FM	
						Public	Private
DE: OP Bavaria	4	4	0	4	DA	X	X
FR: OP Languedoc-Roussillon	3	3	1	4	PP		X
UK: OP North East England	8	5	2	10	PP		X
CZ: OP Enterprises & Innovation	4	1	0	4	DA	X	
PL: OP Małopolskie	14	9	0	14	CA	X	
LT: OP Economic Growth	24	16	2	26	PP		X
PT: OP COMPETE	27	~9	1	28	PP	X	X
ES: OP Technological Fund	3	3	0	3	DA	X	
HU: OP Economic Development	11	137	1	138	CA	X	X

Note: DA= direct appointment; PP = public procurement; CA = call/applications

Ownership /type and background of fund manager also varied widely. The seven holding funds covered in the case studies were predominantly managed by public (or semi-public) institutions. In the case of North East England (UK), two private limited companies were entrusted with managing the holding funds and the EIF has managed holding funds in another two cases (Languedoc-Roussillon (FR), OP Economic Growth (LT)). Most of the public holding fund managers were comparatively new institutions or even only set up for the purpose of implementing the 2007-13 FIs.

Fund manager ownership and type for specific funds is much more mixed among the case study OPs. Only for guarantee instruments is there a clear dominance of public institutions, mostly specialised organisations with majority public ownership. Loan instruments are managed equally by private and public fund managers and in most cases they co-exist within the same OP. For equity FIs, managers from the private sector predominate (VC companies, business angel associations), although a considerable number of public entities are also involved. Taking all three types of FIs together, there are only three OPs where there is no (truly) private fund manager involved in FI implementation (CZ, PL, ES).

Regional development goals played a significant role in selection of fund managers in the OP Małopolskie (PL). All nine fund managers were selected from regional institutions in a competitive, transparent procedure of calls for applications. All fund managers are public (or equivalent to public) bodies and had previous experience with EU co-financed FIs. Delivery of the FIs is based on the distribution of resources between the fund managers located in all the sub-regions of Małopolska. In this way, the resources are made

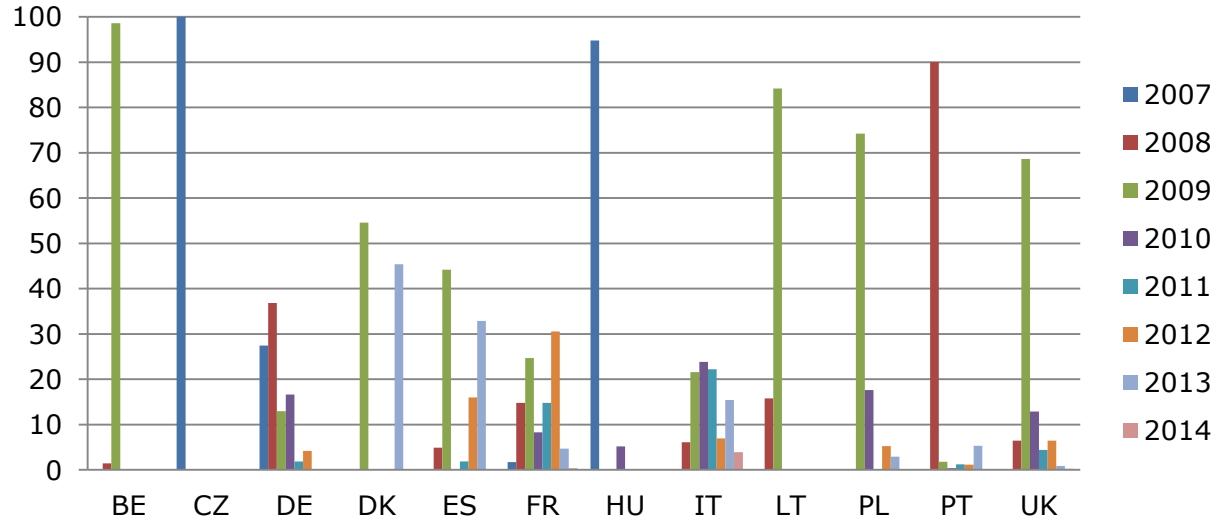
available to the final recipients locally and reach businesses in the sub-regions, through financial intermediaries that are closely linked to local communities and SMEs.

The regional development orientation is also evident in the OP Bavaria (DE). The FIs are managed by two public and two semi-private bodies with long-standing experience. The institutions are decentralised with a strong presence in the weaker regions such as (Bayern Kapital in Landshut or S-Refit in Regensburg). Further, the LfA funding bank is represented by the local banks in the regions. The fund managers have sufficient knowledge of the regional and local product and financial markets. The links with regional cluster initiatives help to identify suitable investments. In the case of the Risk Capital Fund I, start-ups are mobilised through a regional cluster initiative focused on biotechnology.

4.3.2 Set-up times

Set-up time differed between countries and OPs. There were ***significant delays*** in setting up FIs in many countries; this was partly attributable to the lack of clarity in the regulations, but also the length of time needed to negotiate terms with the various actors. These delays are reflected in the phasing of OP commitments to FIs. Overall, almost half of OP commitments were paid to FIs established in or before 2009. However, there were considerable variations between countries, with the Czech Republic committing all contributions to FIs established in 2007 and Belgium the same by 2009. By contrast, Spain, in particular, but also Denmark and Portugal committed a significant proportion of funds as late as 2013; and further, albeit small, amounts were committed in 2014.

Figure 10: OP contributions to FIs per year



Source: Own calculations from 2015 Summary Report.

FI set-up time varied both between the case study OPs and between different FIs within a particular OP. In two cases, the set-up of the full operational system for FIs was only achieved in 2013. Even individual FIs mostly took longer than six months to set up; there

was mixed opinion among MAs as to whether this was an acceptable timeframe. The fastest set-up was achieved when no (multi-stakeholder) selection process had to be followed (OP Enterprises & Innovation (CZ), OP Technological Fund (ES)).

The stakeholder seminar highlighted that the early stages of the programme period were characterised by a great deal of uncertainty. The use of FIs was new in many OPs and the regulatory provisions were thin and still geared towards grants. In addition, FIs were being implemented in areas which were dominated by a 'grant culture', where neither FIs, nor the specificities of Structural Funds, were well understood. MAs considered that the process would have been easier if more guidance had been available from the start of the period and if it had been clearer, more extensive and less subject to change.

Beside the selection process, individual negotiations (between Member States and the Commission or EIB/EIF) slowed down the process considerably (Bavaria (DE), Languedoc-Roussillon (FR), OP Economic Growth (LT), North East England (UK)). MAs had to seek clarification on many elements of the implementation process, and have found aspects such as public procurement, preparation for closure and State aid, challenging. Supplementing the regulations with COCOF notes also had repercussions for audit, with the retrospective application by auditors of guidance notes on FIs that had been set up prior to the availability of the guidance. The lack of expertise of auditors with respect to FIs (as opposed to grants) was also problematic.

Several 'good practice' examples emerged from the study. These addressed the fact that FIs were being implemented in fields more accustomed to grants, and involved setting up and improving communication channels, especially with potential private sector fund managers. These aimed to make participation in FIs more attractive, and included 'road shows' to reach remoter/rural parts of regions and marketing the funding logic to financial intermediaries. Maintaining good communication channels with all levels of the implementation structure has a positive impact on implementation, the capacity to adapt FI to changing needs and on uptake.

An option which has worked well for some MAs has been to use existing (national) institutions, which has helped speed up implementation. However, where national institutions did not have the necessary expertise or capacity, the use of external expertise (such as the EIF) was view positively. Further, continuity of implementation in terms of stakeholder institutions played a critical role in the set-up and stability of policy (OP Economic Development (HU), OP Economic Growth (LT), North East England (UK)).

4.3.3 Management fees and costs

It is extremely difficult to provide an assessment of the scale of ***management fees and costs*** under co-financed FIs with any confidence. For many FIs, fees and costs are not complete in the summary data (e.g. HU, LT, see annex 6.11), and detailed analysis of the relevant data did not even render a reliable and plausible result for the nine case study OPs.

A consideration of management fees and costs must also take into account that these may sometimes be paid with resources other than those from the OP, and that remuneration of fund managers may come from sources other than fees. Further, with

risk sharing FIs, earnings on private contributions may provide an incentive for the fund manager to perform even if no performance fees are envisaged. From a Cohesion policy perspective, the primary concern is with costs and fees paid from OP contributions, but before the closure declaration is made it is not easy and sometime not possible to know how (or whether) such costs have been paid. In short, the real cost of running FIs is strikingly opaque.

The case studies suggest that management fees and costs differ widely depending on the nature of the FI and the bodies involved in implementation. For example, fees for the loan FI in OP North-East (UK) appear comparatively high, but this reflects the fact that microfinance is being offered which necessarily carries relatively high transaction costs (this being one of the reasons for the limited commercial availability of microfinance). It also appears that public intermediaries do not identify costs in the same way as do private intermediaries. For most of the case study FIs, the annual management fee charged to the MA or HF respectively, is given in Table 17, below. However, the detailed basis of the calculation is usually unclear; rules for fee calculation specified in funding agreements are often complex and often confidential. For this reason a second measure or in some cases alternative measure – the cumulated contribution for management fees or costs from the OP to the FI product – is also given in Table 15, where available from the 2015 Summary report.

Most stakeholders interviewed claim that the annual fees paid are (sometimes considerably) below the fixed threshold (generally 3%). Clearly, guarantee products and loan schemes demand smaller annual management fees than equity funds. Over the duration of the funds, management fees for equity FIs in two case study OPs (LT and UK) exceeded 14% of OP contributions paid to FI by the end of 2014; depending on the extent to which the fund had been invested, this would be even higher as a proportion of the amount reaching final recipients. However, the data reported by MAs is far from complete, so detailed comparisons of costs are not feasible. For example, in the OP Economic Development (HU), all selected fund managers are granted an annual management fee of 5% of OP funds under management, which would appear higher than the market rates prevailing under comparable conditions or in other countries, but in the AIR and the 2015 Summary report, no OP contribution to management fees has been reported by the MA.

The role of management fees in the selection of fund managers was called into question by some interviewees who argued that capable financial intermediaries were being excluded on cost grounds – in other words, competent fund managers opted not to bid to run funds because the levels of remuneration were inadequate. Their argument seems to be that the additional administrative burden for running an ERDF-funded (equity) scheme are not covered by the minimal difference in fees compared to fully commercial funds. However, there is no evidence that the fund managers who claim that the fees are inadequate would actually be more effective in managing funds or supporting final recipients.

Table 17: Actual management fees charged to the OP by FIs (NHF)

OP	No of FIs	Annual management fees of funds under management (case study data)			Management fees paid to FI until end 2014, in % of OP contribution (case study data)		
		Guar-antees	Loans	Equity	Guar-antees	Loans	Equity
DE: OP Bavaria	4		0.5% to 1.0 %	3%, plus performanc e bonus		n.a.	n.a.
FR: OP Languedoc-Roussillon	3	0.0%*	3.0%	3.0%	0	n.a.	n.a.
UK: OP North East England	8		4.95%	1.0% to 4.5%		n.a	14.8%**
CZ: OP Enterprises & Innovation	4	Estimated 2% management fee (Deloitte, 2014) covered partly by non-ERDF sources			n.a	n.a	
PL: OP Małopolskie	14	0.5% to 1.0%	0.9% to 2.6%		2.2 %	8.6%	
LT: OP Economic Growth	24	1%	0.6% to 0.9%	5% to 13%	5.6%	3.2%	15.9%
PT: OP COMPETE	27		n.a.	n.a.		3.7%	1.8%
ES: OP Technological Fund	3	0	0		1%	no fee charged (so far)	
HU: OP Economic Development	11	5% p.a. for all financial intermediaries; no realised data available			total cost of HF until end 2013: EUR 10.2 million, i.e. 1.5% of OP contribution		

Source: Case study research, own calculation

Note: (*) covered by HF management fee (identical FM); no fee has been paid to the financial intermediary, who set up a loan portfolio with risk of default partly covered through JEREMIE guarantees, and was in charge for, inter alia, monitoring and reporting, State aid supervision, recovery procedures. (**) all FBNE funds except micro-loans

None of the fund managers interviewed was willing to reveal the "real" cost of running an individual FI as this would disclose commercially sensitive information. In OP Economic Growth (LT), the holding fund publishes business data regularly, including profit and loss accounts, but these cannot be aligned with the financial performance data of the OP, and even less so with the individual FI. Costs cannot therefore be compared between different bodies (public or private). Comparison between different instruments is also very limited, beyond the clear trend that guarantee instruments generally have the lowest costs, while equity instruments are at the upper end of the cost scale. This can

largely be explained by the fact that selection of projects for equity investment takes longer and is more expensive, due to the in-depth due diligence required. By contrast, in the case of guarantees, due diligence is often undertaken by the lender, minimising the involvement of the guarantee fund in individual investments.

From the case studies it seems that fees and costs for managing FIs do not differ between public and private fund managers, as the procurement process rules out most of these differences. What marks the difference between fund managers is rather the combination of financial and non-financial services applied. For instance some fund manager (not necessarily public ones) offer better value for money because their fees include business support advice, e.g. in HU, Languedoc-Roussillon.

Management fees may not be the only remuneration for fund managers, who may also earn from investments in enterprises on their own account. Funds may charge fees to final recipients e.g. arrangement fees, although this was not mentioned in the case study OPs. What does occur is that public fund managers, in particular, finance management services to national bodies (ministries) themselves, regarding this as part of their general remit, and do not seek fees from the ERDF; e.g. in Czech Republic[70] and in Spain[71] and partly in Lithuania[72]. Integrating FIs into existing public management structures helped in some cases to limit management costs attributable to ERDF. However, it is difficult to get clear evidence on this.

Regarding **performance and success indicators** for fund management, the case study analysis found that the remuneration of fund managers was rarely linked to any performance indicators (mainly UK). In general, the main incentive is increasing the volume of resources available for the fund which is mostly linked to the level of disbursement to final recipients. The maximum consumption of available resources is seen as an incentive because it increases the scope of the fund managers' activities (in most cases) and the efficiency of its operations.

In Hungary (OP Economic development) the so-called 'partner limits' system provided an adequate incentive for the fund managers and simultaneously a risk management tool for the HF. Monitoring of the project portfolio of the fund managers is provided by an annual scoring system. The MA and the holding fund manager used a sort of "step-by-step" performance-based incentive in allocating the EU contributions to the financial intermediaries. The HF transferred the (ERDF plus national) contributions to the individual intermediaries in sequential steps in dependence of their past financial performance. This system could be supplemented by outcome indicators.

[70] Fees from the Credit fund are paid from funds that are not considered ERDF. This doesn´t refer to the Guarantee Fund. The actual amount of management costs and fees is not yet public.

[71] The public fund manager CDTI set-up the FI action line (CDTI Loan Fund) within its existing structure; sometimes co-financed by ERDF. Therefore no operational costs were charged to the FI since they were already assigned to other ERDF action lines and specific costs related to this FI were not differentiated. Management and control costs for all ERDF funded action lines, including the FI, were classified as technical assistance. Only 100% specific and new costs were considered as FI costs, such as adapting ICT software.

[72] Costs and fees are for instance low in the case of the publicly managed INVEGA HF and publicly managed Guarantee Fund. But also the Funded Risk Sharing Product operated by private banks has low management costs.

4.3.4 Project selection criteria

Project selection criteria and the terms under which FIs are offered vary widely not just among countries, but between the various FIs implemented. These range from those which seem near-identical to strictly commercial criteria and terms that involve subsidy elements in the interest rate charged or provide support on terms that would not be acceptable commercially (such as the length of the credit term).

Project selection criteria typically are similar to those used by commercial banks. This commercial orientation of project selection criteria poses interesting questions given the ultimate wider Cohesion policy objectives of co-financed FIs. It also raises the question of how and at which level the contribution of these investments to Cohesion policy goals is assessed. Co-financed FIs do, however, differ from their wholly commercial counterparts in several important ways. The geographical location of the recipient, requiring operations in the region where the FI operates, is an important criterion common to all OPs. Similarly, compliance with the definition of SMEs or micro enterprises, in terms of the number of employees and upper limits on revenue, is also regularly used in the selection process. The 'lender of last resort' principle is used in cases where loan/guarantee-type FIs provide opportunities for beneficiaries that are unable to obtain loans elsewhere.

From the case studies it is clear that implementation of a particular FI 'on the ground' does not differ according to whether the fund manager is a private or a public body. They are both bound by the same provisions of the funding agreement and operate within these as due diligence allows. Profitability criteria play a minor role in the selection of projects with private fund managers as well as with public ones. This is reflected in the reluctance of many private sector institutions to participate in co-financed support schemes, because this is considered (rightly or not) to endanger their profitability.

4.3.5 Capacity building

As most fund managers were either new to FI management (as they had only recently been set up) or new to Structural Funds implementation (or both), **capacity building** was a prominent theme. Stakeholder seminar participants noted that that the level of human resources responsible for FIs within the MAs varies hugely between Member States and regions – and the number of staff can be very few. This has important implications for administrative capacity, and can strengthen the argument for involving external or private sector expertise where this is the case. At the same time, the complexity of Cohesion policy administration can prove a disincentive to potential private sector stakeholders who often consider their own audit and control procedures to be more than adequate and are sometimes surprised at levels of further monitoring required as a consequence of Cohesion policy funding.

Within the nine case study OPs, at least five MAs had the capacity to manage public FI readily available at the start of the period. All had a proven track record of running such schemes, mostly including ERDF co-financing. For these OPs this was also the case with respect to (most of) the planned fund managers.

For the remaining MAs (Technological Fund (ES) OP Languedoc-Roussillon (FR), OP Economic Growth OP (LT), OP COMPETE (PT)) managing FIs was relatively new and

capacity had to be developed. According to the interviews this took place quickly in all these cases and without major problems. In two cases, the capacity building support from the EIF was perceived to be crucial.

Box 4: Good practice in OP Languedoc-Roussillon (FR) - capacity building with EIF support

The EIF managed the holding fund for JEREMIE Languedoc-Roussillon (FR); it was also closely involved in management activities and delivering technical assistance to fund managers. This helped capacity building, and a number of elements of good practice emerged from the management structure, the fund selection procedures and implementation rules. The mechanism was considered to have worked well by the different stakeholders interviewed. Positive feedback was also reported in the mid-term evaluation and the ex ante evaluation for the 2014-20 period. Good practice aspects include:

- Seed-loan and co-investment funds: Strong orientation of the FIs towards regional development goals is demonstrated by strict targeting of actors and sectors.
- All funds: Management costs considered by the three fund managers as moderate (low) and concentrated in the first phase of development.
- Guarantee fund: No fee has been paid to the financial intermediary, who set up a loan portfolio with risk of default partly covered through JEREMIE guarantees, and was also in charge for, inter alia, monitoring and reporting, State aid supervision, recovery procedures. Gains from treasury management have been used within the same financial instrument. The guarantee fund manager is identical with the HF manager and thus an additional layer of financial intermediary is economised.
- All funds: the EIF, as holding fund manager, collected a number of indicators measuring financial performance and the characteristics (age, employees, turnover) of the enterprises supported.

Source: Case study research

Interestingly, the challenges encountered by the MAs (and partly the holding fund managers) during implementation were similar for both those the experienced with FIs and those with less experience. The major challenges in all cases related to the EU regulations, their interpretation and legally secure application, and their compatibility with domestic (legal and technical) requirements. The main areas concerned the eligibility rules, the options for combining grants and FIs (with very different solutions found in the nine cases studies) and hence the design of the individual FI products, and an extensive list of State aid issues. In some case these had serious practical repercussions - for example, in Portugal, parts of the management and control system had to be redrafted to release a payment suspension, just as the programme had seemed ready to start. Several MAs (with holding funds) found the administrative burden linked to the selection of fund managers a particular challenge. The highly technical language associated with finance/fund management was also a major challenge.

Once the delivery system was set up, new challenges emerged related to monitoring and absorption, and the need to deal with poor performance of individual funds. Capacity building to cope with these challenges predominantly took place "on the job," although some MAs and holding funds also offered formal training for their own staff and those of fund managers.

4.3.6 FI portfolio management and risk management

The repayment structure for loan instruments varies from programme to programme. For example, the repayment period of the seed loan scheme in Languedoc-Roussillon (FR), ranges from 6 to 48 months, whereas most other loan schemes in the case study sample start at a minimum of 3-4 years and rise to 6-7 years, with the notable exception of the Bavarian loan scheme, which can grant credit of up to 20 years duration.

Exit strategies for equity funds seem to be more similar across the different OPs, although in principle are less regulated. In general, equity funds calculate a five year development period before exiting. Most of the funds also orient themselves towards a fixed fund closing date of 2020, when all deals must be closed and exited from (at the latest).

Targeting the right balance in terms of risk has been difficult to address given the diversity of implementation options and situations addressed. However, two interesting points emerged from the stakeholder seminar. On the one hand, it was argued that, in the context of economic development policy, there should be a focus on riskier projects and investing in projects which the private sector would not. In any case, with grants the public funding is 'lost', whereas with FI it may be repaid, so it is worth financing riskier projects on these grounds alone. On the other hand, the level of risk that can be taken depends on how the fund is capitalised. For example, if the fund is financed by a loan from the EIB, then there has to be an emphasis on ensuring that the SMEs which are funded can repay their loans on time, so that the EIB can, in turn, be reimbursed, and this affects the risk strategy.

4.3.7 Key success factors in management and implementation

All case studies offered very similar suggestions as to the 'success factors' for management and implementation:

- **The selection of appropriate fund managers.** More specifically, in the case of equity funds, the track record of deals closed, is ranked very highly for all OPs. The requirement for knowledge of the finance sector as well as of Cohesion policy (Structural Funds) at the fund manager level is considered crucial, but also difficult to find (according to case studies in UK, HU, ES, PT, DE, LT; FR, CZ; see case study section on success factors for sound administration and management of FIs).
- **The need for regional and local knowledge** was stressed by the regional case study OPs along with networks involving both the business and financial sectors (UK, PL, DE, LT, FR).

- **Clear organisational set-up,** with unambiguous competences and responsibilities and smooth information flows between the parts of the system was unanimously regarded as key (UK, PL, HU, ES, LT, FR).
- **Shared objectives.** A common view of the relevant issues among the different institutions involved and an information exchange which goes beyond obligatory reporting was also mentioned as a success factor by some OPs (UK, FR).
- **Flexibility of implementation arrangements** was also mentioned repeatedly. This allows a timely reaction to changes in the context of the programme and the ability to "right size" individual instruments or products (UK, HU, ES, LT).

North East England (UK) represents an example of a region maturing in experience of the use of FI. It has successfully incorporated learning from previous funds into the management structures and processes of the Finance for Business North East scheme (FBNE), and this is leading to positive outcomes for SMEs in the region, and the achievement of strategic objectives to increase the stock of businesses, sustainability and growth in higher value sectors of the economy. Good practice aspects include the following:

- Active management of fund managers through dedicated and experienced HF team
- High calibre, experienced Board members scrutinising performance
- Incorporation of learning from previous funds. Detailed operational guidelines set parameters for fund manager activity but provide flexibility for investment decisions
- Comprehensive reporting system provides transparency on fund performance
- Dedicated legacy management body, providing a strategic oversight of past funds
- Integrated model with flexibility to 'right-size' across funds depending on performance and reflecting changing market gaps
- Additional human resources allocated within sub-region which had not participated as well in the FBNE, which resulted in an uptake of funds
- Most funds have the flexibility to structure loans, quasi-equity and equity. Only one pure loan fund, which caters for simpler, small business needs
- Early focus on planning for exits to maintain returns profile
- Reaction to under-utilisation in sub-region by establishing additional presence to promote fund.
- Fund managers have successfully levered additional investment at the deal level
- User-friendly online system to capture economic impacts.

4.4 EQ4: What does the monitoring and evaluation system show?

Monitoring and evaluating progress in FI implementation and capturing results is a vital part of sound implementation. This section describes the characteristics of the indicator system linked to FIs and comments on the completeness. The reporting provisions and the reliability of reported data are examined. Moreover in this section evaluations carried out in the 2007 to 2013 programming period are reviewed.

Key findings

- Monitoring of most FIs appears to be inadequate to assess their performance. At EU and at programme levels the quality of information on the implementation of FIs is poor. While monitoring provisions were an obligatory element of each funding agreement from 2006, it should be noted that data reporting was obligatory only from 2011, and even then some data was reported only on an optional basis.
- Case studies indicate that there is no continuous control of the quality of monitoring data provided, apart from ERDF-related audits, State aid inspections and European Court of Auditors visits.
- Overall, the evidence from evaluations of the performance of FIs is very limited. The academic literature is focused on venture capital. However, equity is the least used of the three main types of ERDF co-financed FIs. Loans and guarantees are relatively under-evaluated.
- Few evaluation studies consider the rationale for the form of intervention – grants as opposed to repayable mechanisms – or the relative efficiency of public funds disbursed in repayable form and their capacity to draw in private funding.
- Very few studies addressed the capacity of FIs to contribute to wider regional development objectives (the main aim of ERDF programmes).

The overall quality of information on FIs is poor. This is partly due to the fact that at the start of the 2007-13 period, specific reporting on FIs was not required (though of course standard requirements and the principles of sound financial management applied to FIs, as to the other areas of Cohesion policy expenditure). However, it was subsequently recognised that because of the additional complexities of FIs this was a significant gap in understanding how managing authorities were implementing the Funds and in 2011 an amendment to the Regulation[73] obliged Member States to report on financial instruments in their Annual Implementation Reports. The year 2012 was therefore the first year in which MAs were required formally to report on the implementation of financial instruments. Even so, these requirements were rather limited in scope (Article 67(2)(j)):

- a description of the financial engineering instrument and implementation arrangements
- identification of the entities which implement the financial engineering instrument, including those acting through holding funds

[73] Regulation 1310/2011 of 13 December 2011 as regards repayable assistance, financial engineering and certain provisions related to the statement of expenditure, OJ L337/1 of 20.12.2011, amending Article 67 of the General Regulation.

- amounts of assistance from the Structural Funds and national co-financing paid to the financial engineering instrument
- amounts of assistance from the Structural Funds and national co-financing paid by the financial engineering instrument.

The legacy of this is that ***financial information is at best patchy*** and there is evidence that the reporting requirements for FI spend have often been misunderstood. Because many elements of the reporting under the AIR were voluntary, quite basic data is often missing so that it may be unclear, for example, whether information is unavailable on the operation of a given FI, or whether there really have been no investments made. Conversely, there are instances where the amount invested in final recipients exceeds the OP commitments, suggesting that returns to the fund have been double counted if reinvested. The extent to which this has happened is unknown, making it impossible to provide quite basic aggregate data on the extent to which OP commitments have actually been invested, let alone assessments of how much they really cost to run and what impact they might have had on jobs or investment.

Monitoring and evaluation systems were generally not in place in the case study OPs for the start of the period (e.g. no evaluation plans). The case studies suggest that there is generally ***no ongoing quality control of data monitoring*** beyond that arising from ERDF-related audits, State aid inspections and European Court of Auditors visits. Audits forced MAs to improve data collection; however, these enhanced efforts may be misdirected if irrelevant data for evaluation purposes are collected or if data are not accessible for evaluators.

The monitoring systems in place usually have only a ***few indicators*** and these are generally inadequate to provide the basis of an assessment of impact. The indicators collected by the MA cover in most cases spending, output indicators and a limited set of result indicators – if any (jobs, total investment volume). Effects on employment are monitored by many OPs, however, there are some OPs with no result indicators (OP Technological Fund (ES), OP Economic Growth OP (LT), OP COMPETE (PT)). Existing FI-related "impact" indicators in the OPs (e.g. in the OP Economic Growth OP (LT)) are actually context indicators which do not reveal much relevant information on the effects of FIs. Indicator sets were in most cases developed for grants rather than for FIs ("grant thinking"). It is also worth noting that little has been formally recorded anyway since investment projects are still ongoing.

There is a great deal of soft information on the effects of FIs which is difficult to capture via the classical indicator sets and which requires a FI-specific approach (e.g. start-ups and companies receiving intensive non-financial support to build up their business competence).

Outcomes on company growth, improved survival rates of new businesses, turnover, sales, innovation capacity or indicators on the horizontal priorities (sustainability, equality) are not collected in the central monitoring system. Part of the reason for this is to avoid additional costs and administrative burden for the implementing bodies (the approach being to keep monitoring light and leave the optional evaluation to collect more in-depth data).

The exception is the North East England OP (UK), where the FI-related indicator set is more advanced. Indicators are used to monitor a number of different strategic objectives, such as increasing business density (including in disadvantaged areas), improving survival rates of new businesses, and creating/safeguarding jobs (including in disadvantaged areas).

Across the case study OPs as a whole, there is a general lack of information at end user level (final recipient), however, the stakeholder seminar concluded that it is difficult to impose more requirements. The collection of result indicators at the level of end users (final recipients) is costly and increases the administrative burden and transaction costs for the financial intermediaries who deliver FIs. Micro and small companies which receive FI support are often overburdened to report more elaborate performance data. In addition, experienced staff are necessary to establish and run more sophisticated and reliable monitoring systems, and often such skills are unavailable (and are anyway costly).

Information is sometimes collected on the ground but not shared or reported in the IT system (i.e. it may be known to fund managers but not shared with evaluators). Venture capital funds with a small number of investments are, in theory, easier to monitor; however, commercial confidentiality issues also arise as an important consideration. Fund managers may be opposed to sharing in-depth information on their portfolio (e.g. performance of enterprises, invested sectors). In the Languedoc-Roussillon (FR) OP, a much broader range of indicators seems to be available for individual FIs, covering the structure and development of each company supported, yet this information could not be accessed due to confidentiality rules in the funding agreements.

Existing **evaluations** provide very limited evidence on the effectiveness of ERDF-supported FIs for enterprise support. Evaluations which assessed FIs in relation to recipient firms in general indicated that the SMEs increased jobs and turnover, but only in a few cases were such outcomes measured in terms of the net effects of FI support.

It remains unclear what is the capacity of FI to contribute to regional development objectives; the relative efficiency of FI as opposed to grants is also unknown and underexplored.

Table 18: Monitoring systems in the case study OPs generally have few indicators and are inadequate to assess the intervention logic

OP name	Examples of indicators related to FIs		
	Output indicators	Result indicators	Context indicators
DE: OP Bavaria	*Supported enterprises *No of investments *VC investments *Loan fund investments	*Jobs created /safeguarded	*Employment trends in lagging regions
FR: OP Languedoc-Roussillon	*No of projects financed by FIs *No of companies involved *No of SMEs financed *No of innovative SMEs support. *No of investments in SMEs with high development potential	*Gross direct jobs created in FTE *Survival rate at 3 years after start-up	
UK: OP North East England	*No of SMEs receiving financial assistance *No of start-ups supported	*No of gross jobs created / safeguarded *Private sector leverage *Improved environmental management *Collaboration with knowledge base *No of businesses created / attracted *No of businesses created / attracted surviving 12month	
CZ: OP Enterprises & Innovation	*No of supported projects of direct support to SMEs	*No of newly established firms *No of newly created jobs (gender)	
PL: OP Małopolskie	*No of enterprises supported	*Created jobs in micro, small and medium enterprises	
LT: OP Economic Growth	*No of SME supported by FIs *private investment attracted	n/a	*Investment in fixed capital formation as % of GDP *Labour productivity (% of EU15 average)
PT: OP COMPETE	*Financing oriented to potential growth sectors *No of guarantees *Management costs as % of invested capital	n/a	
ES: OP Technological Fund	*No of projects per size, sector *No of employees in final recipient	n/a	
HU: OP Economic Develop-ment	*Decrease of the number of SMEs without access to financing resources (Loan)	*Gross no of jobs created	*Growth of GVA *Change in e-business index *Induced private investments

Source: Case study research

A mixed picture of evaluation activity emerges from the case studies. In some cases, no specific evaluations have been undertaken (OP Technological Fund (ES)); others were early in the lifetime of the FI (OP Languedoc-Roussillon (FR), OP COMPETE (PT)) or did not cover the FI in sufficient detail to draw meaningful conclusions (OP Economic Development (HU)). North East England (UK) was interesting in commissioning parallel evaluations of all three JEREMIE instruments in England, allowing for cross-comparison and shared learning. In some cases, evaluations have been designed to draw lessons to inform programming for 2014-20 (Languedoc-Roussillon (FR), North East England (UK)).

In Bavaria (DE), the MA initiated a mid-term evaluation of the OP, which also addressed the implementation of FIs. The focus was on delivery of the FIs as well as on the early effects (a counterfactual evaluation indicated statistically significant effects of venture capital funds). For the new programme period, three recent ex-ante assessments have retrospectively viewed the three venture capital instruments and the loan funds operated under the previous 2007-13 programme.

Table 19: Case study evaluation activity

OP name	Evaluation carried out	Comments
DE: OP Bavaria	OP Mid-Term-Evaluation (MTE) incl. FI Ex-ante assessment of FIs	Focused on delivery and early effects
FR: OP Languedoc-Roussillon	Early FI review	Focused on lessons for 2014-2020
UK: OP North East England	FI MTE, in parallel with other JEREMIE regions Cross-cutting theme ex-post evaluation Additional review looking ahead to 2014-20	Examined delivery and early effects; compared performance across 3 regions Cross-cutting theme evaluation optimism not borne out by realisation period.
CZ: OP Enterprises & Innovation	Thematic FI MTE	Focused on absorption capacity
PL: OP Małopolskie	FI MTE	Focused on system functioning, not effects and contribution to OP
LT: OP Economic Growth	3 evaluations on FIs for enterprises, one of them assessing early impact of FIs	A counterfactual impact evaluation was carried out
PT: OP COMPETE	OP MTE incl. FI	Too early in FI lifecycle to assess progress
ES: OP Technological Fund'	No specific FI evaluation	
HU: OP Economic Development	No informative evaluation	Existing studies descriptive or partial

Source: case study research

Reporting provisions and quality control mechanisms are defined in the different financing agreements and monitored by regular audits. Audit reports are in some cases strictly confidential (e.g. Bavaria (DE)) and therefore of limited use for evaluators.

In the OP Economic Development (HU), a standardised monitoring information system was developed to serve as a central system for collecting and monitoring all kinds of data from the FI managers. Data obligations were specified for different timespans, including daily, monthly, quarterly and yearly reporting obligations. For venture capital operations, the monitoring system required more detailed information about each project than for loans and guarantees. In the quarterly report, the funds investment policy and the quality and progress of the portfolio has to be summarised. The quarterly reports and the yearly reports of the fund managers which contain similar information are not public and therefore beyond the scope of evaluators.

In the OP Enterprises & Innovation (CZ), the fund manager regularly updates the data in the monitoring system and regularly reports to the MA. However, the MA does not have special quality control mechanisms to cross check data reported by the fund manager, although it can check during an on-site inspection of a project.

In the OP Economic Growth (LT), the FI manager INVEGA publishes performance reports four times a year. These include the main indicators for separate FIs. Key indicators reported to the MA are the number of SMEs supported and private investment attracted through FIs. These are OP–level indicators and their accuracy can be checked by the Monitoring Committee, especially if there are inconsistencies. However, there is no systematic cross-checking of data reported by FI managers to the MA.

In North East England (UK), the funding agreements between the HF and fund managers require regular reporting on a range of indicators (see Box). Investee SMEs are prompted to provide updated information at six-monthly intervals through a user-friendly online real-time database.

The Languedoc-Roussillon (FR) case highlighted challenges in establishing consistent data sets on key indicators (jobs) in a multi-actor environment. For example, the number of jobs created that was monitored through the OP monitoring system is lower than the number of jobs reported in the EIF reporting system, because the former also includes jobs maintained. The 2013 AIR indicates that the guarantee instrument had created or maintained a total of 6,725 jobs by the end of 2012, whereas an EIF presentation quantifies the number of employees hired or maintained in SMEs by October 2012 for all three FIs at only 1,369.

Box 5: Good practice in OP North East England (UK) – effective monitoring and reporting

In the North East England OP, reporting by Fund Managers to the HF takes place at three levels (and the requirements are specified in the Funding Agreements):

- Monthly reports containing basic compliance information for each investment; outline information for each investment made during the relevant month; general fund reporting; and manager activity.
- Quarterly reports detailing: jobs created and safeguarded; turnover created and safeguarded; investment leverage; status of investments; new IPR registered; etc.
- Annual reports including include number, amount and recipients of investment; failure rate of investment; level of arrears; income and expenditure accounts; valuation of Fund's assets; jobs created/safeguarded; private sector leverage; variation from baseline projections in the Business Plan; geographical breakdown, and a general report on the key actions and events in relation to the Fund over the period. An overview table shows clearly performance against Key Performance Indicators, with a traffic light system to flag areas of concern.
- The HF managers (North East Finance) have developed a real time database used by all Fund Managers and investees. The database includes all necessary information from the point of enquiry to the investment decision. The investee SMEs are then prompted to update the database online at six-monthly intervals directly, with data on performance since the investment. This is regarded as much more efficient and effective than previous methods of surveying SMEs by phone.
- The HF manager makes biannual visits to each Fund Manager to undertake desk-verification of files to cross check data reported. Other safeguards are in place, e.g. requirement for all jobs to be evidenced by contracts.

Source: Case study research

4.5 EQ5: What are the outcomes and how effective have financial instruments been?

This section verifies the initial outcomes of FI implementation including the leverage effect, the extent to which FIs revolve and remain in a cycle, and short- and long-term results. Ideally, funds invested in FIs become self-sustainable, which increases their impact compared to grant-based mechanisms. This section also assesses achievements regarding operational and strategic goals as set out in the ToC based on the evidence collected and draws conclusions on the optimum scale of the FIs, and the impact on the related market of venture capital and equity, where relevant.

Key findings

- There are large variations between countries in the level of private sector money attracted. Most private co-financing was for venture capital (although VC remains a very small part of the overall picture), while much lower contributions went to loans and guarantees. Case studies show that, at the level of private sector contributions to holding funds or individual FIs, only minimal private money was attracted to FIs in most cases. This, however, does not take into account the amount invested directly by companies in expanding or renewing capacity, as the data reported do not cover any additional private resources at the level of the financial product or the final recipients. Case study interviews suggest much higher levels of private contributions at firm level in all cases.
- There is little information on revolved funds and there is insufficient reliable data to be used for even a tentative estimate of 'revolved' public money.
- Among the case study OPs, the revolving nature of funds seems to be treated very differently. Many of the FIs do not have an explicit strategy for revolving funds or providing a legacy.
- The loan schemes of five case study OPs have already reported revolved money – with a range between 25% and 200% of the original amount disbursed – while other loan schemes have not yet reached the stage of revolving, partly due to the late start and the average loan duration.
- Most venture capital funds have been established for a fixed duration, typically 10 years. With the exception of the UK, the final financial outcome and hence the sustainability of the public money invested has not been estimated.
- In some case studies, FIs clearly improved access to finance for a considerable number of enterprises (e.g. around 7% of all SMEs in Lithuania). Accordingly, an important OP objective, to ´increase SME access to finance´ was achieved.
- In terms of final outcomes such as productivity, employment etc. too few MAs provide such data related to FIs to make any assessment of their impact: job outcomes are reported in only five cases; and only North East England (UK) has collected data that shows the effects on innovation capacity.
- Case studies show that effects of the FIs on the turnover, job creation, the innovation capacity and competitiveness of supported companies are not systematically measured. Although some enterprises were able to improve technology and upgrade their business processes, FIs were also used for financing working capital.

