What are the effects of the EU budget:

Driving force or drop in the ocean?

Jorge Núñez Ferrer and Moni Katarivas

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Abstract

The study presents an overview of the impact of the main investment tools of the EU budget. The focus is on the increasing role of the financial instruments, which are fundamentally changing the budget's nature and reach. Through these instruments, the EU can invest more efficiently in more areas and mobilise a multiple of funds. The EU budget has the potential to influence the European economy much more than its modest size in terms of GDP may suggest.

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What are the effects of the EU budget: Driving force or drop in the ocean?

Jorge Núñez Ferrer and Moni Katarivas *

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Executive Summary

Over the years, the EU budget has been the focus of many negative and positive claims concerning its contribution to the European economy. Opinions range from it being wasteful, to it being essential for Europe's future. The EU budget is also small in size as share of GNI or of national public expenditure, i.e. 1% and 2%, respectively.

The mixed reviews on the EU budget are not surprising. Europe is very eclectic and consists of 28 member states; most of the funds (approximately 80%) are managed by national administrations, with locally determined plans and priorities. The result is a rich mosaic of EU budgetary impacts, some very positive, others highly ineffective. This opens the door to a variety of claims from both camps – supporters and detractors. The budget's size is, however, deceptive. First, because the EU budget, with the exception of agricultural policy, is mainly used for capital investments in specific areas and cannot cover operational costs. Its contribution is much more than symbolic, and is in fact very substantial for some of the policy areas it supports. To put it into perspective, approximately half of the EU budget is 'direct investment' which is aimed at gross fixed-capital formation (i.e. mainly infrastructures). This sum – €53.9 billion, according to Eurostat – represents 15% of the total EU direct public investment and thus is far from being a mere drop in the ocean. With the concentration on poorer member states, the share for some regions is thus quite significant indeed. Similarly, while the EU R&D share of expenditure as a percentage of the total is only 5%, the fact that this funding excludes many capital expenditures that member states cover (e.g. buildings, existing machinery, non R&D linked staff, etc.) means that EU funding is essential in some EU priority areas of research.

In addition, much of the EU budget is either co-financed or supporting financial instruments that attract a multiple of funds from financial institutions and other investors. The funding mobilised by the EU budget in the Multiannual Financial Framework is very substantial, leading to an 'EU mobilised size' of funds of €2 trillion', or 2% points of GDP, i.e. two times the investment.

But beyond the mobilisation of funds, the actual core of the matter is the budget's impact, i.e. its contribution to the achievement of the EU policy objectives, including economic growth. The incentives created by the EU budget are essential to the implementation of many of the EU's commonly agreed objectives in several areas, in particular environmental protection and energy. It also operates as an instrument to align strategic planning across EU member states, improve administrative capacity and increase knowledge transfer. These 'secondary'

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or 'soft' impacts can have substantial effects on the EU as a whole, but are neither sufficiently recognised nor measured.

In the area of RDI support, the economic impact of the EU budget has been estimated to be considerable, due to the economies of scale that pooling resources for research at EU level can generate. The increasing collaboration with industry, which fosters a better link between research results and commercialisation, is also promising. The impact factor of past Framework Programmes for research, in