As part of the study data on effectiveness of FI was sought, including private sector money attracted, the extent to which public money has revolved and final outcomes such as productivity, employment etc. at the firm level.

Overall, the ***evidence from evaluations of the performance of FIs is very limited***, whether in the existing literature or from information generated in this study. The academic literature is focused on different dimensions of the 'access to finance' question and much of it focuses on publicly-backed venture capital. However, equity is the least used of the three main types of ERDF co-financed FI and tends to be focused on market niches. Loans and guarantees are relatively under-evaluated, particularly in countries without a strong tradition of regular policy appraisal. There are no studies that give detailed consideration to the rationale for the *form* of intervention – in what circumstances are repayable instruments more effective or efficient than grants? What is their capacity to draw in private funding that would not have been provided otherwise?

In terms of ***private sector money attracted*****,** analysis of OP contributions shows that out of €10.5 billion paid to holding funds (HF) and specific funds (NHF), only €533 million (5.1 %) came from private sources.

Table 20: Private sector contributions to FI (HF, NHF) in the stocktake countries are generally modest, though there are exceptions

	OP	Private	%		OP	Private	%
HF	**3,826.7**	**325.0**	**8.5**	**NHF**	**6,718.7**	**207.9**	**3.1**
BE	-	-	-	**BE**	395.7	0	0
CZ	-	-	-	**CZ**	234.5	0	0
DE	-	-	-	**DE**	1,296.4	27.4	2.1
DK	-	-	-	**DK**	13.6	2.2	16.3
ES	402.6	5.7	1.4	**ES**	617.8	0	0
FR	55.2	0	0	**FR**	363.5	55.4	15.2
HU	849.1	0	0	**HU**	47.5	0	0
IT	724.3	3.4	0.5	**IT**	2,967.5	35.7	1.2
LT	228.5	0	0	**LT**	37.4	0	0
PL	548.0	0	0	**PL**	336.1	5.8	1.7
PT	312.3	6.0	1.9	**PT**	31.9	0	0
UK	706.8	309.9	43.8	**UK**	377.0	81.4	21.6

Source: Own calculations from European Commission (2015) Summary Report.

There are wide variations between countries, with the UK attracting inputs from the private sector, and smaller sums in France and Portugal, but some stocktake countries attract no private funding at all.

Most private co-financing was for venture capital (€400 million – 23%), while much lower contributions went to loans (€105 million - 2.1%) and guarantees (€7 million - 0.4%). The capacity to attract private co-financing for venture capital improved substantially

during the period. Private investors contributed only 10% of resources for FIs set-up during 2007-09, but their share of total contributions increased to 24% for FIs established during 2011-14. Nevertheless, venture capital remains a very small part of the overall picture of co-financed FIs.

National or regional authorities, and any other investor, may provide funding that is not part of the OP. However, data on these resources is very limited. Also, the data reported do not cover any additional private resources at the level of the financial product or the final recipients. These resources may represent an important share of private contributions attracted by FIs. Although considerable effort has been invested in getting a clear picture of the effect of FIs there are still uncertainties left concerning its quantification in many case studies. Nevertheless, a tentative indication of leverage (in the sense of funds attracted, whether public or private, other than co-financing) is given below.

National or regional authorities, and any other investor, may provide funding that is not part of the OP contribution. However, data on these resources is very limited. In addition, the data reported do not cover any additional private resources at the level of the financial product or the final recipients. These resources may represent an important share of private contributions attracted by FIs. A proper assessment of the capacity of FIs to act as a catalyst for further private funding should consider all the different levels at which additional resources can intervene, including the financial products and final recipients, so the AIRs focus on contributions to the OP underplays the likely role of private funds.

The leverage effect in the following table is calculated in principle on the basis of the total public (EU and national) and private financing levered in at various levels of the implementation chain related to the ERDF contribution (EC definition). The data base, however, is very heterogeneous in the case studies, which makes a comparison of the figures difficult. For example, in OP Bavaria (DE) the calculation of the leverage effect is based on a comprehensive retrospective analysis undertaken by Prognos (2014) as part of the ex-ante evaluation, whereas in the case of OP Technological Fund (ES) the figures are estimates, due to the lack of a reliable existing study. Further, in some cases the calculation has been based on committed funds (e.g. PT), in others on disbursed funds (e.g. FR).

Table 21: Leverage - attraction of private and public financial resources compared to the ERDF contribution

OP name	No of FIs	G	L	E	Notes
DE: OP Bavaria	4		2.2	4.9 to 20.4	Very high leverage in one risk capital fund (S-refit) from including a further private fund (usual range is between 1.5 to 7) *Source: Prognos 2014*
FR: OP Languedoc-Roussillon	3	18.0	4.0	8.5	Credits to SMEs from the guarantee fund were entirely private *Source: PWC-evaluation report, April 2015*
UK: OP North East England	8		3.1	2.3 to 9.2	Wide variation between FIs *Source: Holding Fund December 2014 quarterly reports*
CZ: OP Enterprises & Innovation	4	9.0	2.2		Guarantee fund supports loans from private banks *Source: Data given by fund manager*
PL: OP Małopolskie	14	1.2 to 1.5	1.2 to 1.5		Minimal leverage; mainly national public co-financing not private contribution. *Source: Calculation by national expert based on 2014 AIR*
LT: OP Economic Growth	24	5.3	1.5	1.4	Considerable private money only in guarantee funds Source: *Calculation by national expert*
PT: OP COMPETE	27		1.3	1.4 to 2.0	Leverage rather modest *Source: COMPETE Execution Report 2014*
ES: OP Technological Fund	3	2.0	1.2 to 1.35		Only minimal private money attracted to FIs *Source: Estimate by national expert based on 2013/2014 AIR*
HU : OP Economic Development	11	2.4	1.3	1.7	Leverage is highest in the case of guarantee schemes *Source: MA weekly report (first week 2015)*

Source: Case study research; **G**uarantees, **L**oans, **E**quity. Please note that not all contributions at all levels are covered

It has become evident that comparison within and between Member States only makes sense on the level of FI type (guarantees, loans, equity). Even so, the differences are higher than can be easily explained.

For **guarantee** schemes, high leverage might be expected (or multiplier as it is referred to in the Financial Regulation) as the amount of loans disbursed to final recipients (by the credit institutions receiving the guarantee) is usually much higher than the guarantee amount (to the credit institutions). Indeed, in three cases (out of six case studies with guarantee schemes) the multiplier ranges between 5.3 (OP Economic Growth (LT)), 9.0 (OP Enterprises & Innovation (CZ)) and 18.0 (Languedoc-Roussillon (FR)). Other case

studies reported leverage of 2.4 (OP Economic Development (HU)) and below, with OP Małopolskie (PL) being the lowest (1.2-1.5). In most cases the assumption is that not all resources paid to the final recipients have been accounted for. The money levered in comes in all cases from the loan-awarding bank, which in general is a private institution (with exceptions in OP Enterprises & Innovation (CZ) and OP Technological Fund (ES)), thus most of the multiplier is generated by private money.

For **loans**, the leverage factor ranges between 1.2 and 4.0, with only two OPs showing as outliers on the upper end of the scale (Languedoc-Roussillon (FR) at 4.0 and North East England (UK) at 3.1). The values between 1.2 and 2.2 originate from the funding decision at OP-level and thus represent basically how much national (public) money has been allocated to these FIs. Private money plays a (quantitatively) small role, unless the loan funds are managed by private institutions (Bavaria (DE) and Languedoc Roussillon (FR)) and interest subsidies are not given by the scheme (North East England (UK)).

The differences in leverage are higher for **equity**, yet they also seem to be the most reliable. The leverage in the OP Economic Development (HU), OP Economic Growth OP (LT) and OP COMPETE (PT) – all three in countries where VC market-making was a prominent goal – is hardly larger than for loans and involves only modest private contributions. For the equity schemes in Bavaria (DE), Languedoc-Roussillon (FR) and North East England (UK), the leverage is considerable, ranging from 2.3 to 20.4 (without the outliers between 3.8 and 10.6). Most of the money levered in is private and managed by the equity fund (this does not include all (private) investments at the level of final recipient).

In terms of ***the extent to which public money has revolved*****,** the only indication of revolving money comes from comparing contributions invested in enterprises and resources paid to FIs. However, there was insufficient reliable data to be used for even a tentative estimate of 'revolved' public money.

The revolving nature of funds seems to be treated very differently among the Member States. Many of the FIs do not have an explicit strategy for revolving/providing a legacy (with exceptions in North East England (UK) and Languedoc-Roussillon (FR) – e.g. the holding fund in North East England has a policy of repaying the EIB loan first before targeting a sizeable legacy fund). Some case study OPs aim to let the revolving of FIs (and hence) legacy take place at the level of fund managers, others at the level of holding fund. However, few loan schemes (and no guarantee schemes) have yet reached the stage of revolving (except in Bayern (DE), the Economic Development OP in Hungary and Małopolska (PL)) partly due to the late start of the loan schemes and the average loan duration. In the ROP Languedoc-Roussillon and in Lithuania (Economic Growth) a substantial share has already been repaid to the HF, where the timing and process of reuse is not yet fixed and will most likely not take place in the 2007-2015 period.

For equity funds the issue is different; most of equity funds have been established for a fixed duration, typically 10 years. Although there are reported exits (with positive and negative results) from many funds, they involve fewer than 10 % of the total number of deals. With the exception of the UK, the future/final financial outcome and hence the sustainability of the public money invested has not been estimated. North East England,

on the other hand, expects its holding fund (comprising loan and equity sub-funds) to generate close to 100 % of ERDF plus the public sector match.

Table 22: Returns achieved and strategy for revolving funds

OP	Clear indication of revolved funds (FI set up date)		Actual paybacks (2013, estimated) OP contri-bution = 100%	Destination of revolved funds		Comments
	Loans	Equity	Loans	Loans	Equity	
DE: OP Bavaria	Yes 2010	No 2007-2009	25%	FM	FM	
FR: OP Languedoc-Roussillon	Yes 2010	No 2010	30%*	HF	HF	No recycling foreseen within programme period
UK: OP North East England	No 2011	No 2009-2010	0	HF		No recycling foreseen within programme period
CZ: OP Enterprises & Innovation	No 2007	-	0	NHF	-	
PL: OP Małopolskie	Yes 2009-2010		20% -200%	FM	-	
LT: OP Economic Growth	Yes 2009-2010	No 2010-2012	64% – 126%**	HF	HF	
PT: OP COMPETE	No 2008-2013	No 2010-2013	0	HF	HF	
ES: OP Technological Fund	No 2012-2013		0	NHF	-	
HU: OP Economic Development	Yes 2007-2011	No 2009-2012	34%***	MA	MA	Repaid amounts are kept in a separate programme account

Source: Case study research; FM=Fund Manager; HF=Holding Fund; *repayment to HF; **small Loans to SMEs only, ***repayments from fund managers to MA

Overall, in terms of **job creation**, approximately 115,000 jobs were reported as created by the FIs, although this figure was affected by reporting inaccuracies.

In terms of ***final outcomes*** such as productivity, employment etc. too few MAs provide such data related to FIs to make any assessment of their impact. In the case studies, job outcomes are reported in only five cases; jobs created in Bavaria (DE) are below

expectations, whereas results for the OP Enterprises & Innovation (CZ) appear over-proportional in relation to the total OP figure. Only North East England (UK) has collected data that shows the effects on innovation capacity (in line with a key strategic objective); its system and evidence of outcomes appear sophisticated. Weaknesses in performance capture are evident in a number of case studies (output data is only available for OP Technological Fund (ES), OP Languedoc-Roussillon (FR), OP Economic Growth OP (LT) and OP COMPETE (PT).

In some cases, and especially for equity FIs, it is too early for an assessment, in others the strategic programme goals are too broad e.g. long-term economic growth of the programme area, to allow for any separate assessment of the net effects of FIs.

As described in the earlier report chapter on theories of change, MAs have tended to view FIs as mechanisms for improving access to finance for SMEs, which is often an important component of an OP strategy, rather than as alternative tools for pursuing wider OP (regional development) objectives. Improved access to finance is achieved when funds are disbursed, so evidence of what the investment itself contributed to (and achieved) would not necessarily be sought.

Indeed, the case studies show that effects of FIs on turnover, job creation, the innovation capacity and competitiveness of supported companies are not systematically measured. Although some firms upgraded their technology and technology and business processes, it seems that FIs in some countries were extensively used for financing working capital as opposed to fixed investment. As reported in the case studies from PL, FR, PT and HU loans for working capital are often awarded in combination with loans for investment as an accompanying measure to ensure the implementation of an overall project. To what scale loans are given exclusively for working capital is unclear.

In the following table the scale of working capital supported through FIs is estimated.

Table 23: Scale of working capital supported through FIs

OP name	Total no of FIs	Share of loans for working capital as % of all L/G-products (volume)	Comments
DE: OP Bavaria	4	Not eligible	
FR: OP Languedoc-Roussillon	3	11%	
UK: OP North East England	8	Not eligible	
CZ: OP Enterprises & Innovation	4	Unclear eligibility	
PL: OP Małopolskie	14	9%	4 Loan products with working capital eligible; usually combined with investment credit
LT: OP Economic Growth	24	~60%	Estimate based on interview with MA
PT: OP COMPETE	27	Partly eligible, but no figure available	
ES: OP Technological Fund	3	Not eligible	
HU: OP Economic Development	11	~7,5%	1 dedicated product, (very small) 1 product with working capital eligible

Source: Case study research

Table 24: Case study outcomes

OP name	Main sectors/targeted (actual)	Target areas	No of SMEs supported (start-ups)	New jobs created (safeguarded)	Effects on performance, innovation capacity, competitiveness	Comments
DE: OP Bavaria	Loan: crafts and trade VC: technology firms	lagging areas	460	513	No data	Job effect below expectations
FR: OP Languedoc-Roussillon	Loan: young micro-enterprises VC: developing SME technology firms Guarantee: established SME, wholesale trade, renting activities, ICT	unspecific	1,285	No data	No data	
UK: OP North East England	Loan: wide spectrum VC: large proportion of tech	geographical distribution of SMEs supported and jobs created is measured	689 (44% start-ups)	1,953 (2,803) mainly in disadvantaged areas	136 new collaborations with knowledge base 18.9 million R&D levered in	Survival pattern of start-ups is observed
CZ: OP Enterprises & Innovation	No data	unspecific	2,100	5,780	No data	Over-proportional job effect in relation to total OP
PL: OP Małopolskie	77% Micro-enterprises Sectors: Manufacturing, Trade, services	geographical distribution of investments available	1,544	162	No data	
LT: OP Economic Growth	Guarantees: mainly young enterprises Loans: mainly wholesale and retail VC: mainly technology firms	unspecific	4,700	No data	No data	No systematic approach to capture effects
PT: OP COMPETE	SMEs in a wide range of economic activities	Convergence region	3,900	No data available (only for total OP)	No data	A positive effects on enterprises is expected but evidence is lacking
ES: OP Technological Fund	752 SMEs, 191 large enterprises Industrial sector, agriculture, wholesale	Convergence regions	756	No data	No data	
HU: OP Economic Development	Loans: 96% micro-enterprises Guarantees: 59% micro-enterprises VC: young micro-enterprises Sectors: 1) wholesale, trade 2) professional, scientific and technical activities 3) manufacturing	geographical distribution of investments available	14,752	61,896	No data	

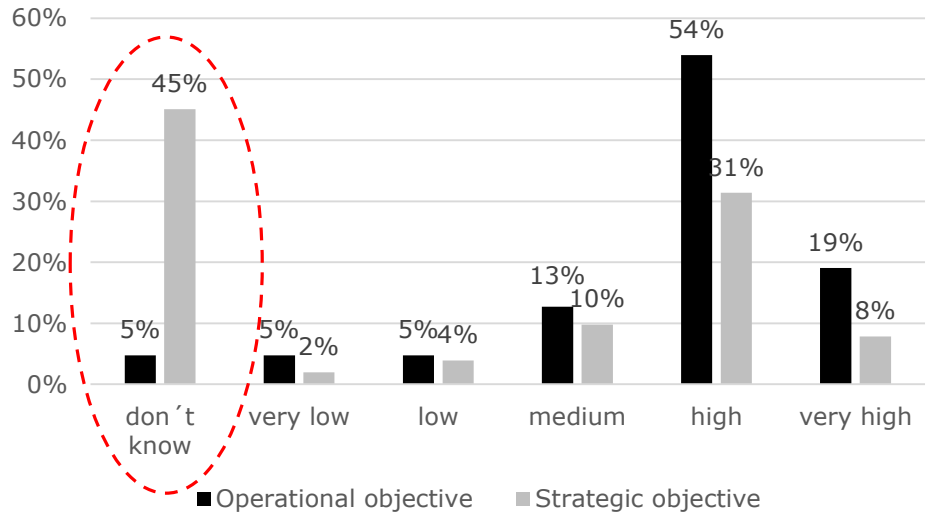
Source: Case study research

Achievement of FI objectives in the case study OPs

The assessment of **effectiveness** in the case study research examines FI attainment of strategic and operational policy objectives (the intended change). **Operational** objectives are short-term results for the target group (e.g. improved access to finance,) and include also assumptions for the successful implementation of the FIs (e.g. sufficient response by start-ups and companies in the focus area). **Strategic** objectives relate to longer term Cohesion policy objectives which are stated in the OPs (e.g. FIs should contribute to strengthening of the entrepreneurial base, to market making for private investments or boosting growth and job creation). The evaluation question related to effectiveness is 'How and to what extent have the stated policy objectives been achieved?' This refers back to the building blocks of the "theory of change" which should be critically assessed based on evidence and the perceptions of stakeholders. Based on the collected evidence in the case study research, a judgement (rating) is made on the effectiveness in achieving the operational and strategic goals and assumptions for successful implementation of the FIs that were set out in the conceptual model. The ratings provide options on a scale of 1 to 5, with 1 indicating "very low contribution" and 5 indicating a "very high contribution". It is also possible to choose "don´t know" to indicate lacking evidence.

In total 114 FI-related goals in the 9 OPs were evaluated, of which 63 are operational objectives (e.g. improved access to finance) and 51 strategic objectives (e.g. growth and employment). In general the appraisal of all the operational objectives (63 individual objectives including assumptions in the case study OPs altogether) of the priority axes within which the FI were implemented showed that almost all of them were achieved, 70% to a high degree. For the strategic objectives (more related to the regional economy or the SME sector), the appraisal was clearly positive for less than half of them (39% of goals were achieved to a high or very high extent). For almost half (45%) of these objectives an assessment of the FI's contribution was not possible due to lack of appropriate data. In these cases it was not possible to assess whether FIs have achieved their strategic goals. The full list of rated goals is provided in the annex 6.7 (Experts´judgement on the contribution of FIs supported to the intended change).

Figure 11: Effectiveness in achieving operational and strategic objectives of FIs



Source: case study research (9 OPs with 114 objectives in total); the full assessment is provided in annex 6.7

At OP level, a very heterogeneous picture can be seen. The case study research assessed OP Bavaria (DE), OP Languedoc-Roussillon (FR), OP Małopolskie (PL), OP COMPETE (PT), and OP North East England (UK) highly in terms of operational effectiveness, whereas strategic effectiveness was harder to assess at this stage. Only OP North East England (UK) and OP Małopolskie (PL) have achieved most of their strategic objectives so far.

In Bavaria many of the assumptions for the successful implementation of risk capital funds worked out in practice, e.g. interviews confirmed a high response by business angels, numerous awareness activities were introduced by fund managers, the due diligence is strict, and interviews confirmed stable partnerships of financing partners. In this case the effectiveness in achieving operational objectives was rated as high. In contrast, for the loan fund, although the fund manager confirmed the focus on innovative projects, there is insufficient evidence that the innovative focus is translated into practice and that in-house innovation really happens as intended by the loan instrument. For strategic OP objectives such as strengthening the entrepreneurial base and sustaining an adequate level of employment, it is not possible to prove whether the interventions have been effective. Some proxies (such as investment and employment representing the entrepreneurial base) may give an indication, but must be interpreted with caution.

In the Economic Growth OP (LT), FIs clearly improved access to finance for a considerable number of enterprises, around 7% of all SMEs in Lithuania. It is assumed that for most of the SMEs (and in particular for start-ups), FIs represented the only source of finance. The number of SMEs supported and private investment attracted through FIs met the expectations of the programmers. However, to date, little can be said on the effectiveness of FIs in achieving strategic objectives in the context of the OP. This is due to the limited number of studies which have taken place. Evaluation of the

impact of EU structural assistance on SMEs (2014)[74] concluded that FIs were an important factor in increased labour productivity in Lithuania, although this statement is not supported by any hard evidence. In the Lithuanian OP, the clearest inconsistency between the (retrospective) Theory of Change and FI implementation was how SMEs used FI funds. The programme documentation identified the need for investment in modern technology and equipment. However, the crisis caused a shift in the purpose and form of FIs, as a result of which FI were often used to help SMEs survive difficult economic conditions.

In the Małopolskie Regional OP (PL), implementation of FIs has proven largely consistent with the retrospective Theory of Change and the respective strategic and operational goals of the OP. However, increased competitiveness and innovation cannot be measured by hard evidence but can only be based on fund manager perception.

In North East England (UK), the Finance for Business North East scheme has fulfilled a key objective of the OP in building a comprehensive regional revolving fund, and developing the private investment community and capacity in the region. Its focus on supporting technology and innovation tied in with OP objectives, while other funds covered the broad business stock, enabling start-ups and growth in non-priority sectors. The more experimental pilot Creative Content Fund has been less successful, however, with poor returns and high failure rate.

In the OP Technological Fund (ES) there are indications (but no evidence) that the ICO Guarantee Fund and CDTI Loan Fund will be able to achieve some of their specific and strategic objectives. However, the ICO Loan Fund is unlikely to meet its objectives.

With regard to the **cost-effectiveness** of FIs of different types compared to grant schemes, the case studies came to very different conclusions (see also table below):

- The costs of FIs are significantly higher than the cost of an additional job created by non-repayable support for SME investment (Bavaria (DE), Małopolskie (PL))
- The actual cost per gross job created by FIs (FBNE) are in the same range as by grants from a major domestic grant scheme, the Regional Growth Fund (North East England (UK). The piloted (sector-specific) Creative Content Fund (CCF) was, however, less cost efficient than grants.
- FIs (credit fund, guarantee fund) are more cost effective to create jobs than grants (OP Enterprises & Innovation (CZ)).

In Lithuania the cost-efficiency of FIs and grants was evaluated in 2014. However, there were no clear conclusions as the instruments were found to be too different.

In other cases (OP Technological Fund (ES), OP Economic Development (HU), COMPETE (PT)) there was not enough information to compare the cost-effectiveness of non-refundable and refundable assistance.

[74] Evaluation of the impact of the European Union structural assistance on the small and medium-sized business entities. Conducted by UAB 'BGI Consulting' for the Ministry of Economy, March 2014

Overall, there is limited evidence on cost-effectiveness of FIs, but it seems FIs do not perform unambiguously better than grants. In Bavaria (DE), Małopolskie (PL) and North East England (UK) the costs of some FIs are significantly higher than the cost of an additional job created by non-repayable support for SME investment. It is, however, unclear if existing calculations take account of net grant equivalent and/or revolving money.

Table 25: Cost-effectiveness of different types of FIs and grant schemes in terms of costs of additional jobs created

OP name	FIs	FI and grants
DE: OP Bavaria	Risk capital funds II is the most cost efficient and the loan fund is the least cost efficient to create jobs	Cost per job created through the grant scheme is significantly lower than the average employment effect of the FIs
FR: OP Languedoc-Roussillon	Creation of jobs in the seed phase is less expensive than the creation of jobs in the growth phase, which requires more investment in equipment and research.	
UK: OP North East England	The current net cost per deliverable (job created) is currently considerably higher than planned (FBNE planned €1,690 / current €42,160; CCF planned €29,459 / current €50,572)	With current actual cost of €42,160 to €50,572 per gross job created the FIs are in the same range or less cost efficient than grants from the (domestic) Regional Growth Fund (€37,400)
CZ: OP Enterprises & Innovation	The Guarantee Fund is more cost-effective to create jobs than the Credit Fund	FIs are more cost effective to create jobs than grants
PL: OP Małopolskie	Measuring cost-effectiveness of different FIs is greatly distorted by shortcomings in reporting (underestimating jobs created, no turnover or GVA figures). The cost of 1 additional job varies within the loan instruments between €45,000 and €300,000 (average of over €100,000).	Costs created by FIs (€100,000) are twice as high as the cost of an additional job in non-repayable support for SME investment (€41,000)
LT: OP Economic Growth	The cost of 1 additional job varies within the loan instruments between 54,000 lita and 109,000 lita (€15.639 and €31.568)	The cost-efficiency of FIs and grants was evaluated in 2014. However, no clear conclusions could be made since the instruments are too different.
PT: OP COMPETE	Full data on the cost-effectiveness is not yet available	
ES: OP Technological Fund		There was not enough information to compare the cost-effectiveness of non-refundable and refundable assistance
HU Economic Development	Full data on the cost-effectiveness of job creation is not yet available	

Source: Case study research

In terms of **optimal fund size**, the case study research suggests that the scale of the FI, as such, is not a determinant factor, but rather it is how well support is targeted to meet its policy goals. Across the stocktake countries, individual funds range from just over €10,000 to some €550 million, but vary widely in geographical scope, financial product and policy objectives, which means that it is difficult to generalise. Nevertheless, many funds appear to be too small to have the necessary critical mass referred to by the Court of Auditors; on the other hand, some very large funds appear to be among the worst performing in terms of absorption.

Among the stocktake countries, some of the very loan large funds perform much worse than average in terms of the share of OP payments to funds invested in final recipients. For example, there are 25 loans funds exceeding €50 million and by end 2014, six of these had lent less than 20% of their funds to final recipients. Overall, loans exceeding €50 million were just 55% invested by end 2014, while smaller funds (less than €50 million) were almost 82% invested – see Table 13 above. Importantly, however, the impact of a few very large funds which have invested very small amounts is significant in the aggregate. For example, three of the large funds in Table 26 together totalling €486 million – i.e. approaching 10% of all payments to loan funds in the stocktake countries – have invested less that two percent in final recipients.

Table 26: Equity funds invested in final recipients (>€50 million)

MS	Fund	Set-up date	OP contribs paid to fund	OP contribs invested in final recips	% invested
DE	Risikokapitalfonds II	2007	85.1	54.3	63.8
FR	Nord France Amorçage - Lille (N° présage 40255)	2012	68.4	6.4	9.3
HU	Szechenyi Capital Investment Programme and Fund	2010	47.5	21.0	44.3
DE	Technologiegründerfonds Sachsen	2008	47.4	41.1	86.7
DE	VC Fonds Technologie, Berlin	2007	47.0	41.3	87.9
UK	Finance Yorkshire Equity LP, Barnsley	2010	45.5	45.5	100.0
UK	Early stage equity investments (Low Carbon Innovation Fund, Norfolk)	2010	43.1	16.2	37.6
DE	Beteiligungsfonds Niedersachsen (RWB-Gebiet)	2009	40.0	27.9	69.9
DE	Hessen Kapital I GmbH, Frankfurt a.M.	2007	38.5	31.2	80.9
DE	BFB Wachstumsfonds Brandenburg GmbH, Potsdam	2009	37.5	31.1	82.9
DE	VC Fonds Kreativwirtschaft, Berlin	2007	32.0	27.7	86.7
PT	32822 - FCR REVITALIZAR NORTE - Lisboa	2013	32.0	30.0	93.8

MS	Fund	Set-up date	OP contribs paid to fund	OP contribs invested in final recips	% invested
PT	32823 - FCR REVITALIZAR CENTRO - Lisboa	2013	32.0	37.5	117.1
UK	Biomedical Fund - Northwest Priority 1	2010	30.5	30.5	100.0
UK	Venture Capital Fund Northwest Priority 1	2010	30.5	30.5	100.0
UK	NE Accelerator Fund, Northstar Equity Investors Limited	2010	30.4	30.4	100.0
UK	North East Technology Fund, IP Group Plc	2010	29.3	29.3	100.0
DE	Innovationsfonds Rheinland-Pfalz	2008	27.0	17.8	66.1
UK	NE Growth Fund, NEL Fund Managers Limited	2010	26.3	26.3	100.0
DE	BFB Frühphasenfonds Brandenburg GmbH, Potsdam	2010	25.0	22.8	91.2
	Total equity funds >€25 million		**795.0**	**598.9**	**75.3**
	Total equity funds <€25 million		**954.4**	**684.0**	**71.6**

Source: Consortium calculations from 2015 Summary report.

This pattern does not hold true for equity products where there appear to be no particular differences along size lines – although in terms of absorption, funds exceeding €25 million perform slightly better than smaller ones on average – the majority of large equity funds are over 80% invested. Indeed, it is notable that the very wide disparaties in levels of investment by large loan funds are not evident among large equity funds. That said, the available data bear out the claim that very small funds are more costly to run than larger ones. Table 27 suggests that all the funds where fees amount to more than 20% of sums invested in final recipients are €15 million or smaller in size.

Table 27: Equity fund management costs & fees and investment in final recipients in the stocktake countries

MS	Fund	OP contribs paid to fund	OP contribs paid: Manage't costs & fees	OP contribs invested in final recips	Manage't costs & fees as % of fund invested
DE	S-Refit EFRE Fonds Bayern GmbH, Regensburg	14.0	2.0	1.2	161.9
PL	Speed Up Innovation Sp. z o.o. SKA, Poznań	0.4	0.1	0.2	78.7
PL	Inovo Sp. z o.o. Venture Fund I SKA, Warszawa	0.8	0.2	0.3	72.8
PL	Assets Management Black Lion Sp. z o.o. SKA SKA, Warszawa	1.7	0.6	1.1	49.6
DE	Beteiligungsfonds Niedersachsen (Konvergenzgebiet)	16.0	4.2	8.5	49.2
PL	Skyline Venture Sp. z o.o. SKA, Warszawa	1.3	0.4	0.9	42.3
UK	Mezzanine Fund Northwest Priority 1	9.0	3.6	9.0	39.9
PL	Internet Ventures FIZ, Warszawa	4.5	1.1	3.2	34.6
PL	Innovation Nest Sp. z o.o. SKA, Kraków	1.6	0.3	1.0	32.9
UK	Lachesis Seed Fund Limited Partnership	4.8	0.7	2.4	30.4
LT	Business Angels Co-investment Fund I KUB Vilnius	6.3	1.2	5.0	24.1
PL	GPV I Sp. z o.o. SKA, Warszawa	4.1	0.8	3.2	24.1
LT	LitCapital I KUB Vilnius, Lithuania	10.4	2.0	8.4	23.8
FR	FCPR RUN DEVELOPPEMENT VIVERIS MANAGEMENT,	6.8	0.3	1.5	23.0
IT	"Partecipazioni minoritarie e temporanee al Capitale di rischio di imprese innovative"	15.0	1.1	5.2	21.8
LT	Lithuanian SME Fund KUB, Vilnius, Lithuania	8.2	1.4	6.8	21.2
DE	Berlin Kapital, Berlin	13.0	0.7	3.3	21.0
UK	NE Angel Fund, Rivers Capital Partners Limited	9.7	1.9	9.7	20.0

Source: Consortium calculations from 2015 Summary report.

More generally, it can be observed that larger and more centralised solutions tend to be less flexible, so the cost advantages accruing from centralized fund management need to

be weighed against the disadvantages of being less responsive (see also Forstner et al 2014[75]). On the one hand, the Lithuanian experience shows that small FI schemes can be very efficient in filling a market gap; on the other, some large FIs in Spain and Italy have invested a small proportion of their funds.

Participants at the stakeholder seminar noted that 'optimal' fund size is very much context dependent and may also be affected by the presence of domestic funds on which co-financed measures are sometimes built. Some stakeholders argued that it was important that funds were not too specialised because this would result in small funds that were difficult to spend, but others said that funds should be targeted otherwise they were too difficult to monitor. Importantly, it was also noted that there was a size below which financial intermediaries were simply not interested in being involved, though the exact level was difficult to determine. If the fund is too small, it may not be successful since it is not appealing to commercial banks (given their own resources), and "nobody" wants to manage a small fund due to the associated administrative burden.

To establish a fund it is important to find private partners willing to invest; this implies that the terms offered should be attractive to them. Further, it is important also to get the incentives right in order to induce the private actors to contribute with their own resources. The size of funds should also take into account the fact that absorption capacity may be limited.

With respect to **improved market making for equity/venture capital funds** there are clear signs of ERDF support having helped the creation of a venture capital market in some of the case study areas where it was poorly developed (OP Economic Growth OP (LT), OP Economic Development (HU), OP COMPETE (PT)), including being the catalyst for the adoption of the necessary legislation e.g. on risk capital funds. In these cases, public support is still needed to fully develop the private market. The activity of business angels has also been supported through co-financed FIs (see Box).

[75] Forster, B, Grajewski, R (October 2014) Beurteilung von alternative Finanzierungsarten und –instrumenten zur Umsetzung von investiv ausgerichteten Fördergrundsätzen der GAP; Thünen Working Paper 29

Box 6: Good practice in OP Bavaria – encouraging the participation of Business Angels

Co-financed FIs in Portugal, Lithuania and Bavaria have had positive experience of stimulating the domestic business angel market. In Bavaria, the ERDF Cluster Fund has had particular success with awareness-raising activities. The ERDF Cluster Fund (Bayern Capital) has specialised in co-investment, supplementing activities of lead investors (business angels). The activities of the ERDF Cluster Fund provide a strong incentive for business angels to engage, and thus helps to 'tip the scales' in getting them to invest. Apart from supplementing business angel funds, the Cluster Fund also promotes encounters where entrepreneurs are invited to present their business plans and expectations so business angels can decide whether to invest. These 'trade fair' events (so far there have been three major meetings) not only facilitate networking between the parties; there are also indirect effects, such as entrepreneurs not finding a partner immediately but being referred to business angels not participating in the event, or networking effects going beyond finance, such as links in R&D and business. As an example, at a trade fair event in Eastern Bavaria 20 private investors were present to meet with start-ups. In addition, business plan competitions are carried out in addition to internet presentations. Such networking is also a major advantage for business angels as information costs are reduced. Improved information may render better opportunities to diversify the investment portfolio in terms of risk and composition. Business angels also have the chance to build up tailor-made venture capital consortia with funds from the ERDF Cluster Fund. Risk reduction thus works both horizontally (diversification) as well as vertically (sometimes over several investment rounds).

Source: Case study research

The main added value of ERDF venture capital funds as compared to private funds is their orientation to early stage investments (seed and start–up). Furthermore, some ERDF–financed risk capital funds are in a position to make riskier investments as compared to private risk capital funds since the former have a higher tolerance of losses. Therefore, ERDF–financed risk capital funds provide funding opportunities for SMEs that would not receive support under normal market conditions (OP Economic Growth OP (LT), OP COMPETE (PT)). Through the support of ERDF, it has been possible to implement different types of venture capital funds to support SMEs in pre-seed stages.

In Bavaria (DE) and Languedoc-Roussillon (FR) ERDF funds did not significantly change the regional panorama of FIs but helped the regions increase their offer of financing, focusing on specific sectors and/or specific phases of business development. It is also clear that OP funding strengthened the capacity of fund managers and made them more visible as regional players. Without ERDF, the regions of Bavaria and North East England could have developed access to finance instruments but at a greatly reduced level. There would have been a loss of the ability to provide a continuum of finance across the funding lifecycle. Without ERDF funds, it would not have been possible to achieve a critical mass of venture capital. A minimum volume is needed to generate a perceptible change in the performance of the private sector in the economically weaker regions. ERDF funding allowed a high initial endowment of the funds and the achievement of a critical mass.

Regarding a general market making for FIs, the Hungarian case study stressed the importance of severe bottlenecks on the demand side of the financial market, i.e. lack of knowledge of the advantages of guarantee schemes among companies and loan agents, perception of high administrative burden in the case of guarantee schemes by banks, low number/ proportion of start-ups with viable business plans and innovative ideas. These demand-side challenges are hard to solve by market making and by improving the accessibility of FIs. There is a strong need to provide soft business support (in line with or even as a pre-condition to taking JEREMIE-type loans) and thereby improving the non-financial characteristics of the main target groups – micro- and small firms, and innovative start-ups.

In summary, **ERDF co-funded FIs can add value** in specific ways, such as:

- A clear finding from the stakeholder seminar was that FIs are considered to generally have worked well in terms of supporting a move away from a 'grant dependency' culture and, especially in the case of equity, fostering an entrepreneurial culture.
- ERDF funding can support access to and reduce the cost of SME financing. This is especially so in the context of the economic crisis a result of which SMEs typically faced greater financial difficulties in accessing credit through the banking sector.
- Covering a broad spectrum of financing needs is simpler with FIs than with grants. FIs can be a 'dealmaker' between banks and end-users (a catalyst for further private funding). There are more opportunities for working capital to be supported than under grant schemes, and working capital is often what SMEs require, rather than money to contribute to fixed asset investment. Where funding agreements are appropriately framed, the due diligence process carried out by financial institutions should distinguish viable enterprises from non-viable ones to avoid lending support to failing companies (regardless of the purpose for which capital is required). Sectoral coverage is also more flexible with scope to support trade and retail activities which are not really suited or often eligible for grants.

5 Conclusions and policy implications

The aim of this study has been to assess the ***rationale***, ***implementation*** and ***early evidence of effectiveness*** of ERDF co-financed financial instruments for enterprises. The study has undertaken a stocktake of financial instruments in the 12 countries which account for the bulk of FIs and associated spending commitments, together with case studies of FIs in nine varied OPs. These have been complemented by a detailed literature review and an interactive stakeholder seminar. This final section of the report highlights the main conclusions from the study and draws out some policy implications.

A key challenge for the study team was the sheer complexity of financial instruments operated in widely differing contexts: the rationales for FIs are multifaceted, the implementation models are extremely diverse and the evidence for their effectiveness is currently rather thin. It can also be said that a full analysis of the scale of FIs, the extent to which they are invested in final recipients, how far funds have been recycled and how much FIs cost to run is hampered by the lack of reliable quantitative data.

There are several dimensions to the ***rationale*** for financial instruments for enterprises. From a *policy design* perspective, FIs are an alternative delivery mechanism to non-repayable support. This is only feasible where the ultimate investment is income generating, enabling the initial support to be repaid. Three principal benefits are conventionally highlighted from the use of FIs as opposed to grants: first, that FIs are more *sustainable*, because funds are repaid and can be reinvested in other projects; second, that FIs can improve *project quality* - because of private sector involvement in project assessment and because having to repay support 'sharpens the mind' of the recipient. Third, that FIs can make more *cost-effective* use of public funds because of their capacity to attract private funds.

From an *economic development* perspective, the rationale for FIs is to address market imperfections in the availability of capital. Publicly funded FIs are justified on the basis of two main types of market imperfection. The first is information asymmetry: for example, start-ups and new technology firms may lack sufficient track records or other information for potential investors to be able to assess risks. The second concerns positive externalities and the notion that purely commercial assessments of returns on investment may not capture the wider societal benefits of, for example, investing in ground-breaking R&D and innovation (which may be assessed negatively due to risk) or reintegrating disadvantaged individuals into the economy by supporting social or microenterprises (because the uncertainty of returns and small sums sought do not justify the cost of examining investment proposals).

These two sets of rationales are not incompatible, but they give rise to complex challenges and a number of potential tensions 'on the ground'. For example, a perceived benefit of FIs from a *policy design* perspective is the involvement of the private sector in project selection and the attraction of private funds, and yet the *economic development* rationale is the need to fill a finance gap that the private sector is unwilling to. Reconciling these issues involves the careful calibration of incentives for the private sector in the form of management fees or, potentially, asymmetric returns on investment. Another challenge is the degree of risk implied by the terms of the funding agreement and how this is decided. One of the arguments for FIs is their sustainability and the establishment of a legacy fund for reinvestment. So, final recipients must be viable and repay support, and yet the economic development rationale for public

intervention is the need to take a risk where purely commercial interests may be unwilling to. Again careful consideration is needed to avoid crowding-out private markets but still produce a return that sustains the fund.

The stocktake research undertaken for this study implied that the use of FIs was principally motivated by economic development rationales - i.e. the need to address the finance gap, especially for SMEs, rather than the policy design rationales related to FIs as an alternative delivery mechanism to grants. As such, the justifications related to sustainability, project quality and cost-effectiveness were not prominent in the stocktake countries. For many MAs, the emphasis in much of the period was on the practicalities of set-up and implementation of the funds against the backdrop of a highly complex and sometimes uncertain regulatory environment. For all but those with extensive experience in running FIs (among the case studies, most notably North East England (UK)), the immediate operational challenges involved in setting up FIs seem to have overshadowed concerns at the long-term rationale of sustainability through the creation of a legacy fund. Similarly, issues related to project quality and cost-effectiveness (specifically in relation to the attraction of private sector finance) do not appear to have been important motivating factors in establishing FIs, instead, the need to absorb funds seems to have taken precedence.

That said, the stakeholder seminar suggested a shift in perspectives as closure of the 2007-13 programming period approaches. The positive aspects of 'moving away from a grant culture' were noted by several seminar participants, as well as by the case study for the Languedoc-Roussillon OP (FR). One managing authority (OP Bavaria, DE) claimed that *viable* firms would prefer a loan covering 80% of investment needs to a grant covering 20% of the same. This reflects the fact that maximum grant levels are insufficient to cover investment costs and that loans can cover total financing requirements. This claim was endorsed by participants at the seminar. Related, some participants maintained that viable firms preferred loans to grants because the application process was less onerous and the use to which the funds could be put more flexible. For instance, there is greater scope to use FIs to finance working capital needs; this proved to be widespread in the wake of the financial crisis, but is also important for activities that are not capital intensive. This view was generally shared among seminar participants, suggesting that 'project quality' as a motivation for FIs could gain traction in the future. However, stakeholder discussions focused on the preferences of investee firms, rather than on the role of financial intermediaries in judging project quality. Similarly, while sustainability (in the sense of repayments available to reinvest) was not generally high on the agenda at the start of the programming period, the prospect of a legacy fund seems to have become an attractive proposition and is likely to be a more significant motivating factor in future.

The case studies showed that other motivations were important in certain contexts. In some - for example in the Economic Growth OP (LT) and OP COMPETE (PT) - the need to respond to the economic crisis was important, reflecting the severe impact of the downturn on certain economies. Indeed, in Lithuania, the gap in access to finance prior to the crisis was considered modest, but in the aftermath, FIs were used as the principal mechanism to stimulate recovery. In the North East England OP (UK) one of the rationales was to develop local financial markets to offset the agglomeration tendencies that concentrate such activities in London or in secondary regional markets in Yorkshire

and the North West of England. Related, in the Economic Development OP (HU), FIs were, among other things, seen as a mechanism to foster competition in certain segments of the financial sector. External or indirect factors are sometimes also in evidence – under the Technological Fund OP (ES) the need to avoid decommitments did not underpin the use of FIs as such, but it did play a role in the scale of funding allocated to them, with the result that some funds are overcapitalised and are unlikely to be fully invested before closure. In the Małopolskie OP (PL), FIs were an important part of the response to flooding, providing support to viable SMEs enabling them to remain in business, although here too there was ultimately an underspend. More generally, Commission enthusiasm for FIs also played a role, as evinced in the Bavaria OP (DE), where the managing authority was encouraged to deploy FIs and did so on an 'experimental' basis, and with some success.

In short, while a range of specific and general factors underpinned the use of FIs in 2007-13, the overriding motivation was to improve access to finance among SMEs, rather than to consider FIs as an alternative policy delivery mechanism to grants. However, as the 2007-13 programmes approach closure, indications are that MAs are addressing the rationale for FIs with more rigour in the new period, that the generation of legacy funds will, for many, become a higher priority than in the past and that closer attention will be paid to the respective roles of grants and FIs. Also important, the future development of financial markets emerged as an important factor in several case study OPs, including North East England (UK), Economic Growth (LT) and Economic Development (HU).

The ***implementation*** of FIs is characterised by extreme diversity. This is true of the scale of FIs, governance structures and the funding agreements which determine project selection criteria. The Structural Fund Regulations left open many aspects of how FIs could function, so that national and regional contexts and institutions played a significant role in outcomes. The landscape of co-financed FIs is so varied that implementation mechanisms defy easy comparison. Measures range from major nationwide guarantee mechanisms for firms in general (as under the OP Research and Competitiveness (IT), with commitments of €550 million), to small tightly focused equity schemes targeting narrow market segments in single regions and with less than €10 million under management (such as the Creative Content Fund in the North East England OP). Governance structures can involve holding funds that feed several specific funds, each run by one fund manager (as in Lithuania), or the same set of financial products offered through a national network of financial intermediaries (as in Hungary). The EIB Group (EIB or EIF) has played a significant role in FI planning and implementing enterprise FIs in some countries,[76] including in Bulgaria and Romania (which were not among the stocktake countries), as well as some regions. Indeed the EIF conducted a large number of gap analyses, many of which concerned French regions, although the Languedoc-Roussillon OP (FR) was alone among them in appointing the EIF as holding fund manager. FI support can range from commercial terms offered through co-investment funds to loans comprising a substantial subsidy element through submarket interest rates. The only commonality is the implementation of co-financed repayable support.

[76] The EIB notably through FIs set up under the Jessica initiative, which is outside the scope of this study.

Despite management and operational structures varying widely across Member States and regions, key implementation challenges were very similar for many stakeholders. While the lack of detail in the regulations offered flexibility in some respects, it also gave rise to uncertainties, which in turn often caused significant delays in operationalising FIs. The issues faced have been documented elsewhere[77] and need not be rehearsed here. However, it is fair to say that regulatory lacunae were a significant obstacle to the smooth implementation of FIs in 2007-13, and this is reflected in the slow take up and low levels of investment in final recipients under many FIs. In the Enterprise and Innovation OP (CZ) the effect of the regulatory dimension was particularly severe – even though Czech funds were among the first to be set up, uncertainties surrounding the precise requirements contributed to a suspension of the funds by the auditors.[78]

The implementation of FIs is highly demanding in terms of administrative capacity and the varied skill sets required. The set-up and operation of FIs is administratively complex and, among other things, requires detailed understanding of Structural Fund Regulations, State aid compliance, procurement rules and investment principles. This complexity may mitigate against one of the claimed advantages of FIs, namely the involvement of the private sector in implementation. This may be because the presence of existing (public) promotional banks offers a quicker and simpler implementation route (funds which did not involve a competitive selection or procurement process were the fastest to be set up) or because the regulatory context can act as a disincentive to private actors.

Evidence on the ***effectiveness*** of FIs has proved difficult to compile. This partly owes to the rather limited scope of data collection and partly to the fact that such analysis may be rather premature given the delays in implementation and the time lags implicit in seeing the impact of support. Nevertheless, there is evidence that co-financed FIs were successful in improving access to finance for SMEs – in Lithuania, for example, co-financed FIs benefited over seven percent of all SMEs – some 4,270 firms and 83 percent of the target set. More generally, data shortcomings notwithstanding, several points can be made even at this early stage.

First, the scale of *private sector* finance appears to be disappointing, especially as this is one of the benefits claimed for FIs. Where there does appear to be private co-financing, this is mainly through venture capital schemes, but as these are a modest part of the overall picture (less than 20 percent of FI investments in final recipients), so too is associated private funding. Importantly, however, the scale of private funding *other* than at the co-financing stage is difficult to detect and quantify so that the real picture may be less negative than initially appears. Indeed, the case studies suggest that guarantees, in particular, can leverage significant private funding – as reflected in the data for Languedoc-Roussillon (FR) and OP Economic Growth (LT).

[77] See, for example, Michie R and Wishlade F (2011) *op cit* and Van Ginkel *et al* (2013) *op cit.*

[78] At the beginning of the programming period, the Managing Authority selected the public Fund Manager (ČMZRB) directly, without opening of public tender. ČMZRB was not selected by the Public Procurement Act, but was appointed for providing guarantees in accordance with Czech Law. According to the EC auditors, it was non-transparent and in conflict with EU legislation in the field of public procurement (despite the fact that Czech Law No 47/2002 Coll., on support of SMEs, as amended, as a public law expressly entitles ČMZRB as an entity that is authorised to provide funding, guarantees or loans with reduced interest rates, essentially to allow the use of public funds for this purpose through other entities). The EC also disagreed with the management fees. According to the EC's observation management fees were paid indirectly by contributing to the price of the guarantee while the EC challenged this setup. Provision of guarantees from the Guarantee Fund had been suspended for over two years because of these issues.

Second, the scale of *legacy* funds is largely unknown. Sustainability is one of the perceived benefits of FIs, but it remains unclear whether sums have simply not yet revolved or whether the systems are not yet in place to track it. Nevertheless, among the case study OPs it appears that only Languedoc-Roussillon (FR) and North East England (UK) have clear legacy strategies. At the same time, and again among the case studies only, very few loan schemes and no guarantee schemes have yet reached the stage of revolving.

Third, in terms of *final outcomes* such as productivity and employment on, too few MA collect enough data to make any realistic assessment of the impact. Among the case studies only five report job creation data; among these, those in the Bavaria OP (DE) were below expectations, while the figures for OP Enterprise and Innovation (CZ) appear disproportionately high.

Last, while quantitative data may be lacking, softer evidence provides some insight into how FIs have been working in practice, and in ways that go beyond simple impact indicators. For example, FIs can be seen to have had a tangible positive impact in improving access to finance for SMEs in Lithuania, in supporting the development of a sustainable regional revolving fund in North East England (UK), in developing the business angel finance market in Bavaria (DE) and in nurturing regionally-based financial intermediaries in Małopolska (PL) and in Hungary.

In thinking about the wider policy implications of this study, the overarching theme that emerges relates to ***capacity*****.** In general terms, the emphasis on promoting FIs as a policy delivery mechanism was not coupled with the level of guidance needed in many OPs. While for some, the rather thin regulatory framework was positive insofar as it enabled existing domestic approaches to be deployed relatively quickly, typically, lack of detail contributed to insecurity among MAs about how the mode of implementation chosen would be perceived at audit. This has resulted in a regulatory environment that has evolved during the lifetime of the 2007-13 programmes, many of the lessons from which have been consolidated into the regulatory framework for 2014-20.

Some of the particularities of Structural Fund spending mechanisms had unforeseen consequences in the context of FIs. In particular, the emphasis on ensuring that Structural Funds are committed and paid, or subject to automatic decommitment works for grants where the beneficiary is the project or SME. In the context of FIs, the beneficiary is the *fund*, the unintended consequence of which has been an incentive to 'park' monies in funds as a way of avoiding decommitment in the short-term and increase flexibility longer-term. It is difficult to quantify the extent to which this has happened, but a number of large funds appear significantly overcapitalised, though 'true' absorption will not be known until closure in early 2017. The phasing of payments to FIs is one of the key changes introduced in 2014-20 regulations. This, alongside the explicit requirement for an ex ante assessment prior to introducing an FI, should contribute to more evidence-based allocations.

The slow start to implementation in 2007-13 also partly owed to the complex skill set required to establish financial instruments and the lack of ***capacity*** in some managing authorities. The set-up and operation of financial instruments is administratively

challenging and the detailed knowledge of a range of regulatory and other matters require a steep learning curve.

These demands meant that often the most straightforward route was to entrust implementation to an existing body, such as a promotional bank – in the Walloon OPs (BE) for example, co-financed FIs are implemented through so-called 'Invests'. These fund structures are the same as those for purely domestic policy, so that Cohesion policy co-finances an additional source of funding for SMEs, but not one that actually differs from existing sources. The experience of major domestic players was important in several case study OPs, including ČMZRB in the Czech Republic, INVEGA in Lithuania and BGK in Poland. Indeed, this study and other research suggests that FI implementation should, at least initially, build on previous experience in the region/Member State before setting up new structures for FI implementation - for example, the implementation of co-financed FIs in Germany has typically involved the Land-owned investment banks where the perceived advantages include familiarity with the financial situation and difficulties of local firms, longstanding working relationships with Land ministries and existing links with commercial/cooperative banks.[79]

Such structures are not present everywhere, however, and the case study research and stakeholder seminar both highlighted the importance of past experience in some 'mature' FI systems such as those in North East England (UK). These are not dependent on a major promotional bank, since historically these are not present in the UK, but FIs have evolved over more than one programme period and policy is able to benefit from learned wisdom and the evaluation of past approaches to develop future policies. In the absence of such domestic structures, some OPs have implemented FIs with EIB Group support (e.g. Languedoc-Roussillon (FR)), but reflecting growing experience and confidence some plan to implement independently of the EIB Group in 2014-20 (e.g. Slovakia).

Effective links with the private sector are an important component of capacity and are needed to mobilise its resources and expertise. This may require incentives such as the introduction of yield restriction or loss mitigation clauses, or asymmetric models for the distribution of profit (such as in OP COMPETE (PT)) and more widely. Careful consideration must be given to the design of such incentives in order to ensure adequate alignment of public policy objectives with private sector motives for involvement.[80] In some cases FIs can be used a means to mobilise or develop capacity in the private sector – as seen in a number of case studies, including the Economic Development OP (HU) and Bavaria OP (DE).

An important dimension of capacity is understanding that the design and implementation of co-financed FI is also *context* specific. This includes local economic conditions, banking and legal systems and previous experience with implementing FIs. Context matters because the underlying economic situation and existing institutional structures and practices set the parameters within which FIs operate, affect how they work and influence domestic policy choices about what instruments to co-finance. In France, for example, the use of FIs is comparatively limited, largely reflecting the difficulty in adapting the domestic legal context to the use of FI in Cohesion policy which proved

[79] Michie R and Wishlade F (2011) *Op cit*.
[80] Michie R, Wishlade F and Gloazzo C (2014) *Op cit*.

complex and contributed to the low uptake of FIs in French regional OPs. In some countries and regions, even though there is domestic experience with FIs, they are not used under Cohesion policy owing to small allocations which make the administrative burden too high (as in Flanders (BE)) or because the OP focus is on projects that are less likely to generate the returns required to make FIs workable.

In terms of the economic context, this study confirms the need for a *quality* ex ante *assessment* of the market and of the size and nature of the funding gap. As mentioned, such assessments were not obligatory in 2007-13, but are for 2014-20; these may prove technically challenging and are not a panacea, but should provide a firmer evidence base for the scale and focus of policy than has sometimes been evident. In Spain, for example, there has been a significant underinvestment of FIs under the Technological Fund OP, partly owing to an over-allocation of funds to avoid decommitment, but also due to a mismatch between the geographical focus of the FI (with 70 percent of the allocation earmarked for Convergence regions) and the targeting of innovative projects, which are less prevalent in more disadvantaged regions.

An important lesson from this study is that the context can change. There may be a need to adjust the strategy during the course of implementation, drawing on evaluations, market research and monitoring data to recalibrate instruments to reflect changing market needs. However, of particular note in 2007-13 was the impact of the crisis. In several of the case study OPs (for example COMPETE (PT) and Economic Growth (LT)) co-financed FIs were used in response to the economic crisis. In Lithuania this involved diluting the planned focus on innovative SMEs in order to provide more general investment and working capital. Indeed, case study evidence suggests that around 60% of loan volumes (as a share of all co-financed loan and guarantee products) in Lithuania were for working capital. Working capital was also supported in other OPs (including Languedoc-Roussillon (FR) – 11%; Malopolskie (PL) – 9%; and Hungary c7.5%), but sometimes the scale cannot be estimated (OP COMPETE – PT) or eligibility is unclear (OP Enterprise and Competitiveness (CZ). Elsewhere, working capital is explicitly ineligible (OP Bavaria (DE); OP North East England (UK) and OP Technological Fund (ES)).

Effective monitoring systems set up by the MAs can play an important part in determining the nature of any adjustments needed, as well as providing information on the effectiveness of intervention. It is clear from this study that the information collected for 2007-13 has been insufficient for a concrete assessment even of the extent to which monies paid to funds have actually been invested in final recipients, let alone a detailed understanding of the impact of policy across a range of indicators. Notwithstanding these shortcomings, it is important that monitoring is also adapted to context. It is arguable that reporting mechanisms should be commensurate with the scale of funds in order for costs to be proportionate. For example, North-West England maintains a highly sophisticated bespoke real-time system for tracking FI investments, but the cost of such a set up would be prohibitive in other contexts. [81]

The importance of policy *coordination* as a contributor to and reflection of capacity is evident both in relation to the components of policy and the roles of the various actors. More specifically, FIs should be part of a holistic package of SME support. FIs will be only

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

one component of the business support ecosystem and should take account of the wider business support/entrepreneurship and innovation environment, as these structures help develop investible propositions for FIs.[82] Demand side policies to develop entrepreneurial and investment talent and networks are critical and there is a strong need for provision of information, advice and hands-on support.[83] There is also a need for the SME support offer to be appropriately dovetailed with grant support, and for the availability of support to be communicated – in Languedoc-Roussillon OP (FR) for example, availability of support was considered poorly communicated owing to the absence of non-financial support in the package.

Related, the 2007-13 experience shows the importance of close coordination of the various actors involved from the outset. In this context policymakers have pointed to the importance of understanding of the market, as implied by an *ex ante* assessment, but also the motivations of different actors in the field and the need to ensure that interests and incentives are aligned. FI implementation is characterised by multilevel principal-agent relationships, the definition of which requires detailed calibration. As such, funding agreements need to be sufficiently attractive to fund managers to secure their involvement, but also enforceable so that the policy objectives are met; balancing the need for flexibility (to respond to changing circumstances) against the risk of 'objective drift' may be challenging. There is potential for tension between the complex range of managing authority goals and the profit-oriented focus of private sector fund managers. This may be seen for example in relation to attitudes towards risky or innovative projects, with managing authorities typically seeking to support innovative projects and private fund managers seeing these as potentially undermining profit. While the development of a regional SME base is a core objective for the managing authority, it is merely an incidental by-product to a profit-driven private investor. Importantly, though, the principal-agent relationship cuts both ways. The potentially large number of actors involved in implementation and the consequent distance between the managing authority and the actual delivery of financial products to final recipients 'on the ground' means that managing authorities may lose a sense of 'ownership' of FIs, having effectively delegated responsibility elsewhere. This risk is arguably higher in the context of FIs where the emphasis is on commercially managed operations than in other areas of Cohesion policy and points to the need for carefully crafted funding agreements and appropriate monitoring mechanisms.

The disparate nature and scale of the instruments deployed against the backdrop of diverse economic and institutional contexts, coupled with limited data makes it hard to draw concrete or comparative conclusions about the conduct and performance of FIs in 2007-13. The implementation of co-financed FIs in 2007-13 has faced many challenges – the impact of the financial crisis, gaps in the regulatory framework, the sheer complexity of the administrative structures involved and the wide range of skills required. If there is an overarching narrative, it is perhaps to be found in the role of ***time and experience*** in policy evolution. This may be a truism, but in spite of the challenges, FI under some OPs

[82] Mason C and Brown R (2013) Creating good public policy to support high-growth firms, Small Business Economics, 40 (2), 211-225 http://link.springer.com/article/10.1007/s11187-011-9369-9; Brown R, Mason C and Mawson S (2014) Increasing 'The Vital 6 Percent': Designing Effective Public Policy to Support High Growth Firms, Nesta Working Paper No. 14/01, NESTA; Saublens C and Walburn D (2009) Smaller *Firms, the Equity Gap, Regional Policy and Growth: Will We Ever Learn?*, Local Economy, 24:6-7, 620-624.

[83] Wilson, K and Silva, F (2013) *Op cit.*; NEA2F (2013) *North East Access to Finance: The Future Shape of Access to Finance: Strategic Overview and Recommendations*.

have performed well in terms of investment in final recipients or development of local financial markets, for example, and arguably those that have performed best are those that were able to draw extensively on the experience either of existing systems and structures or past programmes while committing funding allocations that could realistically be absorbed. Even among those FIs that have performed less well, the indications are that the experience of FIs in 2007-13 will inform and enrich the design and implementation of financial instruments in 2014-20, contributing to more mature and responsive policy instruments in future.

6 Annex

6.1 Data sources

Data sources used for the brief stocktaking of the private markets in the twelve relevant Member States are listed below (see the first intermediate report for more details):

European Central Bank data on the euro area for non-financial corporation

European Commission Survey on Access to Finance for Enterprises

European Business Angel Network (EBAN)

European Mutual Guarantee Association (AECM)

Eurostat, General and regional Statistics, European and national indicators for short-term analysis, National Accounts

Eurostat, Industry, trade and services, Structural business statistics, Access to finance

Eurostat, Industry, trade and services, Structural business statistics, Business demography

Eurostat, Industry, trade and services, Structural business statistics, Main indicators

European Venture Capital and Private Equity Association (EVCA)

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6.3 List of interviewees (Name, Organisation)

Interviewees are listed in the case study reports

6.4 Concordance table: the final report structure vs the ToR questions

Evaluation Question	Reference
Task 1	**FR section**
1.1 Take brief stock of the private markets for equity/venture capital, loans and guarantees operating in the programme area. To what extent do markets exist and are they growing? Under what terms are private sector equity / venture capital, loans or guarantees typically offered? What are the gaps in markets for each instrument? The intention is not to conduct a lot of original research, but to briefly provide a baseline.	4.1.1
1.2 Outline the main forms/packages of support offered by each FEI scheme. This may include non-financial support such as advice, management support and networking help.	4.2.1
1.3 Outline the rationale underlying these forms of support and the types of business eligible/targeted (e.g. size, sector, etc.).	4.1.3
1.4 Outline the management and operational structure of the scheme. How are projects selected, how is support delivered, what is the repayment structure and/or exit strategy?	4.3.1
1.5 Quantify the support (total and firm-level expenditure, number and type of enterprises, form of support, timing, level and involvement of the public sector etc.) and set out other available descriptive statistics.	4.2.2
1.6 Where available, collect data on effectiveness, including private sector money levered in, the extent to which public money has revolved already and final outcomes such as productivity, employment etc. at the firm level.	4.5
1.7 Crosscheck the above (as far as possible) with the data reported by member states in the 2012 summary of data on FEIs, published beneficiary data, as well as with the results of the parallel ex post evaluation work package 0 (data collection and quality assessment).	3.2
Task 2 EQs	**FR section**
1.1 Where and why do publicly funded FEIs to enterprise work (or don't work)? What are the theories of change and contribution stories of FIs?	4.1.2 Annex
Task 3 EQs (The case Studies)	**CS section**

Evaluation Question	Reference
1. Goals and theory of change.	
1.1 What are the goals of the schemes and the theory of change?	2.1
1.2 What is the quality of the market gap assessment?	2.2
1.3 How do the schemes contribute to the regional development goals of the operational programme as a whole?	2.3
1.4 What motivated the managing authority to set up one or more FEIs?	2.4
1.5 Does implementation and practice (e.g. selection of firms, forms of support, outcomes) actually fit with statements of goals and theory of change?	
1.6 Where there is more than one FEI in a programme, what is the division of labour between them?	2.5
1.7 How do they fit with other instruments offered by the programme (notably grants or non-financial support) or (if relevant) similar, non-Cohesion Policy instruments operating in the same area?	2.6
2. Management.	
2.1 What is the governance structure of each FEI?	3.1
2.2 Who are the fund managers (or managers within the programme) and what is their background?	3.2
2.3 In their understanding, what are the key differences between public and private sector FEI schemes?	3.3
2.4 What is success for the manager (and is this translated into an indicator, reported to the managing authority)? What are managers' incentives/packages and performance requirements?	3.4
2.5 What can be done to keep management costs to an acceptable level, while still running the funds adequately?	3.6
2.6 What is the relationship with the managing authority and the programme strategy?	3.1
3. Implementation and costs.	
3.1 How much did the schemes cost to set-up and how long did it take?	3.5
3.2 How much do they cost to run?	3.5
3.3 How well do they manage in attracting firms (especially where there are other forms of support e.g. grants available)?	3.7
3.4 Are there other implementation issues?	3.8
3.5 How do costs and other implementation issues compare to private FEIs and other public financial support (grants, guarantees etc.) in the same region/country?	3.9
3.6 Are there good examples in terms of management, including not just successful investments, but also costs and delays?	6.7
3.7 What features of administrative and institutional capacity are crucial in successfully running such funds?	3.11
3.8 To what extent do the case study Member State and regions have these capacities?	3.11
3.9 How could such capacities be built/developed further and which instruments could be used to do this?	3.11
4. Managing the portfolio.	
4.1 What is the status and health of the projects in their portfolio?	3.12
4.2 What is the approach to risk, e.g. do they target safe investments or high	3.13

Evaluation Question	Reference
risk, high return projects? 4.3 What is the repayment structure for loans, the exit strategy for equity and venture capital? What happens when a firm does not fail, but does not turn a profit?	3.14
5. Monitoring and evaluation. 5.1 What indicators are collected? Do they cover spending and outputs only, or also results and other long term outcomes? 5.2 What is reported to the managing authority? How does this relate to the reliability of data reported to the Commission, notably in terms of expenditure codes and the 2012 summary of data on financial instruments? What data is available on repayments? 5.3 Have there already been evaluations of these or similar schemes (and if so, what did they find)? Are evaluations planned? What will they contain – and what data is already being collected to feed them?	 4.1 4.2 4.3
6. Outcomes. 6.1 How much private money has been levered in? 6.2 How much of the money has revolved? 6.3 What is the initial evidence of effectiveness? This last should include productivity and jobs, but also failure rates – it should also include other goals relevant to the scheme, e.g. if a venture capital scheme sets out to stimulate early stage research, development and innovation. 6.4 What is the initial evidence for efficiency/cost-effectiveness (i.e. comparing outcomes to costs such as those in point 3 above)? How does this compare between different FEIs and with the main alternative sources of finance in the region/country (e.g. grants, private schemes)? 6.5 What is the evidence for and against the theories of change and contribution stories?	 5.1 5.2 5.3 6.3 6.2
7. Optimum scale. Given implementation, costs and outcomes what can be said about the minimum, optimum and maximum sizes of scheme and level of individual support?	6.4
8. Market-making for equity/venture capital funds. Is there evidence of successful creation/expansion of the equity/venture capital market in the region/country? Is this likely to be sustained / sustainable in the long term, even if public money is withdrawn? How much of a funding gap remains, what links with universities, what other means of supporting high-tech start-ups? 8.1 Is there any evidence of added value of ERDF vs private equity/venture capital funds?	6.5 6.6
9. Good practice. Are there any good practice examples in the above terms (setup/implementation, early signs of effectiveness, sustainability/expansion of markets, good practice projects). What do we learn from comparing good practice cases with others? What makes the difference?	6.7
Task 4 EQs	**FR section**
4.1 Which of the theories of change and contributions stories drawn up in task 2 (and rationales from task 1) are actually borne out by the case studies (including the good practices) in task 3. The evidence for and against each narrative should be critically examined.	On the level of Case studies

Evaluation Question	Reference
4.2 The costs (e.g. in setting up schemes) and initial evidence of benefits (e.g. in terms of private money levered in, public money revolved, increased investment, production, productivity and jobs). How do these vary between different FEIs (equity/venture capital, loans and guarantees) and what we know of the effects of other forms of support (grants, non-financial support)? The analysis should also include wider benefits such as creating a venture capital market.	4.5
4.3 What has been learned about when, where, how various FEIs work – and when they don't work. This should include a discussion of:	
4.3.1 A comparison of the main characteristics (pros and cons, roll out time and mechanism, target group, impacts) of each type of FEI. What can be said about how to choose one or more FEIs in the light of the goals and context of a given region or Member State?	4.1
4.3.2 The optimum size of a given FEI scheme.	4.5
4.3.3 Optimum scope (e.g. sectors and firms targeted, combination of instruments etc.).	4.5
4.3.4 How to keep implementation delays and management costs to a minimum, while still running an effective scheme which achieves the desired results. What administrative and institutional capacities are necessary to run such schemes successfully – how a Member State or region could go about building them.	5
4.3.5 How to optimise the impact of FEIs. Impact includes not just leverage and revolving, but also final impact in terms of productivity and jobs.	5

6.5 Link of Case study sections to Task 3 Evaluation Questions

Case study sections		Task 3 EQs
1	Short presentation of the FIs in the OP and context	
1.1	OP characteristics	
1.2	Description of FIs	
1.3	Financial performance at the level of the OP and the funds	
2	Goals and theory of change of FIs	
2.1	Overview on goals of the FI schemes and the theory of change (ToC)	1.1 What are the goals of the schemes and the theory of change?
2.2	Market gap assessment in the context of the private market in a given region (key element of the ToC)	1.2 What is the quality of the market gap assessment?
2.3	Contribution of FI schemes to regional development goals of the OP (key element of the ToC)	1.3 How do the schemes contribute to the regional development goals of the operational programme as a whole?
2.4	Motivation of the MA to set up FIs	1.4 What motivated the managing authority to set up one or more FEIs?
2.5	Division of labour between FIs in an OP (key element of the ToC)	1.6 Where there is more than one FEI in a programme, what is the division of labour between them?

Case study sections		Task 3 EQs
2.6	Fit of FIs set out in the OP with other OP instruments (grants, non-financial support) and similar non-cohesion policy instruments in the same area	1.7 How do they fit with other instruments offered by the programme (notably grants or non-financial support) or (if relevant) similar, non-Cohesion Policy instruments operating in the same area?
3	Management and implementation of FIs	
3.1	Governance structure of FIs, role of MA	2.1 What is the governance structure of each FEI? 2.7 What is the relationship with the managing authority and the programme strategy? (Extent to which the MA can influence the conduct of the FI)
3.2	Type and background of fund managers	2.2 Who are the fund managers (or managers within the programme) and what is their background?
3.3	Key differences in the management of public and private sector FI schemes (goes partly beyond the OP scope)	2.3 In their understanding, what are the key differences between public and private sector FEI schemes?
3.4	Performance and success indicators for fund management; incentives linked to performance	2.4 What is success for the manager (and is this translated into an indicator, reported to the managing authority)? What are managers' incentives/packages and performance requirements?
3.5	Preparation time and costs to set-up FIs	3.1 How much did the schemes cost to set-up and how long did it take? How much do they cost to run?
3.6	Management costs and fees for sound fund management	2.6 What can be done to keep management costs to an acceptable level, while still running the funds adequately?
3.7	Capacity to attract firms for FIs compared to other forms of support	3.2 How well do they manage in attracting firms (especially where there are other forms of support e.g. grants available)?
3.8	Implementation challenges	3.3 Are there other implementation issues?
3.9	Comparison of costs and implementation issues of FIs with private and other public financial support (goes partly beyond the OP scope)	3.4 How do costs and other implementation issues compare to private FEIs and other public financial support (grants, guarantees etc.) in the same region/country?
3.10	Success factors for sound administration and management of FIs	2.4 What is success for the manager (and is this translated into an indicator, reported to the managing authority)? What are managers' incentives/packages and performance requirements?

Case study sections		Task 3 EQs
3.11	Capacity of MA and fund managers to successfully run FIs; capacity building	3.6 What features of administrative and institutional capacity are crucial in successfully running such funds? To what extent do the case study Member State and regions have these capacities? How could such capacities be built/developed further and which instruments could be used to do this?
3.12	Status and health of projects in the FI portfolio	4.1 What is the status and health of the projects in their portfolio?
3.13	Approach to risk management	4.2 What is the approach to risk, e.g. do they target safe investments or high risk, high return projects?
3.14	Key features of the repayment structure for loans / exit strategy for equity and venture capital	4.3 What is the repayment structure for loans, the exit strategy for equity and venture capital? 4.4 What happens when a firm does not fail, but does not turn a profit?
4	Monitoring and evaluation of FIs	
4.1	Characteristics and completeness of the indicator system	5.1 What indicators are collected? Do they cover spending and outputs only, or also results and other long term outcomes?
4.2	Reporting provisions for fund managers to the MA and reliability of reported data to various stakeholders	5.2 What is reported to the managing authority? How does this relate to the reliability of data reported to the Commission, notably in terms of expenditure codes and the 2012 summary of data on financial instruments? What data is available on repayments?
4.3	Evaluations carried out to date or planned	5.3 Have there already been evaluations of these or similar schemes (and if so, what did they find)? Are evaluations planned? What will they contain – and what data is already being collected to feed them?
5	Outcomes of FI implementation	
5.1	Private money levered in at the various levels of the implementation chain (leverage effect according to ec definition)	6.1 How much private money has been levered in?
5.2	Financial sustainability of FIs	6.2 How much of the money has revolved?
5.3	Actual, expected and unexpected outcomes (output and results, wider effects) for each fi implemented,	6.3 What is the initial evidence of effectiveness? This last should include productivity and jobs, but also failure

Case study sections		Task 3 EQs
	concrete examples of outcomes	rates – it should also include other goals relevant to the scheme, e.g. if a venture capital scheme sets out to stimulate early stage research, development and innovation.
6	Conclusions on the effectiveness and added value of FIs	
6.1	Consistency of implementation and practice with statement of goals and theory of change	1.5 Does implementation and practice (e.g. selection of firms, forms of support, outcomes) actually fit with statements of goals and theory of change?
6.2	Achievement of FI strategic and operational objectives in the context of OP objectives, as defined in the TOC	6.5 What is the evidence for and against the theories of change and contribution stories?
6.3	Cost effectiveness of different types of FIs and grant schemes	6.4 What is the initial evidence for efficiency/cost-effectiveness (i.e. comparing outcomes to costs such as those in point 3 above)? How does this compare between different FEIs and with the main alternative sources of finance in the region/country (e.g. grants, private schemes)?
6.4	Optimum scale of FI schemes	7. Optimum scale. Given implementation, costs and outcomes what can be said about the minimum, optimum and maximum sizes of scheme and level of individual support?
6.5	Improved market making for equity/venture capital funds	8. Market-making for equity/venture capital funds. Is there evidence of successful creation/expansion of the equity/venture capital market in the region/country? Is this likely to be sustained / sustainable in the long term, even if public money is withdrawn? How much of a funding gap remains, what links with universities, what other means of supporting high-tech start-ups? Is there any evidence of added value of ERDF vs private equity/venture capital funds?
6.6	Added value of ERDF vs. private equity/venture capital funds	8.1 Is there any evidence of added value of ERDF vs private equity/venture capital funds?
6.7	Elements of good practice from the case study	9. Good practice. Are there any good practice examples in the above terms (setup/implementation, early signs of effectiveness, sustainability/expansion of markets, good practice projects). What do we learn from comparing good

Case study sections		Task 3 EQs
		practice cases with others? What makes the difference? 3.5 Are there good examples in terms of management, including not just successful investments, but also costs and delays?
6.8	Problems and solutions in carrying out the case study	

6.6 Generalized ToCs for different types of firms and FIs

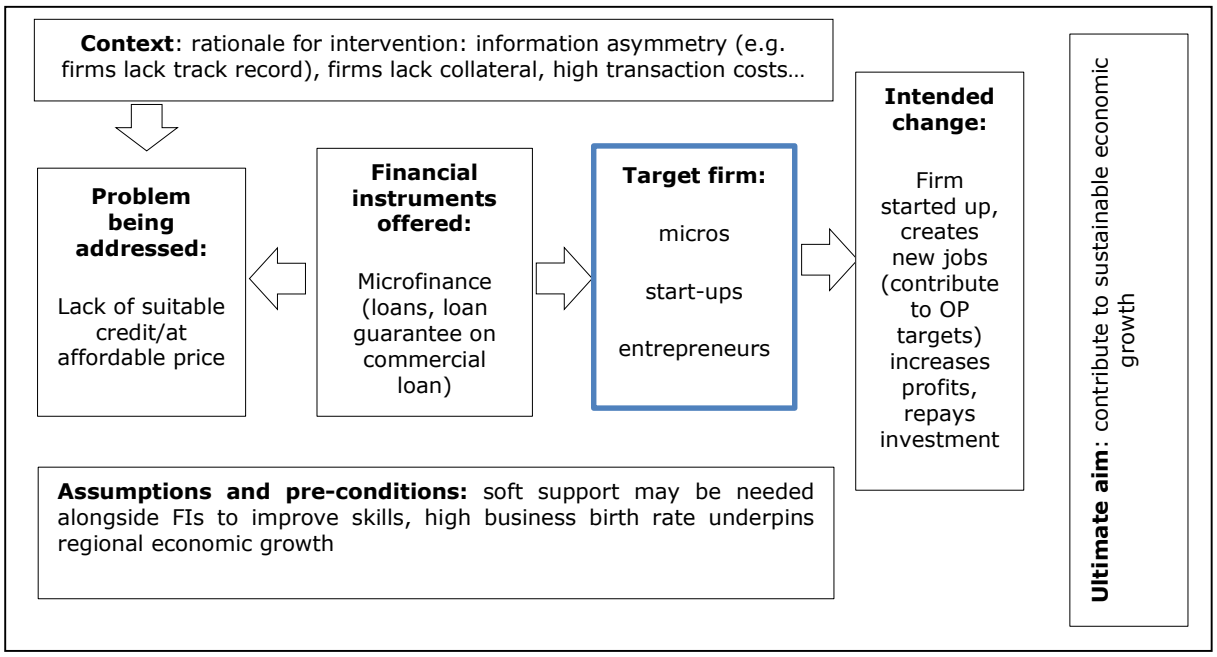
Input from First Intermediate Report section: A stylised theory of change

Developing retrospective theories of change through the case studies

A significant challenge in the present study is applying a theory of change approach at different scales and in a multidimensional context. The discussion above has highlighted the crucial role of a robust ex ante assessment/ gap analysis in determining what role financial instruments might play in contributing to the objectives of the Operational Programme. This in turn implies an in-depth analysis of the entrepreneurial landscape of the region (or country). From here the picture becomes more complex. A range of different target enterprises may emerge from the gap analysis – including start-ups, 'mainstream' SMEs, high growth firms, spin-out companies, social enterprises, etc. The financing needs of such enterprises are diverse and there may be little commonality emerging from the gap assessment beyond the fact that the existing capital requirements of apparently viable operations are not being met by the market. The aim of the discussion and illustrations that follow is to 'unpack' this outcome in a stylised way first from the perspective of various types of *enterprise* and their needs and second from the perspective of the main forms of *financial instrument* and how they are intended, in principle, to address those needs.

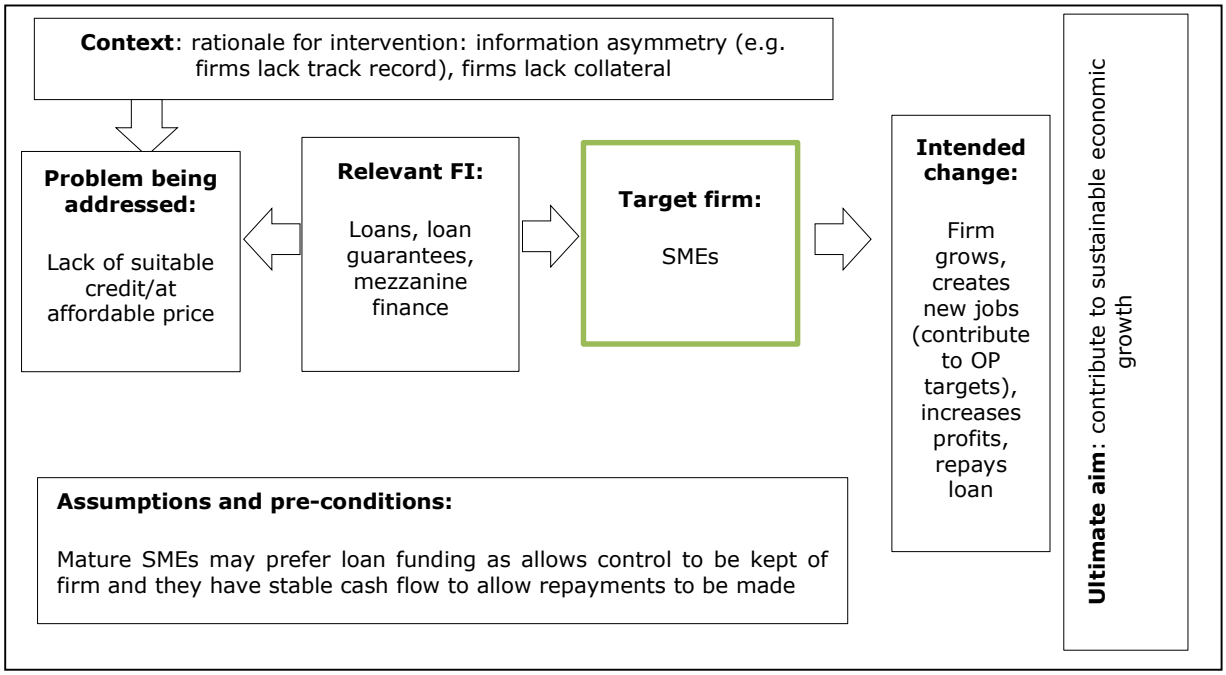
Start-ups and 'mainstream SMEs' most commonly turn to debt finance (Figure 12 and Figure 13).

Figure 12: Stylised theories of change for different types of firm: start-ups



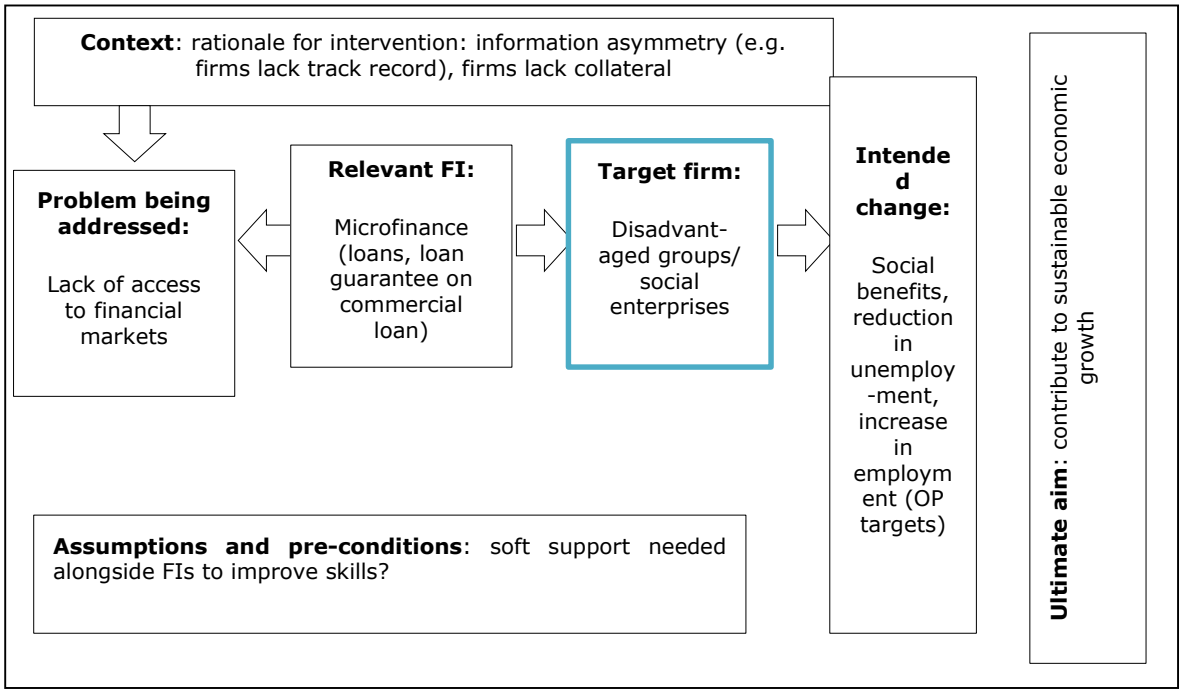
For small firms, debt instruments imply no loss of control over how the business is managed and the amount of capital and interest are known amounts that can be factored into business planning. For MAs and intermediaries, loans are relatively straightforward to administer. Mezzanine finance may be attractive to small firms which are resistant to pure equity. Where small firms lack collateral or track record, guarantees can be useful in addressing credit rationing.

Figure 13: Stylised theories of change for different types of firm: mainstream SMEs



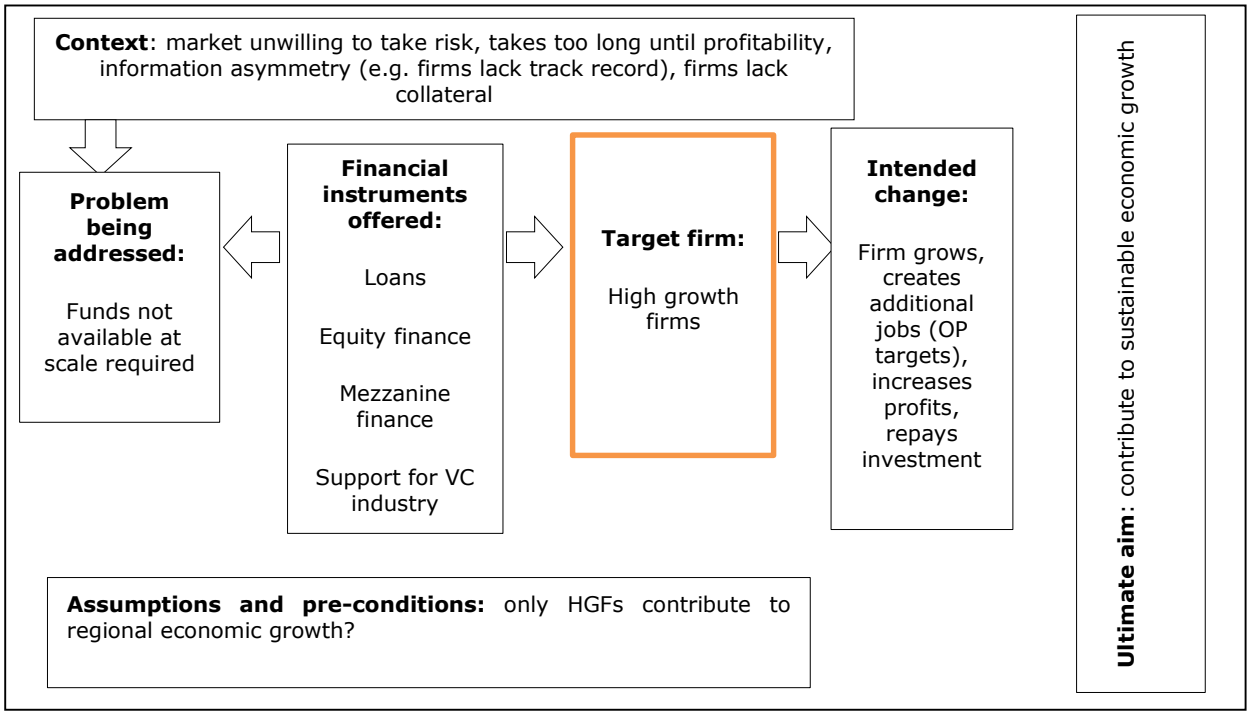
The use of micro-finance is widespread to tackle problems of exclusion from financial markets, with a focus on the long-term unemployed and on disadvantaged areas (Figure 14).

Figure 14: Stylised theories of change for different types of firm: disadvantaged groups/social enterprises



Firms with high growth potential may lack the cash flow necessary to borrow from conventional sources, and may find equity finance attractive Figure 15. On the other hand, managing authorities and investors may find equity investment attractive as it has the potential to generate substantial returns, and contribute to regional economic development. The level of capital input may be very substantial, and it does not have to be repaid (although an entrepreneur may ultimately opt to buy out an investor in order to regain total control of the firm).

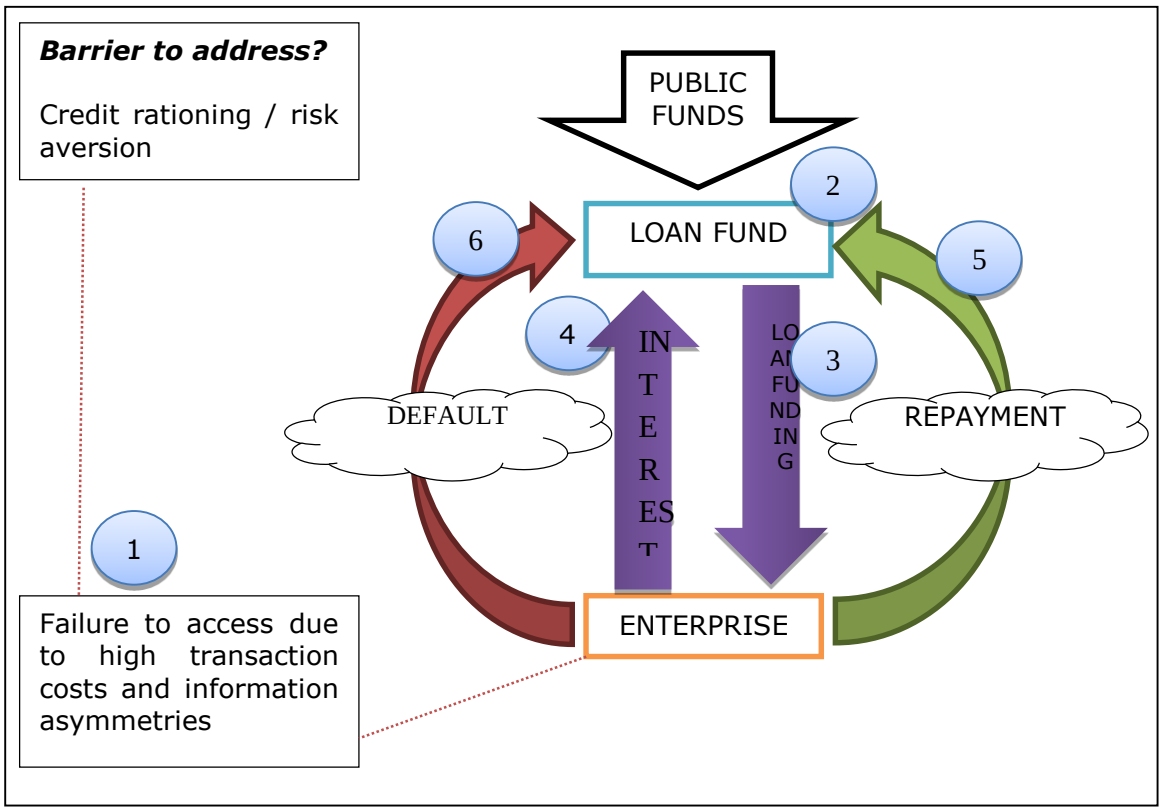
Figure 15: Stylised theories of change for different types of firm: high growth firms



Thus, as noted above, the barriers faced by different types of undertaking may differ and require different types of intervention to address them.

Figure 16 illustrates the basic logic underlying loan schemes. In practice, there are many different possible options in the design of loan schemes (institutional issues aside) including not only variants in the seniority of the debt, the rate of interest and repayment period, but also the scope to combine loan funds with guarantees – particularly common for microfinance – or to convert debt into quasi-equity in the form of mezzanine funding.

Figure 16: Stylised intervention logic underpinning loans



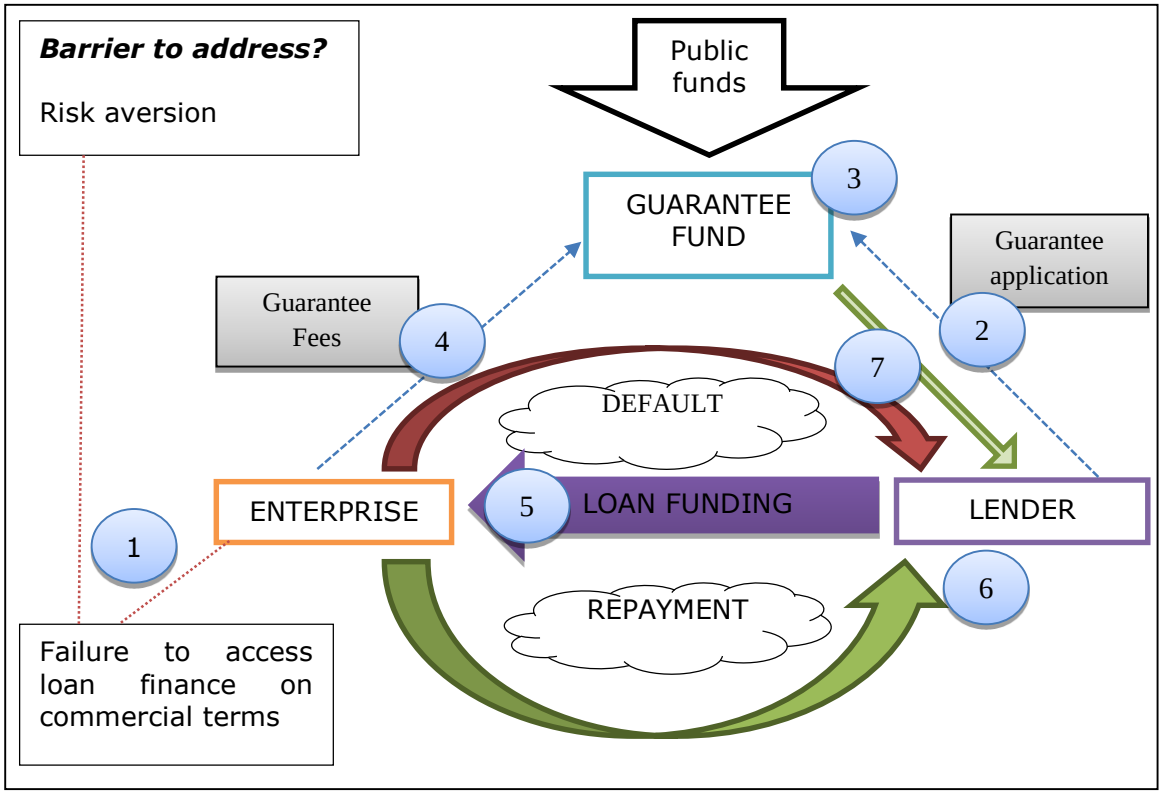
1. An enterprise fails to gain access to the funding required because insufficient funds are available for lending resulting in commercial banks focusing on investor with a track record or larger project where transaction costs are lower.
2. The loan fund manager assesses the application, taking account of the viability of the project and wider elements of the investment strategy. The terms of the loan are set, including collateral, interest rate, duration, repayment holidays, etc.
3. The loan fund advances capital to the enterprise which it would not otherwise have been able to access.
4. The enterprise pays interest on the loan.
5. The firm repays the loan in full *or*
6. The firm defaults, in which case there is a loss to the fund.

There are potential negative effects of different types that should be noted, and factored into the design of the measure. First, that the loan fund should not crowd out the commercial banking sector by, for example, lending to creditworthy investments at less than market rates, or, for that matter, fund uncreditworthy firms to the detriment of their more efficient competitors; and second, that rates of interest payable are sufficient to cover the defaults on loan payments and management costs of the fund in order for the fund itself to be sustainable. As such, a key part of the investment strategy must be concerned with identifying projects that are too risky for commercial banks to take on or

that rank lower in terms of returns on capital, and yet offer sufficient viability and interest from a policy perspective.

Figure 17 illustrates the basic logic underlying guarantee schemes. Again, in practice, there are many different possible designs of guarantee fund, with scope to adjust interest rates, coverage, fees and so on, as well as so-called counter guarantee options which are commonplace in some countries. Figure 17 represents the most basic model.

Figure 17: Stylised intervention logic underpinning guarantees



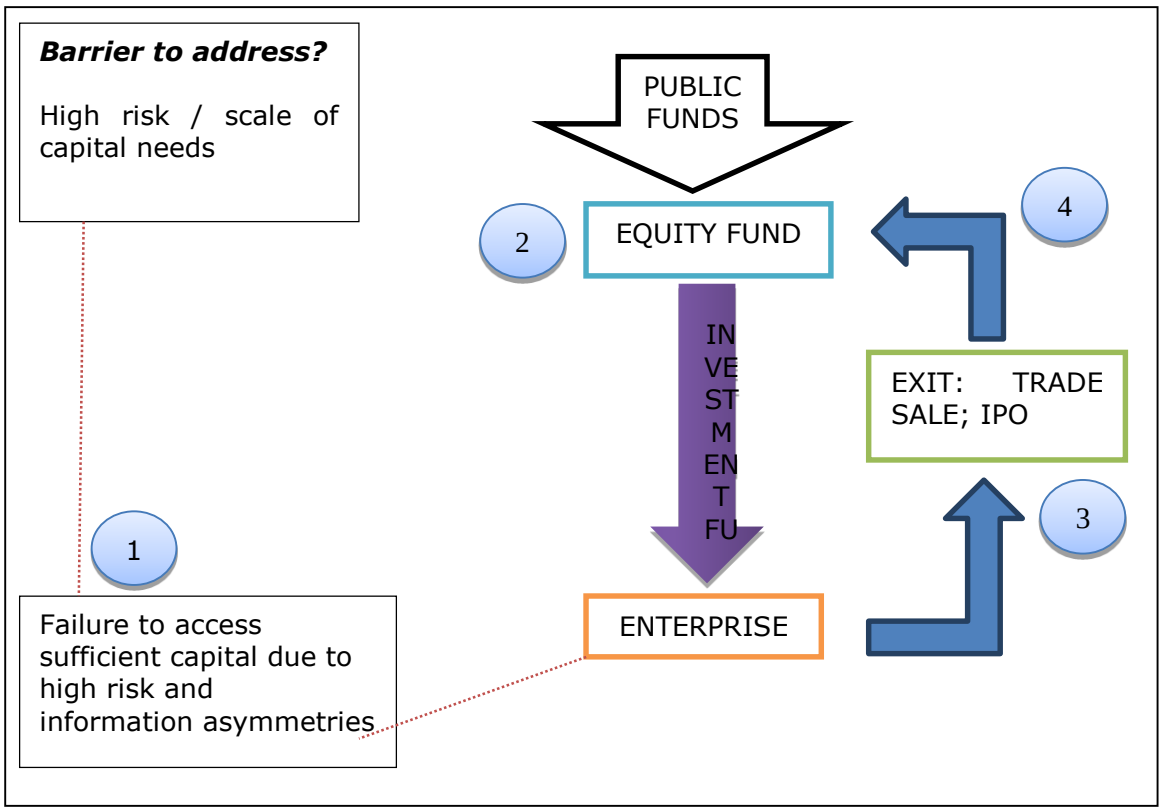
1. An enterprise fails to gain access to the funding required because the lender considers it too risky or will only lend at rates of interest that render the loan untenable for the firm.
2. The lender applies for a guarantee from a publicly-backed fund, which will typically cover 80 % of the loan.
3. The guarantee fund also vets the loan application and may specify a maximum interest rate.
4. The enterprise pays the guarantee fund a fee.
5. The lender advances capital to the firm which is would not otherwise have been able to access.
6. The firm repays the loan in full or

7. The firm defaults, in which case the guarantee fund repays the lender the agreed proportion of the loan.

Again there are potentially negative effects of public guarantees. First, that risk is shifted inappropriately with the guarantee fund taking on risk that the bank would otherwise have accepted; second, that the fees payable by borrowers to the fund fail to cover the defaults arising, undermining the sustainability of the fund in the longer term. As such, an important element in the design of the scheme is to maximise the additionality of the guarantee while seeking to ensure that costs are covered on the portfolio of guarantees offered.

Equity is the most complex (and least used) form of publicly-funded financial instrument Figure 18. Like loans and guarantees, equity can take different forms. The two principal forms are so-called hybrid funds where public funds are invested by a fund manager and co-investment funds, where public funds are invested alongside private funds on a *pari passu* basis with due diligence being undertaken by private investors. This second model depends on the presence of sufficient private investment capital in the region.

Figure 18: Stylised intervention logic underpinning equity finance



1. An enterprise fails to gain access to the funding required because the lender considers it too risky, the amounts sought are too large or the enterprise will not be in a position to make repayments within an acceptable timescale.

2. Investment is sought from an equity fund; this may charge for the due diligence process and may seek close involvement in the management of the firm
3. Assuming the enterprise grows, the value of the equity rises.
4. This enables the sale of the holding at a profit the "exit", in principle returning a profit to the fund.

This section has developed what might be termed elements of a 'stylised' theory of change and provided a narrative of the issues implicit in developing such a theory. These elements or building blocks are necessarily broad and generic. The nature of FI, and of the context within which they operate, means that the extent to which a theory of change can be generalised is very limited. A genuine theory of change capable of answering evaluative questions must be specific and must be developed at case study level, based on the answers to questions designed to elicit information on how FIs were intended to achieve certain goals within certain contexts.

The importance of context, pre-conditions and assumptions were already emphasised: these are decisive in determining "implementation approaches" and "instrument design" highlighted in the centre of the diagram. These currently appear as 'black boxes' in the stylised theory of change. Some of the implications of targeting different types of firm, and the implications of using different types of instrument, are illustrated in the diagrams which followed. A key task of the case study phase of the project is to explore and expose the implementation and design of FIs within the specific case study contexts. This in turn means that the case study questions must be tailored to the case at hand. Nevertheless, the key issues to be explored at a general level can be framed as follows:

- What was the change that the intervention sought to bring about?
  - This will be determined by the Operational Programme, the OP Priority under which the FI has been introduced and the objectives of the FI itself.
- Who were the intended beneficiaries of that change?
  - Again, at a general level the region as a whole is the intended beneficiary, but which markets or sectors are specifically targeted?
- What were the barriers to achieving the change?
  - Some of these are beyond the scope of FI, or even the OP, to influence (e.g. tax and regulatory structures), but others can be components of key complementary policies – such as investment readiness or business mentoring programmes.
- How was the change quantified?
  - What indicators reflect the change brought about?
- What assumptions were made about the context, behaviours, finance, target market?
  - What was assumed, for example, about the finance gap or the extent to which absence of finance was a constraint on business development?
- How did all of the above lead to the choice of instrument(s)?
  - What other factors contributed e.g. perceptions of efficiency of FI, expected project quality, ease of disbursement of funds?

- How were the instruments designed and implemented to reach the change sought?

More specifically, does the design and implementation of FIs deliver the desired end result, and if not, why not?

6.7 Experts' judgement on the contribution of FIs supported to the intended change (9 case studies)

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
DE: OP Bavaria	Equity	Operational objective	Sufficient response by start-ups and companies in the focus area (out of the planning region of Munich)	4	The adjustment of the target area resulted in a high response from companies.
DE: OP Bavaria	Equity	Operational objective	Mobilisation of business angels through awareness and publicity measures	4	Interviews confirmed a high response of business angels. Numerous awareness activities were introduced by fund management.
DE: OP Bavaria	Equity	Operational objective	Private funds mangers are motivated to cope with ERDF obligations (extra burden)	4	There was an enormous increase in knowledge by learning on the job.
DE: OP Bavaria	Equity	Operational objective	Properly selected start-ups and companies	5	The due diligence is strict.
DE: OP Bavaria	Equity	Operational objective	Raised awareness of business angels and investors	5	Multiple action was taken by the fund managements.
DE: OP Bavaria	Equity	Operational objective	Generated investment volume	4	Good progress
DE: OP Bavaria	Equity	Operational objective	Business angels and investors form a funding consortium that can go along with the various rounds of financing	4	Interviews confirmed high interest from financing actors.
DE: OP Bavaria	Equity	Operational objective	Start-ups and companies receive intensive non-financial support to build up their business competence	4	Interviews confirmed a high level of support, but not via other ERDF interventions.
DE: OP Bavaria	Equity	Operational objective	Funds are long-term stable partners for the companies	4	Interviews confirmed stable partnerships.
DE: OP Bavaria	Equity	Strategic objective	There is an open market for private investments in the long	0	No evidence available

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
			run		
DE: OP Bavaria	Equity	Strategic objective	Local businesses and local jobs remain in the region	0	No evidence available
DE: OP Bavaria	Equity	Strategic objective	It is assumed that some of the exits are profitable and the risk capital funds are revolving and can be multiplied to support growth and job creation in the long run	0	Too early for a final answer
DE: OP Bavaria	Equity	Strategic objective	Short- and medium term objective is strengthening of the entrepreneurial base (M2.1 goal)	0	No direct evidence available on the improvement of the innovation capacity and competitiveness of supported enterprises. The monitoring indicators showing investment and employment effects may be used as proxy variables to show progress.
DE: OP Bavaria	Equity	Strategic objective	Long term-strategy is sustaining an adequate level of employment under consideration of globalisation and technological progress (PA2 goal)	0	Positive development trend of employment in economically weak regions in the 2005-2013 period (context indicator, source: AIR 2013, p 6). The contribution of FIs to that positive trend is not yet known
DE: OP Bavaria	Equity	Strategic objective	Broad policy objectives: Boosting growth and convergence of struggling areas through strengthening of competitiveness of existing SMEs and supporting promising business ideas of start-ups (overall strategic goal)	0	Unclear how to assess that goal in relation to FIs.
DE: OP Bavaria	Loans	Operational objective	Support provided only to innovative projects in growing enterprises, such as new machinery, new process	0	The fund manager confirmed the focus on innovative projects, furthermore, there are also clear provisions in the application guidelines and forms, and apparently the allocation of loans in enterprises is

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
			systems, logistics, energy efficiency, eco-friendly production, diversification of the product profile, patents		also controlled by random audits. There is no evidence showing that theory is translated into practice and that in-house innovation really happens as intended by the loan instrument.
DE: OP Bavaria	Loans	Operational objective	It is assumed that domestic banks as distributors of the FI are interested in offering the instrument to their clients	3	Up to now the loan instrument has been attractive but demand has already slumped due to low interest rates.
DE: OP Bavaria	Loans	Operational objective	It is assumed that domestic banks make a thorough assessment of the applications based on their local knowledge of firms	4	Interviews confirmed a thorough assessment (perception).
DE: OP Bavaria	Loans	Operational objective	It is assumed that targeting works and domestic banks as distributors of the FI have selected innovative investments with growth perspective only	4	Interviews confirmed a thorough assessment (perception).
DE: OP Bavaria	Loans	Operational objective	Supported credit investment volume in the pre-defined fields and areas	4	Territorial targeting is implemented.
DE: OP Bavaria	Loans	Strategic objective	It is assumed that most of the firms can repay the loan and the loan funds are revolving and can be multiplied to support growth and job creation in the long run	4	The loan fund already started to revolve; whether it will further revolve in the long run cannot be said at the moment.
DE: OP Bavaria	Loans	Strategic objective	It is assumed that the ex-ante assessed job effect at the application stage will last for a longer period (no ex post validation of job effects is made)	0	No sufficient information available.

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
DE: OP Bavaria	Loans	Strategic objective	Short- and medium term objective is strengthening of the entrepreneurial base (M2.1 goal)	0	No sufficient evidence is available on the improvement of the innovation capacity and competitiveness of supported enterprises.
DE: OP Bavaria	Loans	Strategic objective	Long-term strategy is sustaining an adequate level of employment under consideration of globalisation and technological progress (PA2 goal)	0	Positive development trend of employment in economically weak regions in the period 2005 to 2013 (Source: AIR 2013, p 6)). Net impact of FI is not known.
DE: OP Bavaria	Loans	Strategic objective	Boosting growth and convergence of struggling areas through strengthening of competitiveness of existing SMEs and supporting promising business ideas of start-ups (overall strategic goal)	0	Unclear how to assess that goal in relation to FIs. This would stipulate an ex-post assessment of all enterprises supported and how they developed over time (in turnover and employment) as compared to similar enterprises not being supported.
HU: OP Economic Development	All FIs	Operational objectives	Number of FI schemes available to the target group increased	4	There was a considerable gain from learning by doing in the financial market (especially in case of LEDAs and FEs). The adjustments to the first set of FI schemes (launched in 2008-2009) were made in view of changing market context taking into account feedback from final recipients.
HU: OP Economic Development	All FIs	Operational objectives	Volume of total funds allocated / invested to SMEs with no access to bank loans (no track record of bank loans)	3	Monitoring data confirms targeting of SMEs with no bank loans - even if their share decreases throughout the period Numerous training and demonstration activities introduced by Holding Fund (targeted on LEDAs and FEs, dealing with the highest share of the target group SMEs)
HU: OP Economic Development	All FIs	Operational objectives	Increasing share of SMEs benefiting from partial compensation of interest rates /	3	The EDOP FIs may have contributed to the market expansion and closing the financial gap - but hard evidence is missing due to lack of a counterfactual-

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
			guarantees / venture capital		based impact assessment. In the case of loan schemes the max. 9% interest rate threshold is far below the benchmark market rate (15-20% in dependence of the scope of loans).
HU: OP Economic Development	All FIs	Operational objectives	Proper selection of new, innovative start-ups and companies - in case of venture capital funds	4	The due diligence is strict, investment strategies are in line with the overall strategic framework
HU: OP Economic Development	All FIs	Strategic objectives	Induced investment volume	3	Good progress in leveraging private money - even if lower leverage effect than planned
HU: OP Economic Development	All FIs	Strategic objectives	Improving access to equity finance	4	Both market data and interviews confirm the increased interest of financing actors in equity finance
HU: OP Economic Development	All FIs	Strategic objectives	There is a market making for private investments in the mid run	4	Increased number of VC funds in the programme period
HU: OP Economic Development	All FIs	Strategic objectives	There is a market making for private investments in the long run	0	No evidence available
HU: OP Economic Development	All FIs	Strategic objectives	Strengthening regional position of the domestic capital market	0	No evidence available
HU: OP Economic Development	All FIs	Strategic objectives	It is assumed that some of the exits are successful in economic terms and the risk capital funds are revolving and can be used multiply to support growth and job creation in the long run	0	Too early for a final answer
HU: OP Economic Development	All FIs	Strategic objectives	Broad policy objectives: Boosting growth and job creation to help Hungary catch	0	Unclear how to assess that goal in relation to FIs

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
			up with Europe (overall strategic goal)		
LT: OP Economic Growth	All FIs	Operational objective	Increase of SMEs to financing sources	4	The effect of FIs has been augmented by the economic crisis. The problem of external financing became even more pressing for SMEs and for some of them FIs represented the only source of finance. The number of SMEs supported and private investment attracted through FIs met the expectations of the programmers.
LT: OP Economic Growth	All FIs	Operational objective	Flexibility of the MA and Intermediate Body in the face of changing conditions of FI implementation	4	The MA and Intermediate Body reacted to the economic crisis by increasing the budget allocation to JEREMIE HF from EUR 80 million to EUR 210 million in 2009. Furthermore, INVEGA HF was founded. These measures were meant to help SMEs to deal with the lack of external financing during the economic downturn.
LT: OP Economic Growth	All FIs	Operational objective	Institutions responsible for the implementation of FIs must have good knowledge of the situation in the financial market and its developments	0	There is no data allowing for this assumption to be assessed.
LT: OP Economic Growth	All FIs	Operational objective	Differences between FIs and grants must be taken into account in the administration of FIs	3	Different administration systems were created for grants and FIs. Administration of grants was assigned to the Implementing Body (state agency), while FIs were implemented by financial intermediaries (mostly private banks). However, in some cases the MA and Intermediate Body disregarded the differences of grants and FIs, asking HF managers to apply excessive control mechanisms in their interaction with financial intermediaries.
LT: OP Economic	All FIs	Operational objective	Risk capital funds satisfy SME need for finance in early stage	4	A total of 63% of all investments made by JEREMIE venture capital funds by the end of 2013 were seed

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
Growth			of development and encourage innovation		and start–up. A significant share of investments by this specific instrument was made in innovative enterprises.
LT: OP Economic Growth	All FIs	Operational objective	Popularity of risk capital among SMEs grows	4	Increased popularity of risk capital followed the start of activities of ERDF–funded risk capital funds but still needs to be increased.
LT: OP Economic Growth	All FIs	Operational objective	Loans and guarantees improve SME access to finance	5	Up to the end of 2013, 4,720 SMEs benefited from FIs (7% of all SMEs). Almost all of these enterprises received loans and guarantees while 55 enterprises benefited from risk capital funds.
LT: OP Economic Growth	All FIs	Operational objective	Partial compensation of interest improves borrowing conditions for SMEs	4	Interviewees singled out partial compensation of interest as the key advantage of FIs.
LT: OP Economic Growth	All FIs	Operational objective	SME investment is aimed at improving technology and processes which leads to higher labour productivity	2	Although some enterprises were able to improve technology and upgrade their business processes, FIs were extensively used for financing working capital.
LT: OP Economic Growth	All FIs	Operational objective	New enterprises supported by risk capital are innovative and successful with high labour productivity	4	According to the 2014 evaluation, turnover of enterprises supported by risk capital funds increased by 43%, the number of employees by 12% while losses fell by 71%. In 12 of 30 enterprises analysed the turnover increased despite the number of employees staying the same, or reducing, both signalling a rise in labour productivity.
LT: OP Economic Growth	All FIs	Operational objective	Economic climate is suitable for SME investment	1	Economic crisis made the economic climate unsuitable for SME investment.
LT: OP Economic Growth	All FIs	Operational objective	Risk capital funds predominantly oriented towards seed and start–up capital	4	63% of all investments made by JEREMIE venture capital funds by the end of 2013 were seed or start–up.
LT: OP Economic	All FIs	Strategic objective	Increase in labour productivity	2	Higher productivity was largely a result of a cut in wages, reflecting the economic and financial crisis.

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
Growth					
LT: OP Economic Growth	All FIs	Strategic objective	Increase in investment in fixed capital formation	3	Investment has not recovered to the pre-crisis level, but the fall was less marked than expected.
LT: OP Economic Growth	All FIs	Strategic objective	Long-term economic growth of the country	0	Not possible to asses net effects of FIs
CZ: OP Enterprises & Innovation	All FIs	Operational objective	Increase SMEs access to financing sources	4	2,100 SMEs benefitted from better access to finance; the specific characteristics of the SMEs are not known
CZ: OP Enterprises & Innovation	All FIs	Operational objective	Increase employment	5	Reported created jobs contribute greatly to the overall outcome of OP EI in employment.
CZ: OP Enterprises & Innovation	All FIs	Operational objective	Improved start-up support	1	Start up support was weak
CZ: OP Enterprises & Innovation	All FIs	Strategic objective	Increase the motivation for starting a business	0	No specific impact evaluation is available
CZ: OP Enterprises & Innovation	All FIs	Strategic objective	Increase the competitiveness of firms through implementation of new production technologies; intensify development of information and communication technologies and business services.	0	No evidence available on the attribution of FIs to improvement of the innovation capacity and competitiveness of supported enterprises, but it is increasing generally.
FR: OP Languedoc-Roussillon	All FIs	Operational objective	Promote the creation, takeover and transfer of enterprises	3	The transfer of enterprises less covered by the three FIs
FR: OP Languedoc-	All FIs	Operational objective	Increase capital for the development of innovative SMEs	4	As a result of JEREMIE more than EUR 130 million was made available in addition to grants and the FIs

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
Roussillon					already available a regional level.
FR: OP Languedoc-Roussillon	All FIs	Operational objective	Develop the offer of seed and start-up capital for new and young innovative companies	5	The funds completed and strengthened the regional offer for investments in SMEs
FR: OP Languedoc-Roussillon	All FIs	Operational objective	Facilitate access to loans and risk capital	5	Loans were easily accessed by firms, especially with the reduction in collateral requirements. More capital was made available in the early phase of development with seed loans and capital risk development. Financial resources increased in the first round of investment, the most risky time for the funds.
FR: OP Languedoc-Roussillon	All FIs	Operational objective	Put devices for microcredits and *'prêt d'honneurs'* at the disposal of project promoters and companies	4	The microcredit line was not activated; while the seed loan *'prêts d'honneurs'* instrument achieved its objectives.
FR: OP Languedoc-Roussillon	All FIs	Strategic objective	Transform innovations and research into economic success by encouraging the development of an environment conducive to innovation	3	The FIs helped to reach the strategic objective of axis 1 for innovation and competitiveness; completing the financial offer of grants and the funding of networking activities. The character experimental of the intervention limited however its economic impacts at regional level. In addition, no OP indicator was able to provide a clear picture on the real FIs impacts in economic terms.
PL: OP Małopolskie	All FIs	Operational objective	Supported investments. It is assumed that the support is provided in the form of loans of guarantees to financially viable projects in all sectors of the regional economy (without restrictions applicable in the case of grants - i.e. imposed by the State aid rules).	5	By the end of April 2015, 1,794 investments had been supported (loan and guarantee agreements signed). Allmost all loan schemes, including the best performing ones, have managed to avoid State aid restricitions.

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
PL: OP Małopolskie	All FIs	Operational objective	New funds created or capital for existing debt funds increased.	5	The high number of funds supported under the MROP. 14 funds have been selected in the calls for applications (against the target of 4 under the OP output indicator). All of the funds have received OP contributions that increased their investment capital.
PL: OP Małopolskie	All FIs	Operational objective	Territorialised deployment of support, esp. to locally based SMEs.	5	The funds are based in all the sub-regions. All the fund managers are regional or local entities.
PL: OP Małopolskie	All FIs	Operational objective	SMEs that recovered after natural disasters. It is assumed that half-repayable loans are the least burdensome, efficient and effective instrument for the recovery of the SMEs affected by natural disasters.	4	Loans for SMEs affected by natural disasters allowed to generate the investment volume of EUR 5.5 million. By the end of 2014, 115 enterprises have been supported and 49 gross jobs have been created. 3 out of 4 funds have disbursed to SMEs its entire initial OP contribution.
PL: OP Małopolskie	All FIs	Strategic objective	It is assumed that enterprises receive investment and working capital (if applicable) for development purposes which directly influences their competitiveness (mostly in terms of scale of operations - investments/assets, employment, outputs).	5	The IB reporting provides evidence on the amounts of investment and working capital paid to enterprises. There is also evidence of jobs created by supported SMEs. There is indirect evidence of the increase in SMEs competitiveness regarding the scale of operations (fund managers and OP institutions opinions based on e.g. returning clients, further investments, etc.).
PL: OP Małopolskie	All FIs	Strategic objective	It is assumed that the fund managers grow in terms of financial and institutional capacity, and their business support offer (financial and non-financial) is enhanced, which allows for further strengthening of the regional SMEs	4	The fund managers have received OP contributions to their investment capital and to cover management costs (incl. staff, equipment, premises). This has increased their operational (institutional) capacities. All the loan funds have increased their investment capital in more than one revolving round. By the end of 2015, they are likely to serve 1,915 companies, 75 % more than the OP target. All of the funds offer

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
			competitiveness.		non-financial advisory support.
PL: OP Małopolskie	All FIs	Strategic objective	The short/medium-term goal particularly for FI support is creating strong and competitive SME sector through providing alternative sources for financing enterprise activities (M2.1 goal)	5	The FIs and OP indicators' achieved values prove that the resources are paid to the final recipients and are revolved (1,915 expected to be supported by the end of 2015). There is a publicly-funded system of external financing of the SME business activity. The value of loans and guarantees expected by the end of 2015 (PLN 195.8 million / EUR 48.9 million) is 8 times higher than the OP target
PL: OP Małopolskie	All FIs	Strategic objective	The short/medium-term goal for the overall grant & FI support is increasing the competitiveness of enterprises (PA 2 goal)	5	There is the evidence of jobs created by supported SMEs. There is indirect evidence of the increase in SMEs competitiveness regarding the scale of operations (fund managers and OP institutions opinions based on e.g. returning clients, further investments, etc.).
PL: OP Małopolskie	All FIs	Strategic objective	It is assumed that most of the firms can repay loans, the loan and guarantee funds revolve and can be used again to support growth and job creation in the long run.	5	All the loan funds have revolved the resources initially contributed from the OP allocation.
PL: OP Małopolskie	All FIs	Strategic objective	The long-term specific OP goal is increasing competitiveness and innovativeness of Lesser Poland (OP specific goal)	4	The increased competitiveness in the region can be justified based on the achievements of the PA2 indicator related to Microenterprises that owing to the OP support have become Small enterprises (37 by the end of 2014 and 60 expected by the end of 2015; 43 is the OP target). The impact of innovativeness would require further studies.
PL: OP Małopolskie	All FIs	Strategic objective	The long-term specific OP goal is the development of institutional potential of Lesser-Poland-based entities (OP	4	As above. This could also be justified in terms of the indicator related to the number of FI supported under the MROP (target of 4, achievement expected by the end of 2015 of 14).

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
			specific goal)		
PL: OP Małopolskie	All FIs	Strategic objective	The long-term general OP goal is to create conditions facilitating economic growth and employment (OP strategic goal)	0	The impact of the OP intervention to the regional GDP and net jobs created will be subject to economic modelling after the OP closure.
UK: OP North East of England	Creative Content Fund	Operational objective	Support companies in commercial creative sector	2	Mostly TV and film projects were supported, rather than the diverse portfolio envisaged
UK: OP North East of England	Creative Content Fund	Operational objective	Funds are matched by private sector investment	5	50:50 match achieved
UK: OP North East of England	Creative Content Fund	Strategic objective	To create revolving fund	1	Poor level of returns
UK: OP North East of England	Creative Content Fund	Strategic objective	To test the market for co-investment in creative sector	3	Market was tested (albeit restricted range of sub-sectors)
UK: OP North East of England	Creative Content Fund	Strategic objective	Private sector more engaged in sector	2	CCF model confirmed risk level
UK: OP North East of England	FBNE	Operational objective	Strong networks with financial services, intermediaries, universities generates dealflow	4	High application rate
UK: OP North East of England	FBNE	Operational objective	Specific funds target investments in technology sectors	4	IT, scientific, health are well represented
UK: OP North East of England	FBNE	Operational objective	Representation of investment across region (objective added later)	4	Steps taken to increase presence and investment in Tees Valley after slow start
UK: OP North East of	FBNE	Operational objective	Increased participation of business angels	3	Still hard to attract angel investment in start ups; more progress with existing companies

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
England					
UK: OP North East of England	FBNE	Operational objective	Generated investment volume	5	Progress on target
UK: OP North East of England	FBNE	Operational objective	Fund managers add value to companies through strong portfolio management	4	Consultancy and input of non-executive directors common
UK: OP North East of England	FBNE	Operational objective	Fund managers achieve successful exits to timetable	3	Economic conditions delaying optimum exit period; behind schedule on some product funds; concern that some exits will be earlier than optimum
UK: OP North East of England	FBNE	Strategic objective	Increase capacity of private investment community in NE	4	New players attracted to region. Healthy competition between investment companies.
UK: OP North East of England	FBNE	Strategic objective	Increasing business density by creating new start-ups	4	304 new starts supported by 31 December 2014 (44% of all SMEs receiving financial assistance)
UK: OP North East of England	FBNE	Strategic objective	Stronger priority sectors	4	Evidence of rising enterprise rates in key priority sectors
UK: OP North East of England	FBNE	Strategic objective	Increasing start-ups in disadvantaged areas	4	Some 2/3 of Microloan start ups are in disadvantaged areas
UK: OP North East of England	FBNE	Strategic objective	Improving survival rates of new businesses	4	Survival rates are monitored. Data indicates 90% survival rate at 12 months.
UK: OP North East of England	FBNE	Strategic objective	Increasing the growth rate and profitability of existing SMEs	0	No data available on profitability.
UK: OP North East of England	FBNE	Strategic objective	Creating/safeguarding jobs	4	4,756 jobs created/safeguarded by end 2014. Further 500 in Q1 2015

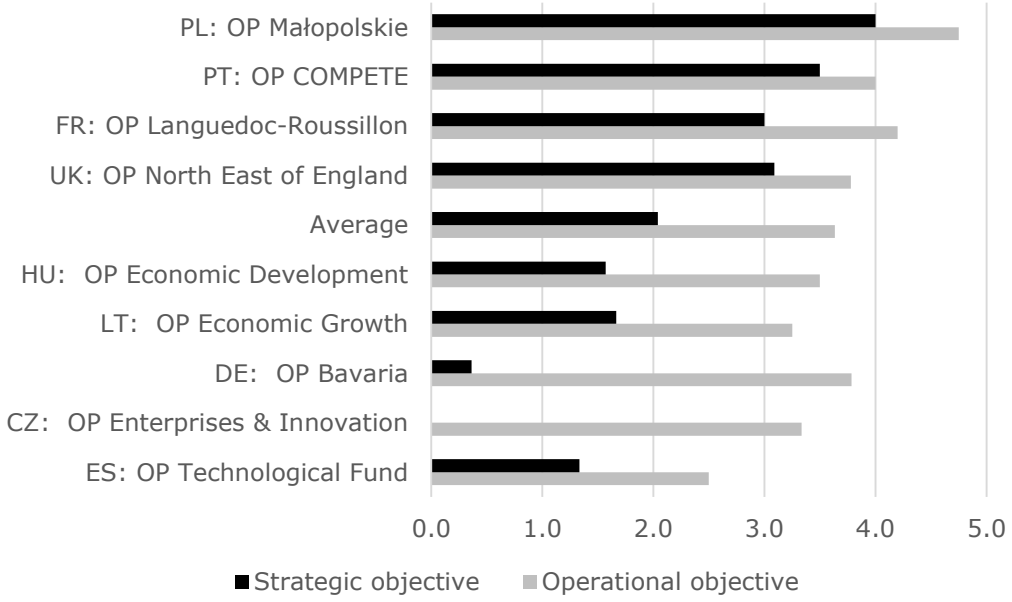
OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
UK: OP North East of England	FBNE	Strategic objective	Creating/safeguarding jobs in disadvantaged areas	4	High proportion of jobs created and safeguarded in top 30% most deprived areas.
ES: OP Technological Fund	Guarantee	Operational objectives	1. To promote innovative business behaviour	4	Demand for guarantees from eligible companies has been high, and therefore it is assumed it has sped up R&D project investment.
ES: OP Technological Fund	Guarantee	Operational objectives	3. To support R&D for companies	4	It is assumed that most projects achieve some product innovation and enable the promoter to take a leadership market position through expansion of product range and quality improvement.
ES: OP Technological Fund	Guarantee	Strategic objectives	To contribute to Spanish economic modernisation	0	No evidence available
ES: OP Technological Fund	Guarantee	Strategic objectives	To contribute to structuring the Spanish science and technology system throughout the territory	4	Most programmes have to be spent in Convergence, Phasing-out and Phasing-in regions although less than half the population and companies are in those areas.
ES: OP Technological Fund	Loans	Operational objectives	1. To promote innovative business behaviour	2	Although the CDTI Loan Fund might contribute to improved innovation and investment within businesses, it is too early to verify. According to the investment type promoted, this kind of project will not really change the structural framework of final recipients
ES: OP Technological Fund	Loans	Operational objectives	3. To support R&D in companies	4	The projects are closely linked to pre-commercialisation stage.
ES: OP Technological Fund	Loans	Operational objectives	1. To promote innovative business behaviour	0	The 11 projects approved do not provide enough information to form a judgement.
ES: OP Technological Fund	Loans	Operational objectives	3. To support R&D results to companies	1	No suitable proceeding

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
ES: OP Technological Fund	Loans	Strategic objectives	To contribute to Spanish economic modernisation	0	No evidence available
ES: OP Technological Fund	Loans	Strategic objectives	To contribute to structuring the Spanish science and technology system throughout the territory	4	The CDTI Loan Fund, at the end of 2014, had approved 76% of projects and committed 73% of funds to Convergence, Phasing-out and Phasing-in regions
ES: OP Technological Fund	Loans	Strategic objectives	To contribute to Spanish economic modernisation	0	The 11 projects approved do not provide enough information to form a judgement.
ES: OP Technological Fund	Loans	Strategic objectives	To contribute to structuring the Spanish science and technology system throughout the territory	0	The 11 projects approved do not provide enough information to form a judgement.
PT: OP COMPETE	All FIs	Operational objective	Encourage venture capital intervention in support of SMEs, favouring the early stages of their life cycle and investment in innovative projects	3	Three VCFs aiming at early stages and investment in innovation and internationalisation were implemented: Pre-Seed, Early Stages and Innovation and Internationalization.
PT: OP COMPETE	All FIs	Operational objective	Strengthen the mutual guarantee system and promote the expansion of its intervention to companies and projects that, considering their risk or innovative nature, present greater difficulties in obtaining bank financing	4	The Investe QREN Credit Line involved the financing of the mutual guarantee system. Investe QREN supported approximately 96 SMEs.
PT: OP COMPETE	All FIs	Operational objective	Promote the contracting of credit lines within the financial system to facilitate SME access to finance	4	The Investe QREN Credit line involved financial systems, e.g. national banks to facilitate SME access to finance.
PT: OP COMPETE	All FIs	Operational objective	Promote the use of new instruments, including the	5	Before the introduction of COMPETE (prior to 2007) the involvement of business angels was insignificant.

OP name	FI	Objective type	Full Objective	Rating (max 5)	Justification
			participation of venture capital investors (business angels) in order to maximise funding for SME small projects		The COMPETE Programme promoted Business Angel financing and a total of 51 business angels vehicles (companies mainly owned and under the management of business angels whose investment policy is to participate in companies in stages of seed capital or early stages).
PT: OP COMPETE	All FIs	Operational objective	Support SME financing and innovation in an integrated perspective of equity and debt components	4	Implemented FIs covered the spectrum of equity and debt components.
PT: OP COMPETE	All FIs	Operational objective	Encourage entrepreneurship while providing capital and management skills required in higher risk initiatives	4	With VCFs, a detailed application and selection process required proof of capacity to not only manage the fund, but also have the human resources to support SME entrepreneurship.
PT: OP COMPETE	All FIs	Strategic objectives	Increase the spread of alternative FIs	4	Three main types of FIs were implemented: VCFs, Finance Line for Business Angels and Credit Lines. For VCFs, 6 different funds were created, aiming at different SME development stages.
PT: OP COMPETE	All FIs	Strategic objectives	Facilitate access to credit for SMEs (particularly those managed by women and young people)	3	However, despite the significant number of FIs, the number of SMEs that received financial support is considered low. In some cases, only 1 and sometimes no SMEs received support from the different VCFs (numbers from COMPETE Execution Report 2013. From an interview with COMPETE, there is indication that during 2014, all FIs were supporting at least 1 SME).

6.8 Effectiveness in achieving strategic and operation goals of the FIs (synthesis of case study findings)

Figure 19: Overall picture: Effectiveness in achieving strategic and operation goals (average of ratings per OP; max = 5)



Source: case study research (9 OPs with 114 objectives in total; please note that case studies were elaborated by different experts which could lead to a **biased rating**)

Figure 20: Detailed picture: Number of ratings per OP, objective type and rating category

Number of ratings per OP, objective type and rating category											Total
Strategic objectives	very high									4	4
	high	2		1		2	7		1	3	16
	medium				1	1	1	1	1		5
	low				1		1				2
	very low						1				1
	don´t know	4	2	10	1	4	1			1	23
Operational objectives	very high		1	2	1		2	2	1	3	12
	high	3	1	10	7	2	4	2	4	1	34
	medium			1	1	2	2	1	1		8
	low	1			1		1				3
	very low	1	1		1						3
	don´t know	1		1	1						3
Case study OPs and FI type applied		**ES: OP Technological Fund** Loans Guarantees	**CZ: OP Enterprises & Innovation** Guarantees Loans	**DE: OP Bavaria** Loans Equity	**LT: OP Economic Growth** Loans Guarantees Equity	**HU: OP Economic Development** Loans Equity Guarantees	**UK: OP North East of England** Equity Loans	**FR: OP Languedoc-Roussillon** Guarantees Equity Loans	**PT: OP COMPETE** Loans Equity	**PL: OP Małopolskie** Loans Guarantees	114

Source: case study research (9 OPs with 114 objectives in total); very high = 5

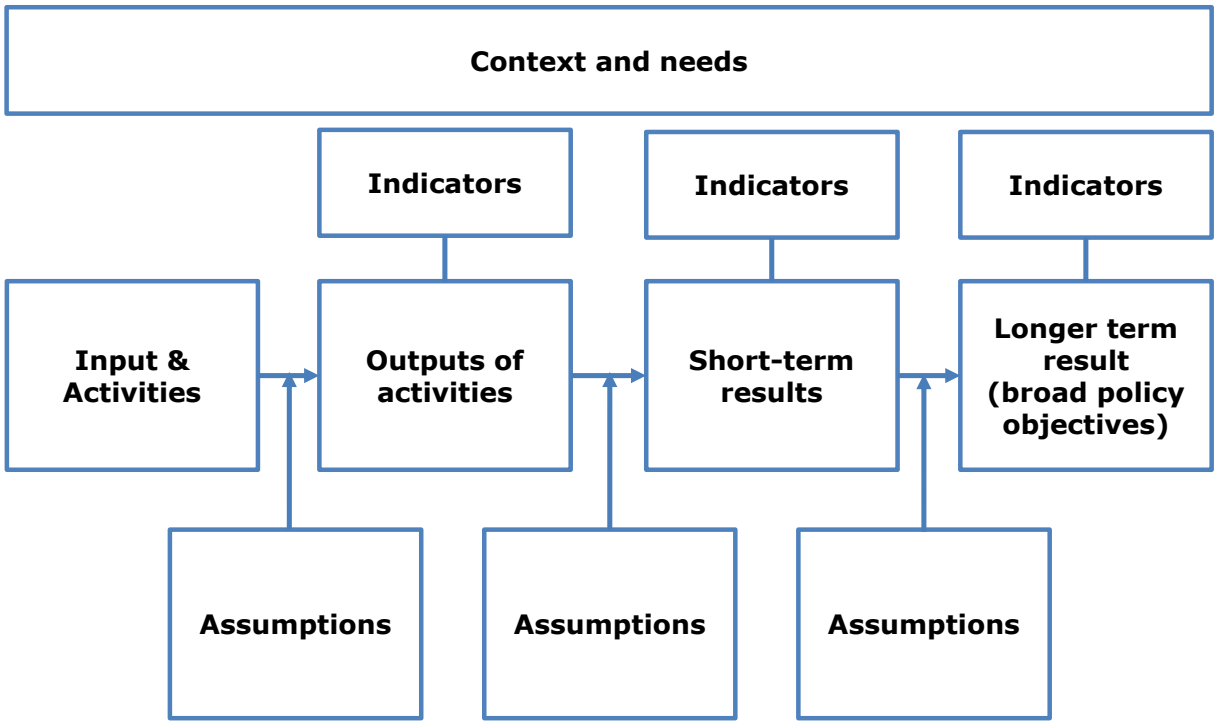
6.9 ToC key elements

The ToC illustrates the intervention logic and the underlying assumptions that lead from inputs to outcomes for a specific FI instrument in a specific context. Key elements of a ToC are the following:

- **Context & needs** related to FIs for enterprise support (addressed e.g. in the SWOT, market gap assessment)
- The **longer term results or broad policy objectives** of FIs in the framework of cohesion policy (end-objective of OP) related to context and needs, and corresponding indicators and target values. **Barriers** to achieving the broad policy objectives (expected change) and conditions to remove the barriers (within or beyond the scope of the OP, e.g. on the demand or supply side) related to policy objectives / expected change. Conditions form an important building block to establish a plausible theory at the objective-level. Conditions are required (not in place yet) to remove the barriers and bring about the broad policy objectives (e.g. a suitable legal framework has to be created, a capable implementing body has to be established, there is a critical mass of enterprises which want to grow).
- **Target group**, intended beneficiaries, sectors, markets of FIs (detailing policy objectives)
- **Short term results** which should delivered by the support schemes at different levels (enterprises, market, instrument, target group) reflecting the broad policy objectives and related quantified indicators
- **Design** and nature of support, inputs and activities (financial & non-financial) to bring about the policy objectives and reach the focus areas, target group, sectors and related quantified indicators
- **Underlying assumptions** to implement the planned support and to achieve the expected outcomes. In contrary to conditions (which have to be newly created or significantly improved), the so called underlying assumptions are more related to the mechanism and micro-steps associated with the implementation of the planned support (activity level) and should be in place to achieve step by step the expected outcomes. Assumptions describe what the "arrows" in the intervention logic or result chain imply. Assumptions are crucial because if they are incorrect (e.g. targeting should be in place but is not working in practice or there should be mechanism against objective drift) it can completely alter how the intervention works. There it should be checked during the verification process if the stated key assumptions required for a successful intervention work in practice.

The key elements can be translated into a graphic to illustrate the intervention logic of a FI (narrowing down the full ToC).

Figure 21: Graphic to illustrate the intervention logic and underlying assumptions that lead from inputs to outcomes for a specific FI instrument in a specific context



Source: consortium

6.10 Country Annexes (12 MS)

6.10.1 Belgium

There is a longstanding history of using non-grant funding as an instrument of domestic economic development policy in Belgium. Responsibility for economic development policy lies principally at the subnational level with the Walloon, Flanders and Brussels governments. The ERDF has co-financed FIs in Belgium since 1994-99. In the current period, of the four Belgian ERDF OPs, three contain at least one FI. The Flanders government opted not to offer any FI for their small programme with the associated costs of establishing a co-financed OP. None of the ESF OPs contain FIs.

In all three ERDF OPs, support is overwhelmingly in the form of loans (of various types and with different degrees of seniority). There is a small guarantee scheme in Wallonia. Loan terms vary but State aid is covered by the General Block Exemption Regulation in most cases, or is below the de minimis threshold. Financial support is typically accompanied by a package of advisory support.

Table 28: OP key figures on FIs for enterprise support in Belgium in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Wallonia (Hainaut)'	5	221.1	88.4	31.8	0.0	221.1	165.2	74.7	2,149
OP 'Brussels Capital Region'	1	5.6	2.8	10.1	-	5.6	5.6	100.0	291
OP 'Wallonia (not including Hainaut)'	5	169.0	67.6	40.5	0.0	169.0	117.0	69.3	1,795

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.2 The Czech Republic

Interest rate support and guarantee FIs were first used in the Czech Republic in the 1990s, financed from national sources. Since then Structural Funds enabled the support to be broadened and new tools to be introduced.

In the 2007-2013 period, the Operational Programme Enterprise and Innovation (OP EI) had a total ERDF contribution of EUR 3.1 billion. Some 5% of the OP allocation (EUR 147.5 million) should be delivered through two FIs (Guarantee Fund and Credit Fund), which are linked to four sub-programmes. The Guarantee fund has committed OP contributions of EUR 159 million and the Credit fund EUR 75 million. The funds come solely from public funding sources. Both of them support SMEs. The Credit Fund provides SMEs with assistance through interest rate support and loans. The Guarantee Fund provides SMEs with guarantees for loans.

Table 29: OP key figures on FIs for enterprise support in Czech Republic in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Enterprises and Innovations'	2	234.5	133.3	5.7	0.0	234.5	213.8	91.2	5,579

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.3 Case Study OP Enterprise and Innovation

Financial instruments (FIs) in the form of interest rate support and guarantees started in the Czech Republic in the 1990s, financed from national sources. Since then Structural Funds enabled the support to be broadened and new tools to be introduced.

The FIs under scrutiny

In the 2007-2013 period, the Operational Programme Enterprise and Innovation (OP EI) had a total ERDF contribution of EUR 3.1 billion. A total of 5% of the OP allocation (EUR 147.5 million) should be delivered through two FIs (Guarantee Fund and Credit Fund), which are linked to four sub-programmes. The Guarantee fund has committed OP contributions of EUR 159 million and the Credit fund EUR 75 million. The funds come solely from public funding sources. Both of them support small and medium-sized enterprises (SMEs). The Credit Fund provides SMEs with assistance through interest rate support and loans. The Guarantee Fund provides SMEs with guarantees on loans.

The context for introducing FIs

- The Czech Republic is one of the Member States with the highest allocation per capita under European Union Cohesion Policy. This is because the managing authorities (MAs) prefer grants to ensure high financial absorption capacity. Venture Capital (VC) and loans are seen more as an experimental approach.
- Generally, FIs have not been widely introduced in the Czech Republic, although some programmes supported SMEs in the 1990s.
- Only one institution has implemented revolving funds at this time: the Czech-Moravian Guarantee and Development Bank [Českomoravská záruční a rozvojová banka (ČMZRB)].
- The key actors (Ministry of Industry and Trade, ČMZRB) are conservative. FIs implemented under the 2007 – 2013 programming period were created and implemented as an 'extension' of the older European Union and nationally funded instruments. Additionally, the financial products offered to SMEs were very similar to programmes used in the past, i.e. without VC.

Goals and theory of change (ToC) of FIs

- There was no explicit ToC in the OP. It was necessary to reconstruct this from different information sources.
- A market gap assessment had not been conducted when the FIs were established. The FIs were based on a previous generation of revolving funds, which determined their goals.
- Goals for both FIs and indicators to measure results are very similar. The key element of ToC is access to finance through subordinated loans or guarantees. Both ToCs have the same short- and long-term goals and objectives (there is not a ToC specifically for FIs within the OP).
- There is no regional or sectoral preference within the OP and FIs. The strategy is broadly defined.
- The FIs have no specific targets or results included in the funding agreement. There is a mutual assumption that the FIs should contribute 'as much as possible' to the OP goals.
- There was no experience with VC funds. Thus, preparation of this instrument was delayed and finally postponed to the 2014-2020 programming period.

Management and implementation of FIs

- The governance structure of the FIs is simple and functional. ČMZRB is the only manager and was appointed directly by the MA. The fund manager used its extensive experience to select the financial instrument manager. ČMZRB is a state-owned bank with a long history of implementing nationally funded FIs in the 2004 – 2006 programming period.
- However, selection without a public procurement process resulted in spending that was not certified by the European Commission and the programmes were stopped until the issue was resolved. The Guarantee Fund has not provided guarantees for over two years, being suspended because of correction issues.
- Despite these delays, the financial performance of FIs is good. Recently, 90% of the planned volume of funds has been paid to FIs, of which 91% has already been disbursed to final recipients. The investment strategy of both funds has remained stable since they were set up in 2007.

Monitoring and evaluation of FIs

- The system of monitoring indicators is the same for both FIs and provides only basic information without details of final recipients. This low-profile monitoring limits the opportunity to evaluate intervention and impacts.
- Indicators collected by the MA include financial and output indicators, a result indicator (newly established firms) and an impact indicator (newly created jobs). Outcomes on company growth, turnover, and sales are not recorded by the monitoring system. The horizontal priorities are observed only within the result indicator (newly created jobs for men and women). Reporting provisions are detailed in the funding agreement. The fund manager reports the main characteristics such as loan draw-downs as well as the indicators required and reported in the programme monitoring system. These indicators need to be reported at the end of project implementation and three years later.
- The fund manager has a monitoring system that provides information for reporting and managing FIs. Achievements are not yet formally recorded, since projects are still being implemented.
- The MA has carried out one evaluation on absorption capacity of the FIs as well as several programme evaluations, which also covered FIs in the OP EI. There has not been any specific impact evaluation of FIs. Impact evaluation would provide the MA with important evidence of overall effects in sectors and regions as well as comparisons between grants and FIs.

Outcomes of FI implementation

- The FI contributed significantly to job creation (in non-specific sectors). This is explained through the focus on growth projects, rather than risky, earlier stage investments. Around 17% of newly created jobs in the OP have been reported as due to FIs. These seem to be more cost-efficient than grants in the use of public funds. Costs of one additional job are significantly lower for FIs as compared to grants.
- Start up support is weak and below expectations. The START programme lasted only for six months.

- The MA did not set any outcome targets when FIs were established. The only information that the fund manager reports concerns horizontal themes. The role of FIs in the context of Cohesion Policy has not yet been firmly set, except for a generic consideration that the MA should promote FIs because of their benefits.
- The Guarantee Fund has a high leverage effect. Leverage for the Loan Fund is only 2 because there is no private participation. Co-investment in the Credit Fund is EUR 57 million and the leverage effect is 2. The leverage effect for the Guarantee fund is also 2; however these figures do not include the loans granted. With these the total leverage on ERDF sources is 9 (with guaranteed credits of EUR 626 million).
- The financial sustainability of the Credit Fund is not yet clear, because there is no defined exit policy and defaults are expected to increase. However, the fund manager expects that residual funding will be used either for a special government development credit programme or will be added to existing financial products. According to the fund manager, the Guarantee Fund has been designed to be non-revolving, which means that guarantees on non-performing loans will probably consume the entire Fund allocation.
- The Guarantee and the Loan funds will be able to achieve some of their short term objectives, such as increasing access to finance and increasing employment. It is not possible to assess achievement of longer term objectives, for example, the competitiveness of companies due to lack of evidence.

6.10.4 Denmark

In Denmark, the first FI funded by Structural Funds was set up in the 2000-06 programme period (*Mål 2 Lånefond*). The FIs are capital funds at regional level that make investments or provide loans to businesses. In the 2007-13 programme period there were nine regional capital funds in Denmark, five co-financed by ERDF and four by ESF. Of these, seven were for enterprise support (Article 44a of Regulation 1083/2006), three of which were co-financed by ERDF under the OP Innovation and Knowledge. The remaining two ERDF funds were categorised under Article 44c related to energy efficiency and renewables. There were no national FIs supported by Structural Funds.

The Danish Business Authority *(Erhvervsstyrelsen,* DBA) acts as managing authority for the two Structural Funds programmes in Denmark (one ERDF and one ESF). The regional growth fora (RGF) are responsible for making recommendations to the managing authority on the use of Structural Funds and for setting up the regional capital funds. Support under the regional capital funds includes loans, equity investments or a combination of the two. Non-financial support is also offered, for instance the Fonden CAT Invest Zealand not only provides capital for SMEs, but also help for entrepreneurs with business development, including counselling and establishing strong management and networks.

Table 30: OP key figures on FIs for enterprise support in Denmark in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Innovation and Knowledge'	3	16.8	8.3	3.9	3.8	13.6	13.7	100.3	66

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.5 France

French ERDF OPs have been using FIs since the 2000-2006 programming period, partly with the support of national institutions, like OSEO (National Innovation Agency) for loans and guarantees to innovative firms. In the 2007-2013 period, 16 OPs had at least one FI, and only Region Bretagne decided not to activate any.

Compared to similar countries such as Germany and the UK, French OPs have not used FIs on such a large scale up until now[84]. Innovative enterprises have significant requirements for financial support for firm creation, growth and transferring results from research activities into innovation. These will be major challenges to be addressed in the 2014-2020 programming period.

Increased use of FIs has been constrained by the legal framework[85], but also by the cultural gap between regional and managing authorities on one side and financial intermediaries on the other.

In the 2007-2013 period, ERDF FIs provided loans in about one third of the schemes, as well as venture capital (18%) and guarantees (15%). Each OP co-funded five schemes on average, and around half of them offered each of the three products.

Prêts d'honneurs (soft loans with a zero interest rate) are the most common loan instrument. Guarantee schemes are managed at regional level mostly through agreements with OSEO-Régions. Venture capital is mainly used to support the creation and expansion of innovative firms and, more rarely, for innovation transfer. Venture capital supports economic sectors that are in the competitive clusters identified in the "Pôle de compétitivité" or sectors with a "structuring role" in the regional economy. Under some OPs, venture capital (VC) also targeted ICT or the green economy, especially eco-efficiency, renewable energy and energy efficiency.

Venture capital is often provided together with advisory support, delivered by the scheme (for example SORIDEC in Languedoc Roussillon) or intermediate bodies. Such packages include support for partner selection, fund raising and financial management.

Loans or guarantees were mostly provided with no aid, or were below *de minimis* thresholds. '*Pari passu*' was often ensured with venture capital, while any State aid was provided under specific schemes notified at national level[86].

[84] FIs account for around 2% of ERDF allocation in France in the 2007-2013 programming period, against 12% in UK and 8.5% in Germany. Source: Datar, 2013.

[85] The general framework evolved during the programming period to allow Regional Councils (Conseils Régionaux) to invest directly in capital risk funds.

[86] As specified in the "Vademecum sur les règles applicables aux dispotifs d'ingénierie financière" 5568/SG issued on 5 January, 2012.

6.10.6 Case study OP Languedoc Roussillon

The FIs under scrutiny

Three FIs were set-up under Priority Axis (PA) 1 of the Operational Programme (OP) for Languedoc-Roussillon in the 2007–2013 programming period. The FIs were a 'seed loan' instrument, offering unsecured and zero interest rate loans, a co-investment fund, which was an equity fund, and a guarantee fund, i.e. first-loss portfolio guarantee. The FIs were implemented through a Holding Fund (HF), 'Fond de Participation Jeremie' (FPJ).

The OP Languedoc Roussillon invested EUR 30 million of public money, half of this from the ERDF. The funds were 6% of the ERDF financial allocation to the programme and 16% of the financial allocation of PA 1, devoted to enterprise innovation and competitiveness.

There was no comprehensive public policy for FIs in the 2000-2006 programming period and the FIs implemented over the 2007-2013 period were considered experimental in the public policy field. This resulted in a slow start. The specific funds became only operational between September 2010 and June 2011, more than three years after the ROP started.

Less than half of the commitments were paid to the individual FIs by the end of 2013; by which time the final recipients had received 33.7% of the total JEREMIE contributions.

Goals and theory of change (ToC)

The goals of the JEREMIE instruments are only vaguely described in the OP and concern PA 1 in general. Together with the market gap analysis from the OP and the FIs' business case, a retrospective ToC has been constructed with a plausible pathway and a feasible chain of outcomes (including long-run outcomes). Each of the three FIs contributes to the objectives in a specific manner, mainly through targeting SMEs with different needs and at different development stages.

However, the OP's indicator system does not fully capture the real outcomes. The HF's more comprehensive and meaningful monitoring system was not available to the country experts.

The market gap analysis showed the need for four different instruments. The market was fairly well developed, with active investors in the region, even though these had limited scope and limited resources. Three of the proposed FIs were later implemented, with a target of financing 300 projects.

The main motivation for FIs was driven by a long-term desire to change the delivery process of regional business support and to better meet the specific needs of enterprises in Languedoc-Roussillon.

The lack of non-financial support actions, including awareness-raising, the small size of the instrument and the experimental character of the JEREMIE mechanism made it difficult to give information about the JEREMIE tools to enterprises.

Management and implementation of FIs

The management of the HF was entrusted to the EIF jointly by the MA and the Regional Council. The Regional Council was designed as an Intermediate Body (IB) by the MA to implement FIs and other measures of PA 1. Three regional financial intermediaries were selected by the EIF through calls for tenders: Banque Populaire du Sud, a non-governmental organisation (NGO), LRTI - CREALIA and a risk capital investor (EIG - SORIDEC).

The HF and the three specific funds have funding agreements between them with regard to implementation. A steering committee with an MA representative, an IB representative and EIF experts supervised the activities of the HF and the three specific funds. The EIF provided technical support while the other members of the steering committee took the operational decisions. The steering committee was at the heart of the decision-making process for FIs.

The whole JEREMIE structure took more than two years to establish. Selection of the three fund managers (out of 18 tenders) took the most time (25 months) and unforeseen State aid issues further slowed the process. After the governance structure was set up, no changes or amendments had to be made.

The fund managers needed specific support from the EIF on the EU legislative framework, especially in the FIs' set-up phase. Additional administrative costs arose principally during the set-up phase of the specific instruments, e.g. preparation of the proposal, fund manager selection, and set-up of the monitoring and reporting systems. Once fully operational, no subsequent costs were reported by the funds.

Apparently, there is good cooperation between the HF and the specific funds as well as between the MA and the HF. The HF has provided technical assistance to CREALIA and SORIDEC throughout the implementation, which is considered by both parties as crucial for successful management of the funds.

Management fees for the FIs are capped at 3% per year. The guarantee instrument does not claim any management fee, since the related loans are provided on a commercial basis (and thus the net-margin covers their cost). There is no evidence of a link between fund manager performance (and their remuneration) with the OP objectives and indicators as reported in the AIRs.

Monitoring and evaluation of FIs

Four indicators from the OP were relevant for monitoring. However, these indicators were not suitable for capturing the intended changes to meet specific objective 1.2.1 ('Number of projects financed by financial engineering devices') and they were even less suitable for capturing the change to meet PA 1's strategic objective. This was because only one result indicator was directly related to measure 1.2.1, while the other three results and impact indicators also covered other PA 1 measures with no visible separation between them.

The indicator system established by the HF only partially compensates the OP's indicator deficiencies. Although these indicators cover the most important items, they are not

documented in a standardised form and do not always cover the same items and the same periods. There are also unresolved issues with the methodology used for individual indicators. A much broader range of indicators seems to be available for individual FIs, covering the structure and development of each company supported, yet this information could not be accessed due to confidentiality rules in the funding agreements.

The three FIs' 'bottom-up' reporting to the EIF took place monthly, quarterly and annually. This was challenging for the financial intermediaries, especially during the early stages due to a much higher than usual reporting demand, different rules and procedures and the need to write in English. During the remainder of the implementation period, however, the reporting process worked smoothly.

The FIs were evaluated in 2012, relatively shortly after becoming operational, outlining the strengths and weaknesses of JEREMIE in Languedoc-Roussillon with clear indications of modifications for the new programming period. While the evaluation considers JEREMIE to be a real success for the region, it also states open issues, such as the lack of strategy for the guarantee fund.

Outcomes of FI implementation

The financial performance of the funds is well-documented and reveals moderate risks. CREALIA (seed loans) demanded a coach from the SYNERSUD network to guide each applicant; hence they reported no defaults up to 2014, by which time a considerable part of the fund had been repaid to the HF. The equity instrument fund manager (SORIDEC) has reported two defaults to date and expects another in 2015. The portfolio lifespan of five years is not yet over and already two investments have had IPOs, leaving the fund with a portfolio of 22 companies. The last exit is set for 2020. The guarantee instrument reported EUR 1 million in default so far, which is less than 1% of the disbursed loans (EUR 126.3 million). Risk for the guarantee fund was restricted by limiting the funding to a maximum of EUR 1.5 million for each project and 20% in any one NACE sector.

The ERDF money disbursed to the HF (EUR 15 million) triggered a considerably higher amount of support to SMEs. By March 2015, EUR 169 million had been disbursed to final recipients. The major part of this originated from the guarantee instrument, where the fund managers disbursed EUR 126.3 million in loans from their own funds with the backing of EUR 7 million from ERDF (EUR 14 million from the HF), a multiplier of 18. Co-investment in the VC fund was EUR 30 million, a leverage factor of 8.5 which is in the upper range of what can be expected.

Payments from the seed loan instrument to final recipients were EUR 3.9 million, with the contribution from the HF to CREALIA being increased by 100%. Since there are no other contributors, the effect must originate from revolving funds, with short-term loan repayments (minimum 6 months, maximum 48 months) being invested again. This effect is even higher since CREALIA has already repaid EUR 700 000 (35% of the funds received) to the HF. Repaid funds would be allocated to FIs or other instruments for enterprise support in the 2014-2020 period. Funds of the co-investment and guarantee FIs are not yet revolving.

Altogether, one Euro invested by ERDF in JEREMIE prompted EUR 11.30 from the regional development system as well as public and private bodies. In total, more than EUR 168 million was invested in SMEs, compared to EUR 30 million allocated to the HF by both the ERDF and the Regional Council.

Information about the structure of the final recipients is unreliable and remains mostly qualitative. The AIR reports more than 6,800 new jobs for all instruments (97% from the guarantee fund), while the HF only gives 1,369 new or maintained jobs. Neither of these figures can be verified by this study but they are clearly overestimated for the three funds.

Only the reported number of supported enterprises seems reliable and is above target for all three instruments. By March 2015, 81 innovative SMEs had been financed through seed loans; 26 SMEs of high development potential had benefited from the co-investment fund, while 1,228 SMEs had received funding from the guarantee instrument. In the same period, 97.5% of the funding allocated to the seed loans was spent (EUR 1.95 million by JEREMIE) and 84% for the co-investment instrument (EUR 9.2 million invested directly by JEREMIE), while the guarantee instrument covered loans of EUR 126.3 million.

There is no hard evidence of the type of SMEs supported. A recent evaluation gives the average enterprise age and size on a random sample from all three funds. The main sectors of final recipients are recorded. These are ICT, biotechnology, robotics, green businesses and health for the seed loan and the VC instrument, but wholesale trade and rental services (plus ICT) for the guarantee instrument.

The ToC outcome of increased innovation capacity at enterprise level has probably been achieved by the co-investment fund. This focused on high-growth technological firms and financed research and development activities. The seed loan fund has improved the survival rate of enterprises and their broad orientation towards innovative projects. The guarantee instrument, by far the largest of all three, covered a broad range of economic sectors.

At first sight, the scale of the seed loan scheme seems very small. In addition, there was an expectation that 600 innovative SMEs would be supported per annum. Only around 100 could be screened by the fund manager, which then selected 30 per year. However, the management fees are very modest and a larger instrument may have stretched the fund managers' and the HF's capacity-building resources. All stakeholders consider the size of the fund appropriate for the market gaps to be addressed.

The Languedoc-Roussillon region had a VC market prior to 2007, albeit with gaps concerning the OP's target group, little participation from regional companies and limited resources. The regionally-backed, co-financed VC fund widened the market and the co-investment fund attracted more companies than expected. The viability of the VC instrument should lead to a larger fund for the new financing period.

The co-financed VC has shown added value in relation to private (non-co-financed) VC funds due to the size of supported projects and companies being smaller than the average for VC funds. It also seems that the JEREMIE VC funds could support riskier

projects than non-co-financed funds. However, only the complete funding cycle will reveal any differences in risk management.

Table 31: OP key figures on FIs for enterprise support in France in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'French Guiana'	4	10.3	5.7	7.7	0.1	9.4	2.8	29.3	345
OP 'Réunion'	5	26.9	16.2	14.2	0.0	26.4	50.9	193.1	613
OP 'Aquitaine'	13	11.0	5.7	3.4	0.8	11.0	15.9	144.3	1,856
OP 'Centre Region'	10	27.4	11.0	11.1	11.0	21.2	27.2	128.3	-
OP 'Alsace'	5	33.1	6.5	16.7	16.1	14.9	5.5	36.8	90
OP 'Auvergne'	17	25.2	18.0	17.9	-	25.2	-	-	-
OP 'Basse-Normandie'	3	18.2	8.0	9.7	8.1	12.0	19.0	158.2	59
OP 'Burgundy'	6	6.8	1.8	2.9	1.7	6.1	-	-	-
OP 'Franche-Comté'	3	6.0	2.1	3.1	1.5	4.5	4.4	97.3	19
OP 'Upper Normandy'	1	4.0	2.0	2.0	0.0	2.8	-	-	-
OP 'Languedoc-Roussillon'	2	30.0	15.0	14.7	0.0	30.0	21.4	71.4	1,653
OP 'Lorraine'	11	34.1	8.7	8.0	10.6	31.8	26.3	82.5	885
OP 'Loire'	1	2.0	0.6	0.5	0.0	2.0	4.6	232.3	26
OP 'Poitou-Charentes'	2	12.5	6.3	9.1	0.0	12.0	7.7	64.1	25
OP 'Provence-Alpes-Côte d'Azur'	2	39.5	19.7	14.2	0.0	39.5	6.2	15.7	-
OP 'Champagne-Ardenne'	11	10.5	4.4	5.0	0.0	8.1	-	-	-
OP 'Corsica'	8	49.0	22.5	39.0	17.0	49.0	64.1	130.8	1,442
OP 'Ile-de-France'	3	12.8	6.4	8.7	-	12.1	-	-	-
OP 'Limousin region'	5	15.9	4.4	8.4	2.6	15.9	5.9	37.4	779
OP 'Nord-Pas-de-Calais'	5	78.9	70.8	25.6	0.0	78.9	28.5	36.1	906
OP 'Midi-Pyrénées'	3	6.0	4.9	2.1	0.1	6.0	19.6	328.9	328

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.7 Germany

FIs are used in most German ERDF programmes. There are two minor exceptions for the 2007-2013 period: Bremen and Saarland. Both programmes will however use FIs in 2014-2020 programmes. Altogether, the German ERDF OPs operate 36 FIs. At the level of programmes, there are between zero FIs (ERDF OPs Saarland and Bremen) and six (ERDF OP Berlin). Most Bundeslaender operate two or three such funds. FIs within ERDF programmes have been organised either under the umbrella of the managing authority, or by assigning state banks or private investment companies. "Convergence" programmes (Eastern Germany and the "Regierungsbezirk" Lüneburg) have put more emphasis on revolving credit instruments, while "Regional Competitiveness" regions prefer equity funds.

Table 32: OP key figures on FIs for enterprise support in Germany in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Thüringen'	2	145.0	108.8	15.7	0.0	145.0	144.2	99.5	1,015
OP 'Brandenburg'	3	82.5	61.9	8.6	1.3	82.5	69.3	84.0	100
OP 'Mecklenburg-Vorpommern'	2	35.5	35.5	7.2	0.0	15.5	32.7	211.2	-
OP 'Saxony'	2	77.4	55.5	3.6	2.4	77.4	71.2	92.1	105
Regional OP for Lüneburg (Lower Saxony)	1	16.0	12.0	6.1	0.0	16.0	8.5	53.0	23
OP 'Saxony-Anhalt'	4	359.2	261.3	24.2	0.0	342.3	341.8	99.9	1,380
OP 'Bavaria'	4	105.0	52.5	21.1	15.0	101.0	89.0	88.1	630
OP 'Schleswig-Holstein'	2	54.0	24.0	11.4	10.4	50.3	40.5	80.5	236
OP 'Berlin'	5	194.6	97.3	18.1	0.0	194.6	143.9	74.0	-
OP 'Hessen'	3	61.1	30.5	24.8	0.0	48.1	40.2	83.5	75
OP 'North Rhine-Westphalia'	3	119.3	59.1	7.7	0.0	119.3	99.8	83.7	809
OP 'Baden-Württemberg'	1	1.7	0.8	0.8	0.0	1.4	1.3	90.7	7
OP 'Hamburg'	1	12.0	6.0	25.4	0.0	12.0	5.8	47.9	32
OP 'Lower Saxony' (excluding Lüneburg)	2	64.0	32.0	10.6	0.0	64.0	47.0	73.4	89
OP 'Rhineland-Palatinate'	1	27.0	13.5	10.2	0.0	27.0	17.8	66.1	138

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation
Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)

- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.8 Case Study ERDF OP Bavaria

The FIs under scrutiny

- Bavaria has implemented four different FIs – three risk capital funds and one loan fund - covering the entire region and administered in a decentralised manner. The approach is closely linked to regional development policy, specifically addressing small and medium-sized enterprises (SMEs) in regions that lag behind economically, even though the Financial Instruments (FIs) cover the entire Free State of Bavaria except for the Munich metropolitan region. The FIs total EUR 105 million, of which EUR 55 million is from the ERDF.
- The funds allocated at the start of the programming period have been almost fully disbursed. About 80% of financial targets at different levels from Operational Programme (OP) to final recipients were met by the end of 2013.

The context within which FIs were introduced

- The Bavarian Managing Authority (MA) has always favoured grants as the main funding instrument for the private sector. During the 2007-2013 period, FIs with venture capital (VC) or loans were considered as an experimental instrument. They were partly supplementary tools to grants and partly an alternative to be examined for any wider effects. The major purpose of introducing FIs has been to offset temporary imbalances in local financial markets. By and large, this policy offers enterprises a wider range of funding opportunities.

Goals and Theory of Change (ToC) of FIs

- There was no explicit ToC for the four new FIs under the ERDF OP. There was no *a priori* document sketching out the needs for structural change in the regions, or defining variables indicating the change, or defining a specific system of mechanisms leading to the desired change. There was no explicit ToC for the OP though it may include elements of one. However, the FIs are systematically embedded into the regional Cohesion Policy strategy. This may be considered as an implicit ToC. Programme documents indicate a general system of objectives that is further developed by the implementing bodies in a decentralised manner. Significant issues are governed by agreements between the MA and the implementation bodies. These agreements are commensurate with the overall needs.
- Cohesion Policy objectives to support economically weaker regions are the only visible components of a ToC. These objectives are delivered through grants and FIs, where FIs play a supplementary role (10% of total OP volume, or 32% of the volume of Priority Axis 2).
- Orientation of the FIs towards regional development goals is demonstrated by targeting less economically advanced regions. The emphasis is on small investments, coordination with regional cluster initiatives, partnership with local banks as agents of subsidised loans and, in part, implementation by local venture capital funds. The ERDF Cluster Fund was specifically designed to support the

'Cluster offensive 2006' when 19 regional R&D/enterprise clusters in the IT, sensor technology and life sciences sectors were established in the regions.

- A detailed market gap analysis for the FIs was not required in the 2007-2013 period. The programme stakeholders took advantage of this freedom to experiment with FIs under the ERDF regime and to collect implementation experience.
- The European Commission (EC) encouraged the MA to use these new tools in the context of the ERDF. ERDF supported FIs have only been included since 2007; however, there has been substantial experience with FIs in Bavaria, mostly with private or national public funding.
- The role of the various instruments in supporting different stages of business development (seed, start-up, later stages, and growth) is systematically defined.
- There is no competition between grants and FIs. Eligible enterprises may choose one but not both options. Instead, their supplementary character is emphasised by the MA and the LfA Foerderbank Bayern Muenchen (LfA), which is the fund manager. The MA is looking for a highly diversified portfolio of funding products, which are tailored to the various conditions and needs of enterprises.
- In practice, it was difficult to focus only on the initial target areas. The areas covered were broadened for technology firms that are rare in the initial target territories.

Management and implementation of FIs

- FIs under the Bavarian ERDF programme have been governed by a four-tier administrative system (MA-intermediate body-financial intermediary-final recipient). The MA is supported in-house by ministerial units 43 and 53, which act as the technical unit for administering and supervising all venture capital and loan funds.
- The FIs are managed at operational level by two public and two private bodies with long-standing experience and established regional representation. The intermediary institutions managing the funds have qualified staff. Fund managers have in-depth knowledge of the regional and local product and financial markets.
  (i) The LfA Förderbank Bayern, founded in 1951, is the public development bank of the Free State of Bavaria.
  (ii) Bayern Kapital GmbH in Landshut is a public Bavarian venture capital company, founded under the 'Bavarian Future Initiative' in 1995 as a wholly-owned subsidiary of the LfA Förderbank Bayern. Bayern Kapital usually co-invests with a private lead investor. The 'Bayern Kapital model' seems to be unique in Germany.
  (iii) BayBG is a private enterprise and has been active in the Bavarian venture capital market for 42 years.
  (iv) S-Refit, founded in 1990, is a private company (with municipal shareholders via the savings banks) based in Regensburg. S-Refit covers the private sector in Eastern Bavaria.

- The public bank LfA was directly assigned to run the loan scheme. Loans are distributed via local banks, which assess applications and conclude loan contracts with final recipients. The loans support in-house innovation in eligible businesses.

- The venture capital funds were established by open tender. For the ERDF Cluster Fund (Bayern Kapital), it took eight months to get approval for the 70:30 financing model, rather than the standard 50:50. This model is very attractive for business angels but requires a separate notification process through DG Competition. It took around one year between tender and award to establish the S-Refit Risk Capital Fund I.
- Management costs and fees range between 0.5% (2010-2015) per year for the loan funds, and 3.0% per year for the risk capital funds. Technical assistance was not used to develop the FIs.
- All these FIs have a commercial strategy and seek financial sustainability.
- According to the MA and the institutions managing the four FIs, implementation experiences are largely positive. Some challenges, however, relate to ERDF administrative requirements, which can be burdensome. There is a perception that the administrative burden imposed on FIs is much greater than for grants.

Monitoring and evaluation of FIs

- The MA initiated a mid-term evaluation, which included an assessment of FI implementation. The focus was on adequacy of the FI approach and on assessing the first detectable effects. For the 2014-2020 programme period, recent ex-ante assessments have included ex-post-reviews of the three venture capital instruments and the loan funds. This included an estimate of the leverage effects.
- The indicators collected by the MA cover financial and output indicators and a limited set of result indicators (jobs, total investments volume). Outcomes on company growth, turnover, sales or indicators on the horizontal priorities (sustainability, equality) were not recorded by the monitoring system. Lean monitoring avoids 'data cemeteries', saving costs and administrative burden for the implementing bodies.
- There are clearly defined reporting provisions between fund managers and the MA on the output and result indicators and data provision. Monitoring data are available on fund absorption. The financial agreements contain definitions of reporting provisions with regular reports to monitor financial absorption, including an auditor's statement.
- Unfortunately, achievements on employment and value added have not yet been documented due to some projects still being in progress.

Outcomes of FI implementation

- The three risk capital funds leveraged investment capital by a factor of between 4.9 (ERDF Cluster Fund) and 20.4 (Risk capital Fund I - S-Refit). However, such leverage should be interpreted cautiously, especially in comparison to each other. Leverage for Risk Capital Fund I appears to be particularly high, but can be explained by the inclusion of the S-Refit med tech funds, which was counted as an additional private contribution (Prognos 2014).
- The loan fund Investivkredit 100 Pro (LfA) has already revolved around 25% (second round). This suggests that the fund serves its purpose. However it is too early to confirm that Investivkredit 100 Pro will operate sustainably with fees and interest being sufficient to cover default risk and costs.

- It is not yet clear how profitable the risk capital fund will be by its scheduled closure at the end of 2015. The fund managers expect the fund to show a profit by that time. ERDF's added value was crucial from the viewpoint of venture capital fund stakeholders. Without ERDF funds, it would not have been possible to achieve a critical mass of venture capital.
- Networking support was an important added value for equity funds. The fund managers and their networks made access to new investors and markets much easier. In addition, knowledge of strategic issues was transferred, leading to more transparency in local markets and more local policy coordination. The fund managers are also very involved in establishing regional business support initiatives and business angel networks in economically struggling sub-regions.
- The main result indicator is for job creation in less economically advanced regions and border areas in line with the Cohesion goal pursued by the programme. In total, 1,200 jobs should be created and 2,500 safeguarded, especially in technology but also in more conventional sectors such as crafts and retail. According to the MA, it is too early to demonstrate the actual job effects because all four funds are currently still in the implementation phase and no final examination has been made. A simple extrapolation estimate, based on data from the mid-term evaluation, suggests either moderate success or an over-optimistic ex-ante forecast. There is some preliminary indication that traditional grants are more effective in creating jobs.
- With respect to outcomes beyond financial absorption, there are major gaps in the result chain, which are partly due to data protection regulations. Positive effects on innovation capacity and the competitiveness of supported enterprises are assumed but cannot be assessed due to a lack of published data. Key stakeholders argue that all instruments have generated positive effects in addition to job creation; however, the evidence is too weak to prove any such effects.
- For the 'Investivkredit 100 Pro' loan fund (LfA), monitoring data and information are available on financial distribution across the target areas. There are also unofficial estimates of job effects per sector and gender. However, these are not sufficiently reliable. A first analysis, based on data from the mid-term evaluation, indicates that cost per job supported by the loan scheme is 2.9 times higher (EUR 696 000 per job) than one supported by the grant scheme (EUR 242 000 per job). The open question is therefore whether this can be comprehensively explained by systematic differences between grant recipients and loan recipients.
- In the 2011 mid-term evaluation, a counterfactual analysis was carried out on the employment effects of the FIs. The evaluators found some evidence that employment effects were significant for final recipients – but only those addressed by venture capital.
- A retrospective ToC viewing the transmission mechanism along with the intervention logic at a micro-economic scale remains fuzzy. A ToC may be re-constructed at the overall policy level (goals of cohesion policy).
- In general, the mix of monitoring data and interview-based information on FI implementation suggests progress in terms of employment, sales/turnover and innovation capacity but due to the lack of micro-datasets on enterprises, such impacts cannot be quantified or precisely defined. It is not yet possible to show that FIs, notably loans, have encouraged more growth than traditional enterprise

grants. In fact, preliminary early data extrapolation suggests the opposite. In order to shed light on this potential 'opportunity cost' issue, a detailed analysis of the different types of enterprises addressed by the different instruments is recommended, e.g. by cluster and MANOVA[87]/discriminant analysis in addition to a counterfactual comparison analysis.

[87] Multivariate Analysis of Variance (MANOVA)

6.10.9 Hungary

Before the launch of the JEREMIE programme there were a wide variety of government-funded FIs targeting SMEs (some 20 programmes per year, each offering different financial products). Some of these instruments were co-funded by the EIB and the EBRD, and some of them were part of the PHARE programme. The JEREMIE products introduced in 2007 were the first to be co-financed by the ERDF. There had been large overlaps in the aims and target groups of the various financial instruments when they were running under different conditions. In some cases, they even competed with each other. The high number of products led to costly and inefficient delivery, and some of the sector-oriented FIs introduced unreasonable market distortions.

During the 2007-2013 programming period, all OPs with an SME development focus offer JEREMIE type FIs. National authorities were and still are in charge of programming and implementation. This is also the case for the seven regional OPs, which have one common central managing authority. Most of the support is administered through loans or venture capital funds.

Table 33: OP key figures on FIs for enterprise support in Hungary in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Economic Development'	163	727.1	618.0	20.9	0.0	710.9	601.6	84.6	0
OP 'West Pannon'	1	6.8	5.8	8.4	0.0	6.8	2.1	31.5	0
OP 'South Great Plain'	1	6.8	5.8	4.4	0.0	6.8	2.6	38.8	0
OP 'Central Transdanubia'	1	6.8	5.8	7.0	0.0	6.8	3.8	56.3	0
OP 'North Hungary'	1	6.8	5.8	4.4	0.0	6.8	1.8	26.5	0
OP 'North Great Plain'	1	6.8	5.8	3.7	0.0	6.8	3.1	45.6	0
OP 'South Transdanubia'	1	6.8	5.8	7.6	0.0	6.8	2.2	31.9	0
OP 'Central Hungary'	53	147.8	125.7	25.3	0.0	145.0	135.1	93.2	0

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation
Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.10 Case Study OP Economic Development

The FIs under scrutiny

The FIs concentrated on small loans, guarantees and venture capital schemes. The first loan schemes were introduced under Priority Axis 4 (PA 4) of the EDOP in 2007. There were two schemes in 2007 and in 2014, and another four introduced in 2010. The guarantee schemes varied less across the programme period than the loan schemes. Venture capital investments were exclusively for new, innovative start-ups, with special emphasis on firms in need of seed capital.

Targets for the credit schemes were very narrow in the first half of the implementation period (2007-2010), focusing only on micro-businesses with no specific sectoral or geographical targeting. From April 2010 onward, small companies could also apply for loans, followed by medium-sized companies in January 2013. There was a similar shift with venture capital funds.

The various schemes' financial performances differ significantly. The loan schemes have disbursed 122% of allocated funds, followed by the guarantee schemes with 64% and the VC schemes with 53%.

While the credit schemes have overperformed their targets, the guarantee and VC schemes had a very slow take-up and consequently, slower allocation. There are many reasons for the different performance:

- institutional, due to the time-consuming set-up process in the first half of the programming period;
- contextual, due to post-crisis effects; and
- strategic, with higher demand for credit schemes, especially for the 'Combined Microcredit' scheme, which provided simultaneous access to both refundable and non-refundable support within the scheme.

There was a breakthrough in 2010 and 2011, after which the credit schemes and venture capital schemes accelerated disbursements. One reason was the new Combined Microcredit scheme, which combined small loans and grants for micro and small businesses. This FI scheme has turned out to be the top JEREMIE-type product in Hungary. Secondly, from 2010 onwards several amendments were introduced, resulting in some stringent credit conditions being significantly relaxed, such as:

- increasing the maximum credit thresholds and refinancing rates per type of financial intermediary;
- fixing the interest rate threshold at 9%;
- increasing the duration for both investment and working capital loans;
- decreasing the required co-investment.

Within the credit schemes, financial entreprises and local economic development agencies (LEDAs) were the most active intermediaries for the number of operations

(80%). Notably, from 2012, both financial enterprises and LEDAs concentrated on the Combined Microcredit scheme.

Credit institutions could offer guarantees during the first EDOP implementation, but interest was very limited, particularly from banks. The average guarantee was close to EUR 10,000 (HUF 3 million) but there were only 1,140 operations by the end of 2014. While 15 banks and 28 savings cooperatives offered the portfolio guarantee scheme, from 2008 to 2013, when it was phased out, the counter-guarantee scheme was highly centralised, provided first by the HF, followed by the publicly-owned garantor organisation, Garantiqua Ltd from 2011.

Although the conditions for the guarantee schemes were substantially relaxed during implementation by, for example, raising the trigger threshold for defaulting portfolios and easing rules on collateral, the slow progress of these schemes can be explained by:

(a) restrictive regulatory rules, for example:
  (i) restrictions on coupling JEREMIE-type credit schemes with guarantee schemes at final recipient level;
  (ii) double financing rules;
  (iii) limiting guarantees to only investment loans;

(b) low demand for guarantee schemes by final recipients, for example:
  (i) lack of information on the benefits of the schemes;
  (ii) low trust in the conditions' predictability.

The 23 VC funds financed 198 projects, with an average of EUR 1.17 million for New Hungary, EUR 1.27 million for New Széchényi VC funds and EUR 147,000 for New Széchényi Seed Capital. After slow take up in the first years (2009-2010), the number of fund managers and volume of disbursements steadily increased after 2010. Improved macroeconomic conditions in the second half of the progamme period contributed significantly to this upward trend.

The context in which FIs were introduced

Slow economic growth in the Hungarian regions meant there was little if any convergence in the 2007-2013 period. Structural challenges to growth and signs of recession were already evident before the economic crisis hit in 2009.

Throughout the programme period, the main macroeconomic indicators were weaker than for other countries in the Central and Eastern European region, such as the Czech Republic, Poland and Slovakia. This underperformance was coupled with widening territorial inequalities.

Goals and theory of change (ToC)

The main strategic objectives of the EDOP FIs were to:

(1) provide access to finance for SMEs with a viable business plan or feasible investment ideas; and

(2) promote start-ups with innovative potential.

There was no specific geographical or sectoral targeting. In addition to the SME policy objectives, the interventions were also aimed at market-making and market facilitation where SME financing was underdeveloped, such as microcredit, or in effect non-existent, such as seed and venture capital.

The long-term FI targets are vaguely defined in the OP documents, i.e. promoting growth and job creation. The programme documents also lack any explanation of how to achieve these goals.

Although the strategic goals are consistent with the ex-ante gap analysis and justified by other analyses, absorption pressures dominated the second half of the programming period. These resulted in slight changes to targets, including amendments to the credit schemes, relaxing screening by allowing companies with a credit history access to the funds and easing the conditions of the schemes.

For the second strategic objective, the programme encouraged a large number of financial intermediaries, to generate competition and to ensure efficiency with several types of private and public fund managers. These intentions have been justified, especially with seed capital.

The MA's motivation shifted during the programming period. The planning process was driven by the efficiency of support instruments to simplify market entry, promote new intermediaries and foster competition. In the second half of the programming period, absorption became more important.

The combined microcredit scheme was very successful. Combinations with non-financial support were not developed at programme level but this practice is common with some fund managers, such as LEDAs.

Management and implementation of FIs

The governance structure does not obviously match the structure in EU regulations. This was one of the biggest challenges to clarify according to the government representatives interviewed. Adaptation of EU regulations to the national context required a lot of effort due to the unique approach of the national authorities.

The bottom line of the ongoing controversy was that the high number of implementing bodies did not mean a corresponding high number of FIs. In total, the country ran 11 different FI schemes managed by one MA, one central Holding Fund and 137 financial intermediaries. The schemes used standardised calls and funding agreements.

There were five types of intermediaries: a guarantee institute, Garantiqa Ltd, (exclusively offering the counter-guarantee scheme), credit institutions (banks and saving cooperatives), financial enterprises, LEDAs, and VC funds. Funding agreements differed for each of these groups, including the interest rate and the maximum disbursement. The approaches were quite different, with credit institutions showing little interest in promoting the support products, whereas many of the financial enterprises were founded

with the purpose of acting as fund manager. These financial enterprises and LEDAs offered FIs across the whole country.

Banks were highly underrepresented, mainly due to:

(a) a low maximum for loans of around EUR 166,000 (up to 2013);
(b) perceptions of high administrative and reporting costs; and
(c) complexity of procedural rules in the funding agreements.

The MA and the Holding Fund relied on performance-based incentives to calculate next-phase allocations to the financial intermediaries. So-called 'partner-limits' were based on past performance. Although these limits were raised during implementation, they proved to be good benchmarks for assessing beneficiary performance and helped to reduce implementation risk through the sequential allocation of the funds.

The key performance incentive for venture capital funds was the asymmetric loss and revenue-sharing system, where the Holding Fund takes losses above a low limit, but does benefit less than proportional from the revenues.

The Holding Fund was established in the summer of 2007. The various calls took from four weeks to four months to prepare for credit schemes and up to 1½ years for some VC schemes. Some loan and guarantee schemes were very quickly established, but were modified during implementation.

HF management costs were on average EUR 1.47 million per year and totalled EUR 10.32 million at the end of 2013. The annual management fee for the intermediaries is fixed at 5% for all FIs in Hungary. How this compares to the actual (or planned) cost is still unknown, but it seems that these management fees are significantly above the market and are among the highest in all case studies.

Monitoring and evaluation of FIs

The monitoring system focuses on operative indicators and uses a specific scoring model from the HF managers to assess the soundness and health of the portfolios. Performance data at the level of final recipients is based on self-reporting rather than on government databases.

Programme- and priority-level indicators are poorly designed for almost all types of monitoring and strategic indicators. Values are missing in several AIRs for several indicators, for instance in the 2011 AIR for 'Access of financial mediation in the SME sector'. For 2007 and 2008 and there is no methodological guide on the meaning and interpretation of the values. During the interviews the MA and fund managers were obviously uncertain about indicators.

Outcomes of FI implementation

The majority of credit schemes were for investment loans, with two 'outlier' intermediaries, banks and credit cooperatives, which concentrated their efforts mostly on working capital loans to businesses. The average amount of the loans varied substantially

across schemes and type of financial intermediary, also depending on the scheme. In general, the investment pattern was:

- credit institutions, i.e. banks and credit cooperatives focused on SMEs with larger volumes. Both the average and median loan amounts are significantly higher for banks, e.g. EUR 83,000 for the average and EUR 42,000 as the median loan;
- financial entreprises took the chance to invest primarily in micro- and small entreprises with substantially smaller needs;
- LEDAs concentrated on micro- and small businesses with very low average loan size, e.g. under EUR 20,000 and occasionally with more personalised services, such as mentoring and coaching in business planning - at least, with the most successful local agencies.

The top sectors benefiting from the credit and guarantee schemes were commerce, manufacturing and tourism, compared to firms with a strong Research and Development profile for venture capital funds.

The EDOP and its PA 4 was designed specifically to support SMEs and enterprise development in the Convergence regions. Although FIs were already widely used in Hungary in the 2000s (financed by national funds), this was the first time that Cohesion Policy introduced JEREMIE instruments as an alternative to the non-refundable support used exclusively in the previous programme period. This new PA under the economic development programme was planned to be a large-scale pilot initiative to see how microcredit, small loans and guarantees could perform better than grants in terms of financing micro- and small firms and in terms of cost-efficiency.

The EDOP was successful with a high commitment rate (over 90%). In 2014, over 90% of final recipients were micro and small firms, 64% of them with no credit history. These figures are very much in line with the initial intentions.

By the end of 2014 there were 13,055 final recipients under PA 4, with close to 14,000 transactions. Regional allocation of funds was relatively balanced, and monitoring data also suggest that almost 62,000 new jobs were created by 2013 for the whole EDOP, but there were no separate data available for FIs.

According to our estimates, EUR 1 contributed by ERDF funds generated EUR 1.42 of total public and private capital investment.

It is hard to assess the effectiveness of the interventions in terms of result and impact indicators since all the FI schemes are still in progress (only 25% of the 14,000 transactions were closed by the end of 2014). Nevertheless, the official AIR 2014 reports on some of the result indicators – such as:

- the decrease in micro enterprises and SMEs without access to loans by 5.8% by 2013 under PA 4 (target value: 12.8 % decrease by 2015).

- improved access to financial mediation for SMEs by 4.2%points change in the share of SMEs having access by the end of 2013 (target: +10% points change by 2015).

Unfortunately, the source of these data and the calculation methods are not clearly specified in the official reports. Nevertheless, the SMAF index for Hungary between 2007 and 2014 shows that the overall score for Hungary has improved, rising from 81 to 95. The SMAF debt sub-index and the SMAF equity finance sub-index performed even better, hitting the EU baseline in 2013 with a score of 103.

These figures suggest a slow convergence in SME financing and a slowly closing gap in the Hungarian financial markets. Further analysis is required with regard to:

(a) sustainability of the improvement in both the credit and equity financing indicators; and
(b) the effective contribution that EDOP FIs generate in terms of growth and productivity at the micro enterprise level.

Counterfactual impact assessments should answer these questions after the programme is closed.

In our interviews, both government and market stakeholders emphasised the significant market-making effect generated by the venture capital funds and a potential market-clearing effect for SME microcredits. They also pointed to some indirect effects, such as the start-up network linked to the interventions, improved market know-how of FIs and positive perceptions of these instruments.

The added value of FI implementation in Hungary is clearly reflected in the quick revival of the Hungarian VC market after the 2008 financial crisis. Without the EDOP measures, the market would be much more limited.

6.10.11 Italy

Italy has a lengthy tradition of FIs within domestic enterprise support policy. In addition, FIs were used extensively by ERDF OPs to support enterprises in the 2007-2013 period.

There are 19 OPs using FIs in Italy, out of 28 regional competitiveness and employment (RCE) and convergence programmes. FIs are less used by multiregional and national programmes (2 OPs out of 7), while they are used by all convergence OPs except OP 'Sicily'. The RCE programmes not using FIs are 'Valle d'Aosta', 'Autonomous Province of Trento' and 'Autonomous Province of Bolzano'.

As in other EU countries, OP contributions are in some cases invested in the capital of existing legal entities dedicated to implementing FIs consistently with ERDF objectives. Confidi is one example of the mutual or co-operative consortia working at the local level on a quasi-commercial basis to provide loan guarantees to their members.

The large majority of FIs for enterprise support are implemented without a Holding Fund (HF) and 61 of the FIs are specific funds (NHFs). HFs are used by seven OPs with a total of just 12 FEIs. This indicates the very limited number of FIs under each HF as only HFs in OP 'Campania' and 'Latium' have more than one. Interestingly, OP 'Calabria', OP 'Latium' and OP 'Lombardia' set up both FEI and specific funds (NHFs), suggesting the need to adopt different implementation mechanisms to address local enterprise needs.

FIs co-financed by Italian ERDF OPs offer loans, guarantees, and equity. Guarantee and loan schemes prevail, being offered by 11 and 10 OPs respectively. Equity is offered through seven instruments by six OPs (OPs 'Emilia-Romagna region', 'Latium', 'Liguria', 'Tuscany', 'Veneto' and 'Sardinia'). A limited number of schemes provide non-financial support alongside the FI, usually as conventional advice and management support.

Table 34: OP key figures on FIs for enterprise support in Italy in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Renewable Energy and Energy Efficiency'	8	356.0	267.0	-	0.0	356.0	6.0	1.7	413
OP 'Research and Competitiveness'	9	1,115.5	836.6	30.8	-	1,115.5	411.3	36.9	21,046
OP 'Attrattori culturali, naturali e turismo'	3	110.0	81.6	-	-	110.0	22.6	20.6	3,057
OP 'Calabria'	4	121.7	91.3	49.1	0.0	121.7	4.1	3.4	36
OP 'Campania'	6	430.0	326.3	66.1	-	400.0	66.4	16.6	469
OP 'Puglia'	17	298.2	186.6	30.2	0.0	298.2	60.7	20.4	-
OP 'Basilicata'	2	32.0	15.7	29.1	0.0	29.0	0.0	0.0	5
OP 'Abruzzo'	1	32.1	12.1	18.8	-	32.1	2.6	7.9	489
OP 'Emilia-Romagna region'	3	31.5	7.7	5.5	10.5	24.3	-	-	-
OP 'Friuli Venezia Giulia'	1	22.0	7.0	24.2	0.0	22.0	21.2	96.3	119
OP 'Latium'	9	145.5	72.8	47.7	-	145.5	56.3	38.7	3,695
OP 'Liguria'	3	73.8	20.2	25.4	10.0	73.8	15.7	21.2	77
OP 'Lombardia'	5	145.8	57.8	59.5	-	145.8	53.1	36.4	387
OP 'Marche'	2	17.0	6.6	12.4	-	17.0	-	-	-
OP 'Molise'	2	30.6	11.3	40.4	-	30.6	10.5	34.4	197
OP 'Piemonte'	4	100.0	39.6	18.6	0.0	100.0	65.2	65.2	3,934
OP 'Tuscany'	5	226.4	60.9	30.7	26.7	206.5	156.0	75.6	2,674
OP 'Umbria'	1	44.9	14.7	19.8	10.8	44.9	13.4	29.9	391
OP 'Veneto'	6	121.8	56.0	52.3	0.0	121.8	231.8	190.3	346
OP 'Sardinia'	3	300.2	212.0	69.3	0.0	296.9	64.4	21.7	2,846

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.12 Lithuania

Prior to 2007–2013 programming period, SMEs benefited from two FIs – guarantees for loans and microcredits. These instruments were financed from national funds as well as the PHARE programme.

ERDF–financed FIs were first introduced in the 2007–2013 programming period. All ERDF–financed FIs for enterprises are covered by OP 'Economic Growth'. One FI for enterprises is financed from ESF ('Promoting Entrepreneurship' under OP 'Human Resources Development'). One OP does not contain FIs for enterprises (OP 'Cohesion Promotion') as this is for infrastructure development. The Ministry of Economy is responsible for programming and implementation of ERDF–financed FIs for enterprises.

Support is overwhelmingly in the form of loans, followed by guarantees and venture capital. No non-financial support is offered in pure loan or pure guarantee schemes. All venture capital schemes include business advice, management support and in one case, networking activities. The Promotion Entrepreneurship Fund (L + G + O) offers business advice and consulting, support for the preparation of business plans and training.

Table 35: OP key figures on FIs for enterprise support in Lithuania in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Economic Growth'	26	265.8	265.8	25.1	0.0	265.8	236.1	88.8	5,573

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.13 Case Study OP Economic Growth

Implementation of financial instruments (FIs) in Lithuania was largely determined by the economic crisis that struck the country in 2008. Another important stimulus was the arrival of a new government that opted to use FIs extensively as the principal means of stimulating economic recovery.

Before the crisis, the market gaps and corresponding intervention through FIs could be considered marginal. The crisis increased the market gaps and FIs have been at the forefront in addressing the demands of small and medium-sized enterprises (SMEs) that were unable to access external financing. In contrast to the Theory of Change (ToC), innovation did not play a key role in FI implementation under the Operational Programme (OP) Economic Growth. Instead, FIs have been increasingly used by SMEs for dealing with the lack of working capital, rather than for investment.

This case study highlights the relevance of the financial market assessment in the definition of the ToC and the evaluation of FI implementation. Specific characteristics of financial systems, such as system stability, or the variability of credit conditions and the cost of credit, should also be considered in market gap assessments.

The state agency, INVEGA (Investicijų ir verslo garantijos, Holding Fund (HF) manager), played an increasingly important role in the implementation of FIs. JEREMIE (Joint European Resources for Micro to Medium Enterprises), the other HF, was managed by the European Investment Fund (EIF).

The FI under scrutiny

The OP Economic Growth is the largest Lithuanian OP from the 2007–2013 period, with an allocation of EUR 3.08 billion. This OP finances investments in research and technological development, development of the information society and economic and transport infrastructure. FIs for enterprises are supported under Priority Axis (PA) 2 'Increasing business productivity and improving the business environment'. In total, 24 FIs (HF not included) have been implemented, grouped into nine schemes. Support through FIs is predominantly in the form of loans (15 products), with guarantees (4 products) and venture capital (VC) (5 products). This variety of schemes has many banks broadly involved, which in turn makes the FIs accessible to more SMEs. FIs are not the only form of finance under Priority Axis 2. Non–repayable assistance (grants) for enterprises are provided, for example, for investment in equipment and technology, new IT management solutions and activities to boost exports.

Goals and ToC of implemented FIs

The FIs were designed to address the lack of external financing for SMEs. Having financial resources available for business investment was expected to also contribute to the broad policy objectives of long–term economic growth and an increase in labour productivity. In a 2007 EIF study, a market gap was identified: loans, guarantees and equity. However, the study could not anticipate the increased demand for working capital due to the economic crisis. Different reactions to this change were key factors in the implementation of FIs during the 2007–2013 period.

While all FIs in the OP Economic Growth are aimed at increasing SME access to finance, different FIs address different problems. The large variety of FI products has ensured widespread use of the schemes.

Despite the variety and differentiation of FIs, the documented ToC is very simple and incomplete. All FIs are aimed at SMEs, which correspond to the expected short term result expressed in the ToC (improvement in SME access to financing sources). Start–ups, innovation–oriented enterprises and SMEs in underdeveloped regions are mentioned in programme documents as the recipients in greatest need of support. However, neither the selection criteria for final recipients nor the monitoring indicators reported to the Managing Authority (MA) distinguish particular groups of SMEs. There is an overlap between loan and guarantee schemes since they provide very similar products to final recipients. Only a few products make unique offers. For example, Practica Seed Capital KUB is the only risk capital fund investing exclusively in seed and start-up capital. This indicates a weak ToC. Additionally, meaningful intermediate results for the FI target group are missing. FIs mainly target national macro-economic development goals, rather than regional or sectoral ones.

The clearest inconsistency between the ToC and FI implementation was SME use of FI funds. The programme documentation identified the need for investment in modern technology and equipment. However, the crisis caused a shift in the purpose and form of FIs, which were often used to help SMEs survive difficult economic conditions.

Management and implementation

The overall governance structure is adequately developed and stable. FIs under the OP Economic Growth are implemented through two HFs (INVEGA and JEREMIE HF) and one fund without a HF (Guarantee Fund). INVEGA HF and the Guarantee Fund are managed by the INVEGA public agency, while the JEREMIE HF is managed by the EIF. HF managers are responsible for selecting financial intermediaries through tenders, as well as for implementing the investment strategy and financial engineering schemes. The Ministry of Finance is the MA and the Ministry of Economy is the Intermediate Body. The MA

(a) Participates in the selection of HF and specific fund (Guarantee Fund) managers (together with the Intermediate Body);
(b) supervises HF activities and
(c) reimburses payment applications submitted by the Intermediate Body.

The Intermediate Body:

(a) oversees the implementation of financial engineering measures;
(b) approves specific schemes and
(c) participates in the selection and supervision of the HF and fund managers.

Fund managers (financial intermediaries) are responsible for implementation of the 24 FIs. There are 16 different fund managers in Lithuania; most of them are private companies (banks). Management costs and fees are very different depending on the nature of the FI and the operating body.

The overall financial performance of the FIs is good (with the exception of risk capital funds, which at the end of 2013 were in the middle of their investment period). Up to the end of 2013, EUR 278 million of ERDF funds had been paid to FIs, equalling the total ERDF allocation to FIs under OP Economic Growth.

Co-investment plays an important part in the implementation of a range of FI schemes. Considerable private money was attracted to the Guarantee Funds (leverage 500%). In loan and VC funds there was only minimal private money (around 150%). In absolute numbers, by the end of 2013, EUR 274 million of private money had been co-invested (72% of OP target) and nearly equals the European Union (EU) funds.

An indication for revolving funds is given in four FIs ("Small loans to SMEs – Stage 2" implemented by four different fund managers). In total EUR 23.7 million had revolved by the end of 2013. However, in most FIs the ratio between the funds invested in final recipients and the original fund size was below 100%.

One of the main implementation issues that the HF manager and the Intermediate Body stress is the fact that there are still unclear regulations regarding the combination of FIs and grants. Some FI schemes were unattractive for financial intermediaries due to very detailed implementation rules. However, final recipients did not encounter difficult administrative procedures when applying for FI support.

The cost-efficiency of FIs and grants was evaluated in 2014. However, there were no clear conclusions as the instruments are too different. FIs were more attractive to final recipients than grants. Enterprises that benefited from grants had to dedicate three to four times more time to project preparation and implementation than enterprises which used FIs.

The large number of ERDF–financed FIs of different size on offer in Lithuania is considered best practice from the point of accessibility since SMEs can mix different FIs for maximum benefit. The scale of an FI is a poor predictor of its performance. The Lithuanian experience shows that small FIs can be very effective in filling a market gap.

Monitoring and Evaluation of FIs

Key indicators reported by HF managers are the number of SMEs supported and private investment attracted. These are OP–level indicators and their accuracy can be checked by the steering committee, especially if there are inconsistencies in the data. INVEGA also publishes profitability, liquidity and other indicators in its performance report. Although these are reported per institution, as opposed to the separate funds run by INVEGA, they are significant because almost all INVEGA activities are ERDF-financed FIs. Some important information on final recipients has not been reported.

Outcomes of FI implementation

FIs clearly contributed to financing for around 7% of SMEs in Lithuania. Accordingly an important OP objective ´Increase SME access to finance´ was achieved.

Up to the end of 2013, 4,720 SMEs benefited from FIs (83% of target and 7.2% of all SMEs in Lithuania). Loans and guarantees provided by FIs (both EU and private funds)

made up 7.2% of the business loans from Lithuanian banks at the end of 2013. Based on European Commission (EC) summary data, 38% of final recipients were micro–enterprises. This is a high percentage, considering that micro–enterprises were not targeted in programme documentation. In addition, micro–enterprises also benefited from the Entrepreneurship Promotion Fund that was co-financed by the European Structural Fund (ESF). FIs financed under OP Economic Growth attracted EUR 274 million of private investment (72% of target). It is also worth noting that targets for both these indicators were increased during the programme period due to the good results. These new targets should be reached or almost reached by the end of 2015.

Despite the delayed uptake of ERDF funds the boost to equity products in Lithuania is a major achievement. The main added value of ERDF VC funds as compared to private funds is their orientation to early stage investments (seed and start–up). There is some data on the performance of final recipients of equity funds. Total turnover increased by 43% and the number of employees by 12%, while losses fell by 71%.

In general, effects on turnover, job creation, innovation capacity and competitiveness of final recipients have not been systematically measured due to gaps in the intervention logic of the FIs. Although some enterprises were able to improve technology and upgrade their business processes, FIs were extensively used for financing working capital.

During the crisis, targeted selection of final recipients for FI support was abandoned in favour of a broad approach to help enterprises survive. Overall, only a minor share of investments was made in innovative enterprises. FIs were extensively used to finance working capital.

A 2014 evaluation of the impact of EU structural assistance on SMEs was the first to assess the impact of FIs in Lithuania. According to the counterfactual impact evaluation, only one of the two schemes analysed ('investment credits provided under small loans to SMEs' – Stage 2) significantly increased the number of employees and annual turnover of final recipients. However, working capital credits provided under the same scheme did not have the same effect.

Broader policy goals also have not been as successful. In 2013, investment in fixed capital formation was 18% of GDP (61% of target) a decrease compared to 23% in 2005, three years before the crisis.

As a percentage of the EU15 average, labour productivity improved in the 2007–2013 programme period, from 53% of the EU15 average in 2007 to 65% in 2012 which was 101% of the target. However, there has been no impact evaluation assessing the effect of FIs on labour productivity. The effect of the economic and financial crisis on wages was probably more important than intervention through FIs.

6.10.14 Poland

In Poland the first FIs supporting SMEs were loan and guarantee funds established in the 1990's. These were mostly regional or local with active involvement from regional and local public authorities and socio-economic partners. Foreign financial aid and know-how transfer from Western European countries, the USA, Canada and the World Bank facilitated government programmes supporting FIs in different regions.

EU support in the pre-accession period (i.e. PHARE 2000-2003) further increased the capacity of loan and guarantee funds and facilitated development of a country-wide network. Under the ERDF financed "Increase of Enterprises' Competitiveness" national OP of 2004-2006 the loan and guarantee funds were additionally capitalised. During both of those periods, the FI managers could be accredited by the Polish Agency for Enterprise Development (PAED) to participate in the National System of Services for SMEs.

In 2007-2013 ERDF support to SME-targeted FIs was shared between the national and regional OPs. All programmes offering support to SMEs use FIs. The Cohesion Policy 2007-2013 management system in Poland is centrally coordinated by the Ministry of Infrastructure and Development (MID) (formerly the Ministry of Regional Development), which is responsible for programming and supervising implementation of the National Strategic Reference Framework (NSRF) and the national OPs. There are 2 ERDF financed national OPs supporting SME-targeted FIs, "Innovative Economy" (IE) and "Eastern Poland Development" (EPD). Their managing authorities are based in the MID and intermediate bodies are in line Ministries and central government units. There are also 16 Regional OPs (ROP) programmed and managed by regional governments, such as the Regional Management Boards led by Marshalls, and the managing authorities are based in the Marshall Offices.

The number of FIs supported in 2007-2013 in Poland is very high (211) compared to Member States with similar size, economic growth, population, level of entrepreneurship development, and decentralised territorial structure (many regional and local funds). Interestingly, some of the ROP financed FIs have received additional allocations from the managing authorities for implementation of further editions of the same FIs within the current programming period.

The most typical forms of support in Poland include loans and guarantees, with only a few equity schemes.

Table 36: OP key figures on FIs for enterprise support in Poland in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Innovative economy'	12	93.8	79.8	1.3	0.0	93.8	28.7	30.6	144
OP 'Development of Eastern Poland'	20	49.1	42.7	7.8	0.0	49.1	40.7	83.0	2,346
OP 'Lower Silesia'	22	99.3	99.3	36.4	0.0	99.3	109.5	110.3	4,764
OP 'Kujawsko-Pomorskie'	18	41.0	41.0	23.8	0.0	40.9	37.8	92.4	1,127
OP 'Lubelskie'	6	38.3	35.9	14.9	0.0	38.1	33.2	87.1	1,841
OP 'Lubuskie'	7	9.3	9.3	9.3	0.0	9.3	8.3	89.2	427
OP 'Łódzkie'	14	44.8	29.1	12.8	0.0	44.8	45.4	101.4	539
OP 'Lesser Poland'	14	42.8	36.3	13.3	0.0	38.6	28.7	74.3	1,671
OP 'Mazovia'	14	30.0	22.7	6.1	0.0	30.0	33.1	110.2	1,148
OP 'Opolskie'	3	25.0	25.0	16.2	0.0	25.0	23.1	92.4	617
OP 'Podkarpackie'	9	30.9	26.2	10.8	0.0	30.9	25.1	81.3	2,698
OP 'Podlaskie'	6	31.3	31.3	18.6	0.0	31.3	30.9	98.7	833
OP 'Pomerania'	21	78.4	58.8	26.5	2.0	78.4	98.6	125.7	4,175
OP 'Zachodniopomorskie'	16	67.3	50.4	21.5	-	67.3	86.3	128.4	-
OP 'Greater Poland'	17	121.8	91.3	31.4	0.0	121.8	193.8	159.1	6,791
OP 'Świętokrzyskie'	7	35.4	29.1	17.2	0.0	35.4	31.1	87.7	795
OP 'Silesia'	4	20.4	16.6	5.3	3.8	20.4	12.0	58.9	336
OP 'Warminsko-Mazurskie'	2	30.5	30.5	13.1	0.0	29.8	30.3	101.7	1,141

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.15 Case Study Małopolska Regional OP

The FIs under scrutiny

The OP Małopolska (MROP) 2007-2013 has a total budget of EUR 1.87 billion of which EUR 1.36 billion is from the ERDF. It is the key operational instrument for implementation of the region's development policy. The strategic objective of the programme is to facilitate economic growth and employment.

Support for entrepreneurship is covered by Priority Axis (PA) 2: 'Regional Opportunity Economy', with a total budget of EUR 385 million (ERDF: EUR 164 million), which is 21% of the total OP and 12% of the ERDF allocation. The PA's operational objective was to increase enterprise competitiveness.

The overall ERDF allocation to FIs of EUR 35 million (21% of the PA and 2.6% of the OP ERDF allocation) is implemented under measure 2.1.D. The specific objective for the FIs is to provide small and medium-sized enterprises (SMEs) with external, alternative sources of finance. Additionally, selected financial instruments are targeted to SMEs who have suffered from natural disasters, i.e. floods. These FIs are intended to assist these SMEs to reduce their risk of losing market position.

Since 2009, 14 FIs were established under the MROP for loans (7 funds), guarantees (3 funds) and loans to SMEs affected by natural disasters (4 funds). There were no equity funds. Fund volumes ranged from EUR 1.4 to EUR 4.9 million, with one regional guarantee fund of EUR 13.6 million being the only exception.

All of the allocated capital had been disbursed by the end of 2014 and loan funds' resources started to revolve (at different speeds). One exception is the MARR fund for those affected by natural disasters, which has only disbursed 25% of its resources.

The guarantee funds generally show a much lower level of performance. Disbursement from the OP to the funds was slightly under 50% and investment in final recipients ranged between 37% and 71% (at end 2014).

Goals and theory of change (ToC) of FIs

The specific objectives of the FIs were to provide SMEs with external finance and to strengthen institutional capacity within the region. Furthermore, SMEs affected by floods were supported to restore their market position. Providing additional financing for SME development addresses elements of the OP diagnosis and SWOT analysis, especially weak SMEs, low level of SME investment and a financial market not adjusted to SME needs. Since the financial gap assessment was not compulsory, the Managing Authority (MA) relied on knowledge and experience from fund managers prior to the 2007-2013 period, which identified entrepreneurs' needs for financial support. Some 1,100 enterprises should be supported with loans and guarantees, with a strong focus on micro-enterprises (740 projects targeted).

The division of labour between the FIs is based on the territorial deployment of resources to fund managers in all the sub-regions of Małopolska, making those resources available to final recipients locally. All the FIs offer support at all stages of enterprise development,

targeting all sectors and enterprises from the entire region. All SMEs can be supported, but most funds target micro-enterprises and a few schemes concentrated on particular sectors or territories, e.g. tourism, rural areas and small towns.

The MA's motivation to introduce ERDF co-financed FIs was to support SME activities that would not be eligible for grants due to State aid non-compliance. Furthermore, the revolving character of the funds, remaining within the regional business support institutions was another strong incentive.

Fund managers do not offer FI support alongside non-repayable support yet they combine it frequently with non-financial support like advice and in some cases with grants from other OPs, e.g. Human Capital. In general the fund managers increase or invest their own capital, which often originates from revolved money (legacy funds).

Management and implementation of FIs

The MA chose direct implementation for FI delivery, and delegated this to the Intermediate Body (IB), MCP. All fund managers were recruited from the region in a competitive, transparent procedure of calls for applications. All fund managers are public and have previous experience of managing EU-funded FIs. The FI set-up process was not regarded as costly or time-consuming. The resources were usually made available to final recipients within three months of fund manager selection.

By the end of 2014, the entire FI-dedicated OP allocation had been committed to the FIs. The OP contributions were completely paid to all the funds. On average, the FIs invested 84% of the initial OP contributions in final recipients. All of the loan funds were 100% invested and resources started revolving. At the end of April 2015, those funds had generated from 130% to 315% of their initial OP payments in investments.

Loan funds for SMEs affected by disasters had disbursed around 80% by the end of 2014. Three out of four funds invested 100% of their initial OP payments in final recipients, but one fund only invested around 21%. Some fund managers started revolving resources and at the end of April 2015, from 107% to 120% of their initial OP payments had been invested.

The guarantee funds did not generally perform as well with an average at the end of 2014 of slightly below 50% of the investment rate. None of them reached 100%.

The FI portfolios are generally healthy. None of the FIs have recorded losses. The most serious implementation challenges were related to the eligibility of expenditure and low market demand for guarantees. Management costs in all the cases remain within the limits.

There are no performance incentives for the fund managers beyond the management fee. They are mainly motivated by the increased capitalisation of the fund itself.

Monitoring and evaluation of FIs

The monitoring and reporting system is mostly focused on performance and implementation ensuring compliance with the regulatory and control framework, so not all data on achievements of OP strategic goals are available.

The MROP reporting system includes three result indicators relevant for FIs, the value of loans or guarantees granted, the number of enterprises supported and jobs created. The latter only has data since 2012 and thus very likely underestimates the real job creation.

There are no indicators which relate to the sectors of the final recipients, to investments induced or to SME turnover, which may impede assessment of the competitiveness outcomes of FI support.

An evaluation study conducted in 2012 analysed the system and the main features of the individual instruments. However, this did not look into the effects of the FIs in relation to the strategic goals of MROP.

Outcomes of FI implementation

The FI system displays a differentiated picture of financial sustainability. The loan funds are revolving to a high degree whereas this is not the case for guarantee funds. However the entire allocation for all the FIs should be disbursed at least once by the end of 2015.

All the FIs demonstrated a leverage effect averaging 1.25 and attracted at least EUR 2.29 million of private investment by the end of 2014. However, these figures do not contain significant additional amounts of private funds such as the final recipients' own contribution to their projects, which could be up to 20%. Only a few fund managers contributed their own resources and then in low volumes.

The establishment of 14 FIs directly from the MROP, some of them new, some recapitalised, was the main output and far above the target of four. The specific goal of developing the institutional potential of Malopolska-based entities was therefore achieved.

Most of the support (77%) was directed at micro-enterprises and was predominantly investment capital (91% of the loans and guarantees). The rest included working capital for enterprise development. Despite the lack of data, support was estimated as being for:

- manufacturing, 50%; followed by
- trade and basic services, 30%; and
- other services, 20%.

Knowledge about the type of enterprises and/or investment projects supported is very limited so there is no assessment of achievement of the goal – increasing competitiveness and innovativeness.

The FIs provided external finance for 287 SMEs up to the end of 2014, and 1,915 are expected by the end of 2015, which is 75% above the OP target. FI support led to loans and guarantees for SMEs of at least EUR 7.1 million. This is above the OP target of EUR

5.5 million. By the end of 2015, this value is expected to increase up to 8 times to EUR 48.9 million.

By the end of 2014, 162 jobs had been created, which is around 20% of the target for all PA2 and matches the ERDF allocation to FIs of 21%. However, monitoring of jobs created by FI final recipients started only in 2012; therefore the reported value may underestimate the actual achievement. Measuring cost-effectiveness of different FIs is greatly distorted by shortcomings in reporting (underestimating jobs created, no turnover or Gross Value Added figures). The cost of one additional job varies within the loan instruments between EUR 45,000 and 300,000, with an average of over EUR 100,000, which is twice as much as the cost of an additional job in non-repayable support for SME investment (EUR 41,000).

The size of each individual fund does not seem to determine its effectiveness or its cost-efficiency. Although the 11 loan instruments (total fund size EUR 18.75 million) appear to be very small on average (below EUR 2 million each) they do not show a positive correlation between fund size and management cost or fund size and job creation.

6.10.16 Portugal

FIs have been used in Portugal for delivering ERDF investments since the 1994-1999 programming period. Responsibility for OP programming lies principally at the national level. In the 2007-2013 programming period, of the nine Portuguese ERDF OPs, five contain FIs. The Government decided not to offer FIs within OPs for the three Convergence Regions in Mainland Portugal (Norte, Centro and Alentejo). The beneficiaries from these Regions are covered by the Thematic Factors of Competitiveness OP. None of the ESF OPs contain FIs. Venture capital and equity is the most important form of support in the five OPs, followed by guarantees. Venture capital and equity funds offer non-repayable support in the form of advice, management support and networking. No support is offered for guarantee funds.

Table 37: OP key figures on FIs for enterprise support in Portugal in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Thematic Factors of Competitiveness'	28	599.0	367.1	10.3	176.3	271.4	280.4	103.3	6,988
OP 'Algarve'	4	45.8	14.0	15.1	10.1	33.1	12.8	38.6	146
OP 'Azores'	7	27.3	23.5	8.1	-	16.2	2.4	14.7	2
OP 'Lisbon'	9	40.4	16.8	11.4	12.6	20.0	25.7	128.5	1,012
OP 'Madeira'	3	8.6	7.3	8.8	0.0	3.6	5.0	140.6	1,420

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.17 Case Study OP COMPETE

In 2007, a favourable socioeconomic context prevailed in Portugal. However, this rapidly changed with the 2008 economic crisis that had a deep impact on the Portuguese economy. Companies found themselves facing liquidity issues at the same time as funding constraints were being imposed by the banking system. Credit was scarce and expensive. From 2009 to 2012, the amount of credit available to companies fell by nearly 20% and interest rates more than doubled.

It was under this changing background that the COMPETE - Competitiveness Factors Operational Programme – of the National Strategic Reference Framework (QREN) was developed and implemented. There was an evident need for new financial schemes related to risk capital and Business Angels which would promote investment in technology and start-up companies as well as facilitate access to credit for small- and medium-sized enterprises (SMEs), including those managed by women and young people.

This motivated public intervention through COMPETE, which led a centralised financing process to improve efficiency in SME financing.

COMPETE is an OP with an ERDF allocation of EUR 3.2 billion and a total volume of EUR 5.6 billion. Its broad array of objectives aims to improve the overall competitiveness of the Portuguese economy in all of Portugal's convergence regions.

The FIs under scrutiny

One of the five support schemes under this OP, SAFPRI, deals with FIs and has approximately EUR 367 million in ERDF allocation. In total, EUR 600 million has been committed to the FI. The main objective of PA 3 is to ensure that the financial environment provides conditions for companies to be established, to grow, to consolidate and internationalise.

There are the six specific VC schemes, two finance lines for Business Angels (FLBA) and two funds offering loans and guarantees. The VC instruments were assigned to 23 different funds.

These 27 FIs within COMPETE include instruments for SME equity and SME debt reinforcement. For own-equity reinforcement, the VC funds were divided into six categories:

- Innovation and Internationalisation (10 funds);
- Corporate (2 funds);
- Early Stage (4 funds);
- Pre-Seed (3 funds);
- Revive (3 funds); and
- Audiovisual (1 fund).

Finance Lines for Business Angels (FLBA) was managed through 51 Business Angels vehicle entities. For debt, there were two credit lines: Finance Line for Investe QREN; and PME Investe I and II.

With the exception of Investe QREN, all other 26 FIs implemented within COMPETE were under the HF FINOVA.

Only half of the ERDF money allocated to FI was disbursed by the end of 2014. However, approximately two thirds of the specific fund money was invested in final recipients. The credit line funds and FLBA performed well, with nearly all the money allocated and around three quarters invested in final recipients.

Goals and theory of change (ToC)

The rationale for introducing FIs was the low level of entrepreneurship in Portugal and the 'credit crunch' that hit the country and in particular SMEs in the aftermath of the financial crises of 2008. The FIs developed within COMPETE were designed to overcome the limitations of SME financing in Portugal.

The implicit ToC assumes that

(a) a centralised strategy with strong coordination of support efforts through one HF will deliver a quantitatively satisfactory output;

(b) widening the spread of specific FIs will help cover the needs for sectoral and development stage support, including an increase in the start-up rate for technology based SMEs; and

(c) the SMEs will show increasing interest in the new FIs, leading to a sustainably improved supply in the financial market.

It was expected that 5,000 SMEs would be supported by 2015, 33% in an initial stage of maturity; and 30% in growth potential sectors.

The FIs had clearly different profiles, minimising the risk of overlapping activities. Portugal was one of the Member States fostering synergies between FIs and other instruments such as grants. The loan and guarantee scheme INVESTE systematically combined credit lines with non-repayable grants. In addition, subsidised loans are frequently combined with guarantees.

Management and implementation of FIs

COMPETE is the Managing Authority (MA) under which SAFPRI and FINOVA HF are implemented. The FINOVA HF is managed by PME Investimentos that manages the six VC fund categories, FLBA and the PME Investe I and II credit lines.

The 23 VCF are managed by thirteen different fund managers, selected by public procurement procedure. Most managers operate only one of the funds; some manage multiple FIs, such as Portugal Ventures S.A., a publicly owned VC company managing

seven funds. PME Investe I and II management was directly assigned to IAPMEI (Public Agency for Competitiveness and Innovation) and Turismo de Portugal.

There is a strong mix of managers, reflecting private/public ownership and different professional backgrounds.

The selection process involved 11 tender notices from 2008 to 2013. The first VCF was set-up at the end of 2010 and the latest in August 2013 (VCF Revive), three years after the launch of the respective tender.

There does not seem to be a difference between the management of VCFs run by private or public managers. FI activities are governed in both cases by the same specifications of the scheme. This also applies to success factors and performance linked incentives. Incentives are linked to performance, using management fee reduction for low performance and later on (for Revive) index remuneration to the number of applications to the VCF. According to COMPETE, management fees were generally around 1.8%, below the target maximum of 2.5% (for 2015).

Of the 123 projects in which the VCFs invested, approximately 10 have already been closed. No precise picture of closed deals, prognosis of future exits or future performance of individual VCFs can be provided at this time. The end date for all VCFs is set for 2020.

One of the main implementation challenges, however, was the temporary discontinuation of funding from the EC due to a lack of guaranteed adequate management checks on expenditure. This also caused some delays.

Monitoring and evaluation of FIs

Performance of the FI is monitored with four indicators, measuring (a) the quality of VC, (b) the extent of financing oriented toward sectors with growth potential, (c) guarantees to SMEs and (d) management cost. Achievements have exceeded targets for all the indicators except for 'guarantees to SMEs'.

Reporting to fund managers and COMPETE appears to be well designed. It varies according to the type of instrument and is monthly, quarterly or semi-annual. For example, most VCFs provided quarterly reports, while the VCFs under Revive, due to their complexity, provided monthly reports.

One evaluation was carried out in 2013 for the COMPETE OP in which the FIs received a positive rating, although some had not fully started operating at the time.

Outcomes of FI implementation

Attracting private money to supplement ERDF funding was a key element for fund managers. The total private contribution in the various FIs was approximately EUR 232 million, more than half of the committed resources from the OP. In comparison to other MS' OPs leverage has been modest, in particular for VC. This may be due to a lack of information of co-investment at the level of the final recipient. The data only refers to money coming from the EU and national sources covered by the OP.

No revolving effect has been seen or reported up to now. Sustainability of the funds can only be assessed after all the VCFs and Business Angels have exited from their investments.

Three of the four PA 3 performance indicators were achieved. This includes the 'Quality of VC' indicator, where EUR 163 million was invested in nearly 250 SMEs, 65% being in an initial stage.

About half of the funding was for SMEs in growth potential sectors, achieving the indicator target. Furthermore, the guarantees to SMEs indicator shows over 3,300 SMEs supported through credit lines.

SMEs that received support were in different phases of their development cycle, and operating across 13 different sectors such as business services, paper and publications or education, health and culture.

The second policy objective related to facilitating access to credit for SMEs, particularly those managed by women and young people. A significant number of SMEs were supported. However, there was a lack of investment in these by some VC funds. There is also incomplete information on support to female and young entrepreneurs.

Consistency of implementation was mainly ensured by conditions in the funding agreements for each FI and respective fund manager. These conditions included comprehensive, time-related reporting obligations. However, some of the operational objectives were not covered by the monitoring system, such as support for female or young entrepreneurs.

The number of VCFs (as compared to other Member States) seems high, yet appears adequate considering that diversity of FIs was an explicit objective. The reason for splitting these instruments into 23 funds, with some VCFs being as small as EUR 1.5 million, raises the question of optimal size. Since the smaller funds did not exhibit a higher proportional management cost, the scale may not be a cost issue, but rather a problem of reaching the right recipients. In addition, it should also be considered that some managers operated several different FIs.

A total of 621 jobs were created during implementation within PA 3.

The FIs provided funds to SMEs in different stages and with different projects, some with high risk, which private equity entities may have been unwilling support.

6.10.18 Spain

Spain does not have a long tradition of using ERDF FIs, as grants have been the main way to support SME's under the OP. Since 2007, and directly related to the financial and banking crisis, lack of access to finance for micro and SMEs, as well as operating advantages (frontloaded certification of investments and public deficit recording) encouraged some authorities to plan and develop a limited number of FIs. In spite of this, regional authorities and central government have used FIs in guarantee funds, venture capital and private equity funds, and loan funds. These are mostly managed by regional development agencies and funded from the regular government budget. Therefore the use of ERDF for FIs was very limited in the 2007-2013 period. Most schemes use loans and guarantees. Two OPs use loans, guarantees and venture capital. Both venture capital schemes support seed and expansion stages of company development. There is little combination with grants. Non-financial support is also not generally provided. Only JEREMIE Barcelona offers networking support for its targeted recipients. Despite this, some FI support is provided for firms which are taking part in other supporting schemes, like technological parks. In such cases, the FI is linked to a general strategy of SME development in the region.

Table 38: OP key figures on FIs for enterprise support in Spain in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Extremadura'	2	18.9	15.1	12.3	0.0	24.6	13.8	56.1	0
OP 'Andalusia'	3	379.8	304.0	61.4	0.0	378.8	130.3	34.4	63
OP 'Catalonia'	1	50.0	25.0	11.6	0.0	50.0	21.2	42.3	3
OP 'Canary Islands'	2	40.0	34.0	59.7	0.0	40.0	1.2	3.0	2
OP 'Research, Development and Innovation'	3	527.0	411.0	28.3	0.0	527.0	123.9	23.5	860

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation
Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.19 Case Study OP Technological Fund

The Technological Fund Operational Programme (OP) provides extra funding for research, technological development and innovation (RTD&I). The current budget has been decreased to less than EUR 3 billion.

The Specific Objectives (SOs) of the Technological Fund OP were matched with the National Science and Technology Strategy of 2007 through SO.1 'to promote innovative business behaviour' and SO.3 'to support R&D in companies', for technological development. These objectives were considered essential for both 'competitiveness' and 'convergence' regions, especially the latter, due to growing regional disparities.

Although it was not compulsory, the Spanish government distributed 70% of funds to Convergence regions, which account for only 27% of enterprises.

Financial Instruments (FIs) were not considered at the beginning in the OP but were added only subsequently. After reprogramming during the implementation phase, 18% of the OP allocation (EUR 411 million) should be delivered through the FIs managed by Centre for the Development of Industrial Technology (Centro para el Desarrollo Tecnológico Industrial) (CDTI) and Instituto de Crédito Oficial (ICO):

- the small volume ICO Guarantee Fund
- the medium volume CDTI Loan Fund and
- the large volume ICO Loan Fund.

All of them are under Priority Theme 7 (PT-7), 'Investment in firms directly linked to research and innovation'. The total allocation under PT-7 (national funding + ERDF) is EUR 527 million of which 100% is under FI management. Both ICO[88] and CDTI[89] previously addressed project investment needs and had experience with ERDF co-financed operations.

Neither the OP documents nor the Intermediate Body officials (Ministry of Finance, CDTI) indicated a clear need to implement FIs at the beginning. In addition, there was no intervention logic specifically for FIs.

However, there was a market gap as a result of the financial crisis. The contraction of bank credit to Spanish companies was at its worst in 2012 and 2013. Furthermore, 'public policy worries' increased in relation to R&D&I investment and small and medium-sized enterprise (SME) development. Strengthening the policies of corporate R&D investment was considered essential during the crisis. From 2007 to 2013, the number of technologically innovative companies decreased by more than 50%. The OP logically changed and included FIs.

[88] Instituto de Crédito Oficial is a state-owned bank, attached to the Ministry of Economic Affairs and Competitiveness.

[89] CDTI is a public business entity, answering to the Ministry of Economy and Competitiveness, which encourages technological development and innovation in Spanish companies. It is the entity that channels the funding and support applications for national and international R&D&I projects of Spanish companies.

There is a clear distinction between the FIs, with each having different target groups and projects. Product differentiation between fund managers helps, with each FI having different objectives, roles and responsibilities.

- The ICO Guarantee Fund focuses on long-term R&TD activities, mainly through collaborative projects.
- The CDTI Loan Fund focuses on short-term acquisition and implementation of new technologies and technological innovation by companies.
- The ICO Loan Fund focuses on supporting innovative enterprises with difficulties accessing credit to develop projects.

However, geographical segmentation of funding was identified as a problem from the start, since there was a high concentration of resources in Convergence regions where there are fewer innovative companies and many similar funds (mainly non-repayable aid) are funnelled through regional OPs. Another concern was uncertainty over European Regional Development Fund (ERDF) regulation. This was not adequately reviewed at the beginning, and led to uncertainty over the definition and over how the funding agreement was to be implemented.

In addition, it is worth remembering that most traditional banks do not usually finance investment projects related to R&D. These projects can have greater risk, often with a very long payback period. It is important to understand that public intermediaries were selected as fund managers because no financial institution was interested in offering these kinds of guarantees.

A strong motivation to include FIs was also related to absorption problems at the beginning of the OP implementation. Almost all Annual Implementation Reports (AIRs) reported concerns about application of the 'N+2 de-commitment rule'[90] during 2012 and 2013. Thanks to FIs, the de-commitment rule was not implemented in 2012.

By the end of 2014, the small-volume ICO Guarantee Fund had a disbursement rate of more than 312%, almost reaching the multiplier ratio of 3.5 defined in the funding agreement. The medium-volume CDTI Loan Fund disbursed almost 35% of allocated funds. The large-volume ICO Loan Fund was established at the end of 2013 but only 1%, or EUR 4.29 million, had been disbursed by the end of 2014.

The Technological Fund OP has always struggled with absorption rates due to:

- a high concentration of funding in convergence regions;
- difficulties in finding final recipients for R&D corporate investment in Convergence regions;
- competition between national and regional OPs to find suitable beneficiaries for R&D projects;
- economic slowdown;

[90] "The European Commission shall automatically decommit any part of a commitment which has not been settled by the payment on account or for which it has not received an acceptable payment application by the end of the second year following the year of commitment

- budgetary problems in Spanish public administrations.

FI implementation required many meetings between each fund managers and the Managing Authority (MA) to understand the requirements and procedures. In addition, it took around six months to adapt software to a monitoring and management system that would meet FI needs, which were very different from other ERDF or national requirements. Clear economies of scale applied to FI set-up and management since each fund manager managed individual FIs based on existing capabilities. Furthermore, this case study found that public bodies tend to reduce management costs when possible.

The lack of a specific FI monitoring system within the OP is considered a big gap. There is no defined framework and no targets, so outcomes have been difficult to assess. The MA does not follow guidance from the Committee of the Coordination of Funds (COCOF), so information in AIRs is not as useful as it could be. However, all the FIs reported that 756 projects were implemented and more than EUR 310 million of public investment (ERDF + public funds) has been committed with EUR 272 million already disbursed. Additionally, each FI developed with different degrees of success.

- The ICO Guarantee Fund started supporting operations in 2010 and since then 692 projects have benefited. Final recipients were mainly manufacturing companies, professional services (primarily engineering) and ICT companies. This is in line with R&D investment at European Union level.

- The CDTI Loan Fund has approved 157 projects, of which 53 have already received support. In this case, the main recipients have been manufacturers.
- The ICO Loan Fund has only supported 11 companies. Paper companies and other manufacturing industries, wholesale trade, ICT, professional organisations, scientific and technical sectors benefited the most.

Most of the companies were SMEs, although 20% were big companies. During the crisis, only strong institutions were able to carry out R&D investment. CDTI focuses on industry, which explains its beneficiaries.

The OP's strategic objectives that were linked to all FIs seem in line with real intervention logic. However action cannot be linked to changes. A context analysis of science and technology development shows that almost all the indicators have worsened since the beginning of the period. However, there are several fields that have had slower deterioration.

There are indications (but no evidence) that the ICO Guarantee Fund and CDTI Loan Fund will be able to achieve some of their specific and strategic objectives. These two FIs seem to have worked consistently in relation to their intervention logic.

It is unlikely that the ICO Loan Fund will meet its objectives.

The MA has stated that since the 2007-2013 period has not yet finished, the current FIs cannot be considered successful until the winding-up is completed. Additionally, exits from existing investments are very uncertain.

An important motivation for setting up FIs is to attract private resources. However, estimates show that only minimal private money was attracted to FIs. There is a lack of reliable data in particular for the ICO Guarantee Fund. It seems the leverage effect is far below expectations. Internalisation of the CDTI Loan Fund based on an existing financial product has shown a clear decline in private participation. The ICO Loan Fund was only recently established and has not grown quickly. Data from the 11 projects that have already been financed shows that co-investment reached 135%.

The only evidence for revolving public money comes from the ICO Guarantee Fund. Here the ratio between funds available for investment and original fund volume is 3.1 (below the target of 3.5). The other two FIs only started recently, so repayments are limited.

6.10.20 United Kingdom

The UK has co-financed financial instruments in ERDF programmes since the 1994-99 programme period and has a lengthy tradition of using FIs within domestic SME support policy. All of the UK's ERDF OPs, except Gibraltar, offer support through FIs.

The programming and management of OPs is carried out by separate ERDF managing authorities for each of the UK's constituent countries, so there are different managing authorities for England, Scotland, Wales, Northern Ireland and Gibraltar. Different approaches are taken to funding priorities and implementation arrangements within each. There are 21 funds under seven co-financed Holding Funds for enterprise support in the UK, with varying numbers of funds underneath each. There are about 25 other specific funds offering support for enterprises that are not under Holding Funds. Most of the FIs in the UK's Devolved Administrations of Scotland, Wales and Northern Ireland cover the entire country. There are also funds restricted to the territory of a regional OP within the Devolved Administration (e.g. the Highland Business Growth Fund, Highlands and Islands ERDF OP). The FIs co-financed under the English ERDF OPs are all regional.

FIs co-financed by UK ERDF OPs offer loans, including micro-finance, and equity. Guarantees are not used (but there is a longstanding domestic SME guarantee scheme). Equity schemes offer broad coverage with support for early/ seed/ start-up phases; and a number are flexible enough to cover all stages and offer different forms of support (loans, equity, quasi equity or mezzanine financing) based on requirements. State aid is generally covered under the General Block Exemption Regulation, particularly for equity instruments, with several instances of notified aid.

The provision of non-financial support alongside the FI is more common for equity FIs. These offer conventional advice, management support and seminars, as well as a number of innovative measures, such as matching young entrepreneurs with more experienced mentors (Venture Capital Fund, North West England ERDF OP), or the provision of incubator premises (Mercia Venture Capital Fund, West Midlands ERDF OP).

Table 39: OP key figures on FIs for enterprise support in UK in the 2007-2013 period (end 2014) (€m)

OP name	Number of FIs	OP contributions committed (HF or specific fund)	OP contributions committed: ERDF amounts	FIs as % of total ERDF committed for enterprise support	OP contributions committed: National private co-financing	OP contributions paid to FI (HF or specific fund)	OP contributions invested in final recipients	% of OP contri-butions paid to the fund invested in final recipients	Total # of financial products offered to final recipients
OP 'Highlands and Islands of Scotland'	3	12.7	5.1	7.5	0.0	10.7	9.5	89.0	35
OP 'West Wales and the Valleys'	2	104.9	52.5	13.9	52.5	104.9	95.4	90.9	332
OP 'Cornwall and the Isles of Scilly'	2	5.1	3.8	1.6	0.0	5.1	7.5	145.9	121
OP 'Lowlands and Uplands of Scotland'	5	299.7	89.5	35.8	82.5	218.6	116.9	53.5	1,035
OP 'South-East of England'	1	4.4	2.2	15.2	-	4.4	1.0	23.7	24
OP 'Northern-Ireland'	1	16.0	8.0	4.6	8.0	16.0	16.0	100.0	36
OP 'East of England'	2	24.8	24.8	28.6	0.0	24.8	16.2	65.3	30
OP 'North East of England'	9	167.9	64.6	30.7	71.3	167.9	144.7	86.2	771
OP 'London'	2	22.9	11.4	12.4	7.9	21.4	16.1	75.5	30
OP 'West Midlands'	6	79.8	28.7	12.6	41.5	67.6	56.8	84.0	241
OP 'North West England'	13	206.9	103.4	21.5	99.2	206.9	148.0	71.5	591
OP 'Yorkshire and The Humber'	7	203.4	84.4	26.7	95.0	156.6	151.4	96.7	1,750
OP 'East Midlands'	1	5.5	2.2	0.9	0.0	4.8	2.4	49.8	24
OP 'South West England'	3	8.5	4.3	4.5	0.0	8.5	10.1	118.4	336
OP 'East Wales'	2	65.5	20.8	48.4	28.3	65.5	61.9	94.5	242

Source: European Commission (2015) Summary Report on Financial Instruments, own calculation

Legend:

- Number of FIs in the OP
- OP contributions committed to the fund (HF or specific fund) [27]
- ERDF amounts committed to the fund (HF or specific fund) [28b]
- The importance OPs give to FI as a form of enterprise support presented as % of total ERDF committed for enterprise (28b/total ERDF allocation per OP)
- The attraction of private resources (though limited to the OP level) presented through the national private co-financing committed to the fund [30]
- The progress made from commitments in the OP to disbursements to FI presented as OP contributions paid to the fund (HF or specific fund) [7]
- The progress to disburse funds to the end-user (= final recipient) presented as OP contributions invested in final recipients [17]
- % of OP contributions paid to the fund invested in final recipients (17/7)
- Number of transactions at end-user level presented as Total # of financial products offered to final recipients [12]

6.10.21 Case Study OP North East England

The North-East region has long been one of the weakest regions of the UK in economic terms. In large measure this is the legacy of past dominance then decline of heavy industry – especially shipbuilding, coal and steel. In addition, the physical make-up of the region means that it is relatively isolated from other major population centres (such as the agglomerations surrounding Leeds in Yorkshire & Humberside and Manchester in the North-West, both of which are much larger in population and economic terms and which have significantly more developed local financial markets). The population of the North-East is just 2.5 million, most of which live in urban areas although the geography of the region is such that much of it is rural and some of it remote. At the start of the 2007-2013 programme period regional GVA was around 80% of the UK average and the North-East had the highest proportion of workless households in the UK – 23%, compared to the UK average of 17%. The North-East has a longstanding enterprise deficit – the OP noted that the region had 266 businesses per 10,000 population, compared with the English average of 394; this means that some 29,500 extra businesses would be needed to bring the North-East to this level.

Against this background, the North-East OP was driven by two priorities: enhancing and exploiting innovation (with a provisional allocation of EUR 402 million – including both ERDF and national resources); and business growth and enterprise (provisional allocation EUR 327 million). Importantly, the volume of ERDF funding was small compared to those under the domestic Regional Economic Strategy (RES) and this was an important consideration in the use of financial instruments to help deliver the programme – there was a desire to make the most of limited funds and to create a legacy for re-investment in the region.

The OP SWOT identified the business financial services market as a weakness in the region and improving access to finance was seen as making an important contribution to the headline targets in the Regional Economic Strategy, which included creating 18,500-22,000 new businesses. The OP was aligned with domestic strategy but sought ways to add value and provide a 'transformative effect'.

Financial instruments were an important part of this strategy in the 2007-2013 programme – they account for over 20% of ERDF allocations in the OP. The overall purpose was to stimulate the establishment and expansion of businesses with growth potential, to stimulate the demand for business finance and to provide related business support to improve the survival of supported businesses.

In practical terms, this was implemented through a EUR 136 million (£125 million) 'fund of funds', Finance for Business North East (FBNE), comprising a suite of seven individual 'product funds'. FBNE was structured to support all development phases of SMEs, i.e. proof of concept (PoC), start-up and spin-out activity; early stage growth; and expansion and growth. Although relevant to SMEs in most sectors, there was specific targeting of resources to meet the OP's strong focus on innovative and technology-oriented SMEs; and to a lesser extent, start ups and existing SMEs in disadvantaged areas. A one-year extension to the end of 2015 brought additional resources, bringing the total FBNE volume to EUR 154.47 million (£142.5 million). In addition to this suite of funds under FBNE, the Creative Content Fund (CCF) was established as a pilot fund of EUR 5.22

million (£4.8 million), to test a model for private investment in the commercial creative sector on a pari-passu basis.

By the end of 2014, 92% of the OP allocation had been committed to FBNE and invested in firms. The CCF had invested all its available funds by end of 2012.

In looking at recent experience with FIs in the North-East, it is important to note that North East England had prior experience, through both EU and domestic funding sources, in implementing a series of individual funds from proof of ion counts each concept (the first non-grant based PoC fund in the UK) to co-investment and microloans. This experience was actively used in the design of instruments for 2007-2013. With the introduction of a holding fund model, FBNE was intended to achieve better integration and a more strategic approach, as well as ensure the EIB financial contribution to the fund (the EIB loan was for EUR 68 million (£62.5 million)). North East Finance (NEF) was created as the Holding Fund Manager, drawing experienced individuals from previous FIs in the region. The seven 'product funds' were designed to provide a continuum of finance for SMEs and to attract more private investors to the region, with some overlap in fund objectives to generate competition among the Fund Managers (FMs) and to provide SMEs with an element of choice.

The MA of the OP directly appointed NEF as the HF manager of FBNE, and Northern Film and Media (NFM HoldCo) as the HF manager for the Creative Content Fund.

Five fund managers were selected to manage the seven FBNE product funds and the CCF by public procurement procedures. All fund managers are private companies experienced in financial management. Two of the selected fund managers were new to the region.

Management fees for running the funds range from 1.85% to 4.95% per annum, resulting in a rather high proportion of OP contributions for management costs of the total OP contribution. Fund managers and the HF Manager claimed that the administrative burden associated with FBNE is far in excess of traditional grant schemes and also more than not co-financed instruments.

A number of areas of good practice in management and implementation can be identified. In particular, FMs are given clear parameters for the operation of the funds; guidelines within Fund Management Agreements provide a set of mandatory (input and output) targets as well as a set of target economic development indicators. The Fund Managers are given flexibility within the product funds to select the appropriate mix of loan, quasi-equity and equity on a case-by-case basis. The Holding Fund Manager produces comprehensive quarterly and annual reports, providing a transparent overview of performance to the Board and stakeholders (including the MA).

During the programme period, external events changed the economic and operational context for the Funds. First, the financial crisis and economic recession had implications both for the supply of finance (e.g. banks reduced lending considerably, private investors were more cautious about co-investing) and the demand for finance from firms (attention focused on survival rather than growth).

Second, the change of UK Government in 2010 led to the abolition of the Regional

Development Agencies in England (the RDAs had delegated MA powers for management and implementation of the regional ERDF programmes in England for the first part of the 2007-2013 period) and the closure of key business support agencies such as Business Link. During the latter part of the programme period, a new economic development architecture was gradually put in place, with the introduction of two Local Enterprise Partnerships in North East England, bringing new strategic drivers to the implementation of ERDF (notably a focus on the geographical distribution of funds), as well as the introduction of new domestic instruments at the national and regional levels.

A series of market reviews, as well as a comprehensive JEREMIE review in 2013, re-assessed the positioning and fit of FBNE within the context of the market and other interventions. The 2013 review found that the Fund was performing well and had been able to adapt to the changes that had taken place; thus no major revisions to the operation of FIs were recommended.

The achievements of the FBNE model are reflected in:

- a governance and management system that is perceived to function well, and high levels of expertise;
- continued high levels of applications to the FBNE funds (with an overall conversion rate of applications to investments of 6:1);
- the number of SMEs assisted and average investment volume, which are both on target;
- the financial health of the portfolio (defaults, returns etc), which is broadly in line with the planned profile;
- and economic indicators (c.3,800 jobs created/safeguarded, £138 million leverage) which are also broadly on target.

In addition, once the EIB loan has been fully repaid (scheduled for 31 December 2016), all further returns will form the basis of a Legacy Fund - after all loans, fees and costs are paid, the net legacy pot is expected to be in the region of EUR 110 million (£100 million), 70% of the overall OP investment and close to 100% of ERDF plus public match.

The main challenges for FBNE have been:

- how to maintain EIB loan repayment targets for those funds which have mainly invested in the form of equity – targets have been maintained, but there is evidence that the timing of some exits has been sub-optimal and driven by the requirement to supply funds to meet EIB repayments, rather than investment considerations;
- how to overcome the challenge of a new spatial focus as the region was effectively split into two LEP areas, highlighting geographical disparities in the distribution of funds;
- how to adjust to the reduction in private investment availability;
- how to reposition funds in the light of new national initiatives that affected the competitiveness of FIs under the regional OP.

In practice, the assessment of FIs in this case study suggests that there has been

sufficient flexibility and experience to respond to these challenges. The holding fund structure facilitated the ability to 'right size' funds based on performance and market conditions and adjustments to targets or the involvement of private investors enabled the FIs to respond to changing market conditions. At the same time, however, the relatively large number of funds within the holding fund has incurred additional management costs; this seems likely to lead to a rationalisation of FIs in 2014-20.

Additional data, beyond the main performance indicators required by the OP, has been collected to monitor the performance of the funds. The performance is good in relation to creation of new start-ups, survival rates, outcomes in disadvantaged areas and for women. However, a wider set of indicators could better demonstrate the economic impacts of the funds.

While no formal 'Theory of Change' was elaborated for FIs when the OP was written, the enhanced intervention logic which can be developed retrospectively appears sound. It is also important to recognise that FIs under the North East England OP were not developed in a vacuum, but drew on considerable experience and lessons learned in the previous period and from domestic policy. Overall, FBNE has contributed well to the objectives of the OP. It has fulfilled a key objective of the OP (as well as the domestic Regional Economic Strategy and associated Access to Finance Strategy) in building a comprehensive regional revolving fund, and developing the private investment community and capacity of the North East. Its focus on supporting technology and innovation tied in with Priority 1 objectives, while other funds covered the broad business stock, enabling start-ups and growth in non-priority sectors.

The Creative Content Fund has been less successful, with poor returns and a high failure rate. However, the CCF was launched as a two-year pilot fund precisely to trial an innovative approach – offering a co-investment model in the creative sector. Indeed, Fund Managers argue that, given more time, the CCF would have improved performance. Nevertheless, the pilot was not renewed and there are no plans for further co-funded FIs for this sector in 2014-2020. Indeed, some commercial creative projects have been funded under the FBNE.

Roughly EUR 150 million have been secured at deal level from public and private sources, leading to an overall leverage ratio of 4.95 which is relatively evenly distributed across the different funds. Even the Microloan Fund had a leverage factor of 3.1 (according to EC definition). The major part of these financial means levered in is private.

Output performance is measured in terms of SMEs receiving financial assistance and average investment volume per SME. The first indicator is broadly met by most product funds except for the microloan fund (55% of the target achieved to end 2014). The average investment volume amounts to EUR 136,000 and is somewhat below the set profile, in particular concerning the Technology Fund and the Accelerator Fund.

With 1,953 new jobs created and 2,803 jobs safeguarded, the employment effect of the FIs is significant in the region – and to three quarters located in disadvantages areas.

Based on the volume of applications, the conversion of applications to approvals, the pace of approvals and the anticipated timely exhaustion of funds at the end of 2015, it can be concluded that the scale of the FBNE was appropriate. Arguments can be made

for a rationalisation of product funds, e.g. simplification of offer, avoiding driving down the value generated by investments (by limiting overlap between funds), generating more competition between fund managers with respect to fee rates at the procurement stage.

Without ERDF, access to finance instruments could have been developed only at a greatly reduced level. There would have been a loss of the ability to provide a continuum of finance across the funding lifecycle. Leverage of private money into the region could not have been achieved at the targeted level without ERDF.

Plans are underway for an ERDF co-funded Fund of Funds in the 2014-2020 period in the North East, although it will not be launched directly after FBNE 1 completes its implementation period at the end of 2015. It is hoped to continue the HF model, which has worked well in this period. To save administration costs, a smaller number of funds are foreseen, and it is likely that there will be no specific sectoral funds.

6.11 Management costs and fees by FI in the case study OPs

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
CZ	Credit Fund E 2007, Praha	2007CZ161PO004	0.00	loans
CZ	Guarantee Fund E 2007, Praha	2007CZ161PO004	0.00	mixed
DE	BayBG Bayerische Beteiligungsgesellschaft mbH, München	2007DE162PO001	1.22	vc
DE	Clusterfonds EFRE Bayern GmbH & Co. KG, Landshut	2007DE162PO001	0.73	vc
DE	LfA Förderbank Bayern, München	2007DE162PO001	0.11	loans
DE	S-Refit EFRE Fonds Bayern GmbH, Regensburg	2007DE162PO001	1.75	vc
ES	CDTI-INNOVA	2007ES16UPO001	0.00	Mixed
ES	ICO-CDTI-GARANTÍAS	2007ES16UPO001	0.13	guarantees
ES	ICO INNOVACIÓN-FONDO TECNOLÓGICO	2007ES16UPO001	0.00	loans
FR	*FONDS DE PARTICIPATION JEREMIE LANGUEDOC-ROUSSILLON / FRANCE*	2007FR162PO013	1.16	HF
FR	Prêt d'honneur - Capital-risque - Garantie en Languedoc-Roussillon	2007FR162PO013	2.14	Mixed
LT	Guarantee fund, Lithuania, Vilnius	2007LT161PO002	0.99	guarantees
LT	*INVEGA FUND, VILNIUS*	2007LT161PO002	0.12	HF
LT	First Loss Portfolio Guarantee (AB Siauliu bankas, Lithuania)	2007LT161PO002	0.00	guarantees
LT	First Loss Portfolio Guarantee for Leasing (SIA Unicredit Leasing Lithuanian Branch Vilnius)	2007LT161PO002	0.00	guarantees
LT	First Loss Portfolio Guarantee (Nordea Bank Finland Plc, Lithuania)	2007LT161PO002	0.00	guarantees
LT	Funded Risk Sharing Product (AB SEB bankas)	2007LT161PO002	0.57	loans
LT	Funded Risk Sharing Product (AB Siauliu bankas)	2007LT161PO002	0.89	loans
LT	Funded Risk Sharing Product (AB Swedbank)	2007LT161PO002	0.71	loans
LT	Open Credit Fund (AB bank Citadele, Vilnius)	2007LT161PO002	0.00	loans
LT	Open Credit Fund (AB bank FINASTA, Vilnius)	2007LT161PO002	0.00	loans
LT	Open Credit Fund (AB DnB Bank, Vilnius)	2007LT161PO002	0.00	loans
LT	Open Credit Fund (AB Šiaulių bank, Šiauliai)	2007LT161PO002	0.00	loans
LT	Open Credit Fund (AS UniCredit Bank Lietuvos branch)	2007LT161PO002	0.00	loans
LT	Open Credit Fund (BAB bank SNORAS, Vilnius)	2007LT161PO002	0.00	loans
LT	Open Credit Fund (BAB Ūkio bank, Kaunas)	2007LT161PO002	0.00	Loans
LT	Open Credit Fund (UAB Medicinos bank, Vilnius)	2007LT161PO002	0.00	loans
LT	Small loans to SMEs (AB bank Citadele, Vilnius)	2007LT161PO002	0.00	loans

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
LT	Small loans to SMEs (AB Šiaulių bank, Šiauliai)	2007LT161PO002	0.00	loans
LT	Small loans to SMEs (BAB Ūkio bank, Kaunas)	2007LT161PO002	0.00	Loans
LT	Small loans to SMEs (UAB Medicinos bank, Vilnius)	2007LT161PO002	0.00	loans
LT	*JER 004 JEREMIE HOLDING FUND, LITHUANIA*	2007LT161PO002	2.37	HF
LT	Business Angels Co-investment Fund I KUB Vilnius, Lithuania	2007LT161PO002	3.89	vc
LT	LitCapital I KUB Vilnius, Lithuania	2007LT161PO002	3.84	vc
LT	Lithuanian SME Fund KUB, Vilnius, Lithuania	2007LT161PO002	3.50	vc
LT	Practica Seed Capital KUB, Vilnius Lithuania	2007LT161PO002	3.55	vc
LT	Practica Venture Capital KUB, Vilnius Lithuania	2007LT161PO002	2.85	vc
HU	*VENTURE FINANCE HUNGARY PLC (MV ZRT.), BUDAPEST*	2007HU161PO001	0.23	HF
HU	Abaúj Takarék Takarékszövetkezet, Forró	2007HU161PO001	0.00	guarantees
HU	AGRIA Bélapátfalva Takarékszövetkezet, Bélapátfalva	2007HU161PO001	0.00	guarantees
HU	Aktív Hitel, Nyírmeggyes	2007HU161PO001	0.00	loans
HU	Alapítvány a Vidék Kis- és Középvállalkozásainak Fejlesztésére Baranya Megyei Vállalkozói Központ, Pécs	2007HU161PO001	0.00	loans
HU	Alföld-Faktoring Pénzügyi Szolgáltató Zártkörűen Működö Részvénytársaság, Szeged	2007HU161PO001	0.00	loans
HU	Alliance Jura-Hongrie Kockázati Tőkealap kezelő Zrt.	2007HU161PO001	0.00	vc
HU	Alsónémedi és Vidéke Takarékszövetkezet, Alsónémedi	2007HU161PO001	0.00	loans
HU	Arteus Credit Zrt., Budapest	2007HU161PO001	0.00	loans
HU	AXON Pénzügyi és Lízing Zártkörűen Működő Részvénytársaság, Szolnok	2007HU161PO001	0.00	loans
HU	Bács-Kiskun Megyei Vállalkozásfejlesztési Alapítvány, Kecskemét	2007HU161PO001	0.00	loans
HU	Bak és Vidéke Takarékszövetkezet, Bak	2007HU161PO001	0.00	loans
HU	Balmazújváros és Vidéke Takarékszövetkezet, Balmazújváros	2007HU161PO001	0.00	guarantees
HU	Békés Megyéért Vállalkozásfejlesztési Közhasznú Közalapítvány, Békéscsaba	2007HU161PO001	0.00	loans
HU	BG Finance Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Bohemian Financing Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Bóly és Vidéke Takarékszövetkezet, Bóly	2007HU161PO001	0.00	mixed

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
HU	Bonitás Kockázati Tőkealap, Budapest	2007HU161PO001	0.00	vc
HU	Budapest Bank Zrt., Budapest	2007HU161PO001	0.00	mixed
HU	Buda Regionális Bank Zártkörűen Működő Részvénytársaság, Bi.	2007HU161PO001	0.00	Loans
HU	Capital Hitelház Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	Loans
HU	Carion Ingatlanfinanszírozási Centrum Zrt., Budapest	2007HU161PO001	0.00	loans
HU	Central-Fund Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	vc
HU	CIB Bank Zrt., Budapest	2007HU161PO001	0.00	loans
HU	City-Faktor Pénzügyi Szolgáltató Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Commerzbank Zrt., Budapest	2007HU161PO001	0.00	loans
HU	Core Venture Zrt., Budapest	2007HU161PO001	0.00	vc
HU	CORRIGIA Pénzügyi Szolgáltató Zrt., Pécs	2007HU161PO001	0.00	loans
HU	CREDITIME Pénzügyi Szolgáltató Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	DBH Investment Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	vc
HU	DEBT-INVEST Pénzügyi Szolgáltató és Befektetési Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Dél-Dunántúli Takarék Szövetkezeti Hitelintézet, Kaposvár	2007HU161PO001	0.00	loans
HU	Dinamo Ventures Kockázati Tőkealap, Budapest	2007HU161PO001	0.00	vc
HU	DRB Dél-Dunántúli Regionális Bank Zrt., Siklós	2007HU161PO001	0.00	guarantees
HU	Dunapataj és Vidéke Takarékszövetkezet, Dunapataj	2007HU161PO001	0.00	guarantees
HU	Duna Takarék Bank Zártkörűen Működő Részvénytársaság, Győr	2007HU161PO001	0.00	mixed
HU	Eger és Környéke Takarékszövetkezet, Eger	2007HU161PO001	0.00	mixed
HU	Első Egerszegi Hitel Pénzügyi Szolgáltató Zártkörűen Működő Részvénytársaság, Zalaegerszeg	2007HU161PO001	0.00	loans
HU	Első Hitelkapu Pénzügyi Zártkörűen Múködő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Első Magyar KTK Zrt., Budapest	2007HU161PO001	0.00	vc
HU	Endrőd és Vidéke Takarékszövetkezet, Gyomaendrőd	2007HU161PO001	0.00	mixed

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
HU	ÉRB Észak-magyarországi Regionális Bank Zrt., Tokaj	2007HU161PO001	0.00	Mixed
HU	Erste Bank Hungary Nyrt., Budapest	2007HU161PO001	0.00	loans
HU	Észak Tolna Megyei Takarékszövetkezet, Iregszemcse	2007HU161PO001	0.00	loans
HU	Eurotrade Capital Pénzügyi Szolgáltató Zártkörűen Működő Részvénytársaság, Kisigmánd	2007HU161PO001	0.00	loans
HU	Felsőzsolca és Vidéke Takarékszövetkezet, Felsőzsolca	2007HU161PO001	0.00	loans
HU	FHB Kereskedelmi Bank Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	FINATECH Capital Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	VC
HU	FINEXT STARUP Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	vc
HU	Fix Hitel Pénzügyi Szolgáltató Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Fókusz Takarékszövetkezet, Jászszentlászló	2007HU161PO001	0.00	mixed
HU	Főnix Takarékszövetkezet, Debrecen	2007HU161PO001	0.00	loans
HU	Fontana Credit Takarékszövetkezet, Szeged	2007HU161PO001	0.00	mixed
HU	Forrás Takarékszövetkezet, Veszprém	2007HU161PO001	0.00	guarantees
HU	Gádoros és Vidéke Takarékszövetkezet, Gádoros	2007HU161PO001	0.00	loans
HU	Garangold Investment Befektető Zrt., Budapest	2007HU161PO001	0.00	vc
HU	Garantiqa Hitelgarancia Zrt., Budapest	2007HU161PO001	0.00	guarantees
HU	GB & Partners Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	VC
HU	GRÁNIT Bank Zártkören Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	mixed
HU	Gran Private Equity Zrt., Budapest	2007HU161PO001	0.00	vc
HU	Green Credit Finance Zrt., Budapest	2007HU161PO001	0.00	loans
HU	Gyöngyös-Mátra Takarékszövetkezet, Gyöngyös	2007HU161PO001	0.00	guarantees
HU	Hajdú-Bihar Megyei Vállalkozásfejlesztési Alapítvány, Debrecen	2007HU161PO001	0.00	loans
HU	Hajdú Takarék Takarékszövetkezet, Debrecen	2007HU161PO001	0.00	mixed
HU	Hatvan és Vidéke Takarékszövetkezet, Hatvan	2007HU161PO001	0.00	mixed
HU	Hemisphere Kockázati Tőkealap, Budapest	2007HU161PO001	0.00	vc

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
HU	Heves Megyei Vállakozás -és Területfejlesztési Alapítvány, Eger	2007HU161PO001	0.00	loans
HU	Hévíz és Vidéke Takarékszövetkezet, Hévíz	2007HU161PO001	0.00	mixed
HU	Hitelpont Pénzügyi Szolgáltató Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Hungária Takarék, Bonyhád	2007HU161PO001	0.00	mixed
HU	InHold Pénzügyi Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Jász-Nagykun-Szolnok Megyei Vállalkozásfejlesztési Alapítvány, Szolnok	2007HU161PO001	0.00	loans
HU	Jász Takarékszövetkezet, Jászberény	2007HU161PO001	0.00	mixed
HU	Kaerous Kockázati Tőkealap-kezelő Zrt. (Magvető), Budapest	2007HU161PO001	0.00	vc
HU	Kaerous Kockázati Tőkealap-kezelő Zrt. (Növekedési), Budapest	2007HU161PO001	0.00	vc
HU	KA-VOSZ Vállalkozásfejlesztési Zrt., Budapest	2007HU161PO001	0.00	loans
HU	KDB Bank (Magyarország) Zrt., Budapest	2007HU161PO001	0.00	loans
HU	Kereskedelmi és Hitelbank Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	mixed
HU	Kéthely és Vidéke Takarékszövetkezet/Bank, Marcali	2007HU161PO001	0.00	loans
HU	Kinizsi Bank Zártkörűen Működő Részvénytársaság, Veszprém	2007HU161PO001	0.00	mixed
HU	Kisalföldi Vállalkozásfejlesztési Alapítvány, Győr	2007HU161PO001	0.00	loans
HU	Kiskun Takarék (Kiskunfélegyházi Takarékszövetkezet), Kiskunfélegyháza	2007HU161PO001	0.00	loans
HU	Kis-Rába menti Takarékszövetkezet, Beled	2007HU161PO001	0.00	mixed
HU	Komplex Faktor Követeléskezelő Zrt., Budapest	2007HU161PO001	0.00	loans
HU	Körmend és Vidéke Takarékszövetkezet, Körmend	2007HU161PO001	0.00	mixed
HU	Környe-Bokod Takarékszövetkezet, Környe	2007HU161PO001	0.00	loans
HU	Kunszentmárton és Vidéke Takarékszövetkezet, Kunszentmárton	2007HU161PO001	0.00	guarantees
HU	LMGL-INVEST FACTORING Pénzügyi Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Lövő és Vidéke Takarékszövetkezet, Lövő	2007HU161PO001	0.00	mixed
HU	Magnetissimo Pénzügyi Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	Loans

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
HU	MagNet Magyar Közösségi Bank Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Magyar Fejlesztési Bank Zrt., Budapest	2007HU161PO001	0.00	guarantees
HU	Magyar Hitel Központ Pénzügyi Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Magyar-Mikrohitelező Központ Pénzügyi Szolgáltató Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Magyar Takarékszövetkezeti Bank Zrt., Budapest	2007HU161PO001	0.00	mixed
HU	Magyar Vidék Hitelszövetkezet, Pécs	2007HU161PO001	0.00	loans
HU	Magyar Záloghitel Faktoráló és Pénzügyi Szolgáltató Zrt., Budapest	2007HU161PO001	0.00	loans
HU	Mecsek Takarék, Mecseknádasd	2007HU161PO001	0.00	loans
HU	Merkantil Váltó- és Vagyonbefektető Bank Zrt., Budapest	2007HU161PO001	0.00	guarantees
HU	Mikrofinanszírozó Pénzügyi Szolgáltató Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	MIKROHITEL Gazdaságfejlesztő Pénzügyi Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	MKB Bank Zrt., Budapest	2007HU161PO001	0.00	mixed
HU	Mohácsi Takarék Bank Zrt., Mohács	2007HU161PO001	0.00	guarantees
HU	Morando Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	vc
HU	MVG Magyar Gazdaság- és Vállalkozásfejlesztő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Nagykáta és Vidéke Takarékszövetkezet, Nagykáta	2007HU161PO001	0.00	mixed
HU	NHB Növekedési Hitel Bank Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	Loans
HU	Nógrád Megyei Regionális Vállalkozásfejlesztési Alapítvány, Salgótarján	2007HU161PO001	0.00	loans
HU	OTP Bank Nyilvánosan Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	mixed
HU	Pannon 2005 Faktor és Hitel Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Pannon Finance Pénzügyi Szolgáltató Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	Loans

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
HU	Pannonhalma és Vidéke Takarékszövetkezet, Pannonhalma	2007HU161PO001	0.00	guarantees
HU	Pannon Hitel Pénzügyi Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Pannon Takarék Bank Zrt., Komárom	2007HU161PO001	0.00	loans
HU	PARTISCUM XI Takarékszövetkezet, Szeged	2007HU161PO001	0.00	mixed
HU	PÁTRIA Takarékszövetkezet, Gyömrő	2007HU161PO001	0.00	mixed
HU	PBG FMC Tőkealap-kezelő Zrt., Budapest	2007HU161PO001	0.00	vc
HU	PERION Kockázati Tőkealap-kezelő Zrt., Budapest	2007HU161PO001	0.00	vc
HU	Pest Megyei Vállalkozásfejlesztési Alapítvány, Gödöllő	2007HU161PO001	0.00	loans
HU	PLATINIUM Pénzügyi Szolgáltató Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Polgári Bank Zrt., Polgár	2007HU161PO001	0.00	mixed
HU	PortfoLion Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	vc
HU	Primom Szabolcs-Szatmár Bereg Megyei Vállalkozáséléнkítő Alapítvány, Nyíregyháza	2007HU161PO001	0.00	loans
HU	Primus Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	vc
HU	Rábaközi Takarékszövetkezet, Csorna	2007HU161PO001	0.00	mixed
HU	Raiffeisen Bank Zártkören Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Rajka és Vidéke Takarékszövetkezet, Rajka	2007HU161PO001	0.00	mixed
HU	Rakamaz és Vidéke Körzeti Takarékszövetkezet, Rakamaz	2007HU161PO001	0.00	mixed
HU	Régió Finansz Pénzügyi Zrt., Salgótarján	2007HU161PO001	0.00	loans
HU	Regionális Fejlesztési Finanszírozó Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	mixed
HU	Rétköz Takarékszövetkezet, Kisvárda	2007HU161PO001	0.00	mixed
HU	River Factoring Pénzügyi Szolgáltató Zártkörűen Működö Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Rónasági Takarékszövetkezet, Fülöpszállás	2007HU161PO001	0.00	guarantees
HU	Sajóvölgye Takarékszövetkezet, Kazincbarcika	2007HU161PO001	0.00	mixed
HU	Sárbogárd és Vidéke Takarékszövetkezet, Sárbogárd	2007HU161PO001	0.00	guarantees
HU	Savaria Takarékszövetkezet, Szombathely	2007HU161PO001	0.00	mixed

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
HU	Sberbank Magyarország Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	mixed
HU	Somogy Megyei Vállakozói Központ Közalapítvány, Kaposvár	2007HU161PO001	0.00	loans
HU	Somogy Takarék Szövetkezet, Nagyatád	2007HU161PO001	0.00	loans
HU	Sopron Bank Burgenland Zártkören Működő Részvénytársaság, Sopron	2007HU161PO001	0.00	mixed
HU	SZABOLCS Takarékszövetkezet, Nyíregyháza	2007HU161PO001	0.00	loans
HU	Szatmár-Beregi Takarékszövetkezet, Fehérgyarmat	2007HU161PO001	0.00	mixed
HU	Széchenyi István Hitelszövetkezet, Zalaegerszeg	2007HU161PO001	0.00	guarantees
HU	Széchenyi Kereskedelmi Bank Zrt., Budapest	2007HU161PO001	0.00	mixed
HU	Székesfehérvári Regionális Vállalkozásfejlesztési Alapítvány, Székesfehérvár	2007HU161PO001	0.00	loans
HU	Szentesi Hitelszövetkezet, Szentes	2007HU161PO001	0.00	mixed
HU	Szentgál és Vidéke Takarékszövetkezet, Szentgál	2007HU161PO001	0.00	mixed
HU	Szentlőrinc-Ormánság Takarékszövetkezet, Szentlőrinc	2007HU161PO001	0.00	loans
HU	Szigetvári Takarékszövetkezet, Pécs	2007HU161PO001	0.00	mixed
HU	Terra Credit Pénzügyi Szolgáltató Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	loans
HU	Tiszafüred és Vidéke Takarékszövetkezet, Tiszafüred	2007HU161PO001	0.00	mixed
HU	Tiszántúli Első Hitelszövetkezet, Debrecen	2007HU161PO001	0.00	mixed
HU	Tisza Takarékszövetkezet, Tiszaföldvár	2007HU161PO001	0.00	loans
HU	Tőkepartner Kockázati Tőkealap-Kelező Zrt., Budapest	2007HU161PO001	0.00	vc
HU	Tolna Megyei Vállalkozásfejlesztési Alapítvány, Szekszárd	2007HU161PO001	0.00	loans
HU	UniCredit Bank Hungary Zrt., Budapest	2007HU161PO001	0.00	mixed
HU	Valor Capital Kockázati Tőkealap-kezelő Zrt., Budapest	2007HU161PO001	0.00	vc
HU	Vas Megye és Szombathely Város Regionális Vállalkozásfejlesztési Alapítvány, Vállalkozói Központ, Szombathely	2007HU161PO001	0.00	loans
HU	Venturio Kockázati Tőkealap-kezelő Zártkörűen Működő Részvénytársaság, Budapest	2007HU161PO001	0.00	vc
HU	Veszprém Megyei Vállalkozásfejlesztési Alapítvány, Veszprém	2007HU161PO001	0.00	loans
HU	VirPay Financial Group Zártkörűen Működő Részvénytársaság, Mosonmagyaróvár	2007HU161PO001	0.00	Loans

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
HU	X-Ventures Alpha Kockázati Tőkealap-kezelő Zrt., Budapest	2007HU161PO001	0.00	VC
HU	X-Ventures Béta Kockázati Tőkealap-kezelő, Budapest	2007HU161PO001	0.00	VC
HU	Zala Megyei Vállalkozásfejlesztési Alapítvány, Zalaegerszeg	2007HU161PO001	0.00	loans
HU	Zirci Takarékszövetkezet, Zirc	2007HU161PO001	0.00	guarantees
PL	Fundusz poręczeniowy "Galicja" dla przedsiębiorców z sektora MŚP, Nowy Sącz	2007PL161PO010	0.77	guarantees
PL	Fundusz Poręczeń Kredytowych "Małopolskie Inwestycje" Tarnów	2007PL161PO010	0.71	guarantees
PL	Fundusz Pożyczkowy Agencji Rozwoju Małopolski Zachodniej S.A. prowadzony przez ARMZ S.A. w Chrzanowie	2007PL161PO010	0.79	loans
PL	Fundusz Pożyczkowy dla przedsiębiorców poszkodowanych w wyniku klęsk żywiołowych działający w ramach Tarnowskiej Agencji Rozwoju Regionalnego S.A. w Tarnowie	2007PL161PO010	1.37	loans
PL	Fundusz Pożyczkowy Fundacji Rozwoju Regionu Rabka "Nowe inwestycje w Małopolsce", Rabka Zdrój	2007PL161PO010	2.62	loans
PL	Fundusz Pożyczkowy Fundacji Rozwoju Regionu Rabka "Rozwój Turystyki w Małopolsce", Rabka-Zdrój	2007PL161PO010	2.29	loans
PL	Fundusz Pożyczkowy Janosik Fundacji na rzecz Rozwoju Polskiego Rolnictwa w Warszawie	2007PL161PO010	1.00	loans
PL	Fundusz Pożyczkowy "Klęski Żywiołowe", Rabka Zdrój	2007PL161PO010	1.47	loans
PL	Fundusz Pożyczkowy "Odbudowa" Stowarzyszenia "Samorządowe Centrum Przedsiębiorczości i Rozwoju" w Suchej Beskidzkiej	2007PL161PO010	1.31	loans
PL	Fundusz Pożyczkowy "Skawa" - Stowarzyszenia "Samorządowe Centrum Przedsiębiorczości i Rozwoju" w Suchej Beskidzkiej	2007PL161PO010	1.28	loans
PL	Małopolski Fundusz Pożyczkowy dla mikro, małych i średnich przedsiębiorców dotkniętych klęskami żywiołowymi lub innymi zdarzeniami nadzwyczajnymi Małopolskiej Agencji Rozwoju Regionalnego S.A. w Krakowie	2007PL161PO010	0.89	loans
PL	Małopolski Fundusz Pożyczkowy dla pożyczek udzielanych w ramach funduszu dofinansowanego z Małopolskiego Regionalnego Programu Operacyjnego, Kraków	2007PL161PO010	1.22	loans
PL	Małopolski Regionalny Fundusz Poręczeniowy dla poręczeń udzielanych w ramach MRPO, Kraków	2007PL161PO010	0.38	guarantees

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
PL	Mikro Fundusz Pożyczkowy Centrum Biznesu Małopolski Zachodniej Sp. z o.o. w Oświęcimiu	2007PL161PO010	2.54	loans
PT	*FINOVA - FUNDO DE APOIO AO FINANCIAMENTO À INOVAÇÃO - PORTO*	2007PT161PO001	0.37	HF
PT	16132 - FCR Portugal Ventures Internacionalização - Lisboa	2007PT161PO001	0.23	vc
PT	16133 - FCR Beta Ciências da Vida - Maia	2007PT161PO001	0.59	vc
PT	16134 - FCR ASK Celta - Lisboa	2007PT161PO001	0.41	vc
PT	16135 - FCR Capital Criativo I - Lisboa	2007PT161PO001	0.31	vc
PT	16136 - FCR ES Ventures Inovação e Internacionalização - Lisboa	2007PT161PO001	0.11	vc
PT	16137 - FCR Portugal Ventures Indústrias Criativas - Lisboa	2007PT161PO001	0.49	vc
PT	16140 - FCR Portugal Ventures Early Stages - Lisboa	2007PT161PO001	0.67	vc
PT	16141 - FCR Minho e Internacionalização - Braga	2007PT161PO001	0.08	vc
PT	16142 - FCR Novabase Capital Inovação & Internacionalização - Lisboa	2007PT161PO001	0.48	vc
PT	16143 - FCR Patris Capital Partners - Lisboa	2007PT161PO001	0.72	vc
PT	16144 - FCR PME Turismo Inovação - Lisboa	2007PT161PO001	0.15	VC
PT	16145 - FCR PME/BES - Lisboa	2007PT161PO001	0.34	vc
PT	16146 - FCR Critical Ventures I - Coimbra	2007PT161PO001	0.62	vc
PT	16147 - FCR Portugal Ventures Biocant - Lisboa	2007PT161PO001	0.69	vc
PT	16149 - FCR ASK Capital - Lisboa	2007PT161PO001	0.46	vc
PT	16152 - FCR Portugal Ventures Universitas - Lisboa	2007PT161PO001	0.80	vc
PT	16154 - FCR Portugal Ventures Acelerador de Comercialização de Tecnologia II - Lisboa	2007PT161PO001	2.82	vc
PT	16155 - FCR Istart I - Lisboa	2007PT161PO001	0.24	vc
PT	16156 - Linha de financiamento a investidores em capital de risco (Business Angels)	2007PT161PO001	0.00	vc
PT	16159 - FCR Fast Change II - Porto	2007PT161PO001	0.56	vc
PT	32822 - FCR REVITALIZAR NORTE - Lisboa	2007PT161PO001	1.18	vc
PT	32823 - FCR REVITALIZAR CENTRO - Lisboa	2007PT161PO001	0.28	vc
PT	32824 - FCR REVITALIZAR ALENTEJO - Lisboa	2007PT161PO001	0.69	vc
PT	40764 - LINHA DE FINANCIAMENTO A OPERAÇÕES DESENVOLVIDAS POR BUSINESS ANGELS	2007PT161PO001	0.00	vc

		Operational Programme(s)	Management costs and fees (annual %)	Type of financial product
PT	4574 - Linhas de Crédito PME Investe I e II	2007PT161PO001	0.00	mixed
PT	5734 - Fundo Especial de Investimento - FICA - Lisboa	2007PT161PO001	0.00	vc
PT	Linha de Crédito Investe QREN, Porto	2007PT161PO001	0.00	Mixed
UK	*FINANCE FOR BUSINESS NORTH EAST (UK), NORTH EAST FINANCE (HOLDCO) LTD, 1 ST JAMES GATE, NEWCASTLE UPON TYNE, NE1 4AD, UK*	2007UK162PO005	3.05	HF
UK	NE Accelerator Fund, Northstar Equity Investors Limited (t/a Northstar Ventures), 5th Floor, Maybrook House, 27-35 Grainger Street, Newcastle upon Tyne, NE1 5JE	2007UK162PO005	3.12	vc
UK	NE Angel Fund, Rivers Capital Partners Limited, 34 Moor Crescent, Gosforth, Newcastle upon Tyne, NE3 4AP	2007UK162PO005	3.99	vc
UK	NE Growth Fund, NEL Fund Managers Limited, Akenside Studios, 3 Akenside Hill, Newcastle upon Tyne, NE1 3UF	2007UK162PO005	2.34	vc
UK	NE Growth Plus Fund, FW Capital Limited, Oakleigh House, 14-16 Park Place, Cardiff, CF10 3DQ	2007UK162PO005	1.99	vc
UK	NE Micro Loan Fund, Tyne & Wear Enterprise Trust Ltd (t/a Entrust), Portman House, Portland Road, Newcastle upon Tyne, NE2 1AQ	2007UK162PO005	5.93	loans
UK	North East Proof of Concept Fund, Northstar Equity Investors Limited (t/a Northstar Ventures), 5th Floor, Maybrook House, 27-35 Grainger Street, Newcastle upon Tyne, NE1 5JE	2007UK162PO005	3.95	vc
UK	North East Technology Fund, IP Group Plc, 24 Cornhill London EC3V 3ND	2007UK162PO005	3.27	vc
UK	North East Creative Content Fund, Level 10, Baltic Place West, South Shore Road, Gateshead, NE8 3AE	2007UK162PO005	0.00	mixed

Source: 2015 Summary report data ; own calculation

Note: In order to calculate the annual average management costs and fees on basis of the 2015 Summary Report the total management costs and fees paid to the fund are divided by OP contributions to the relevant FIs, then divided by the lifetime of the relevant FIs.

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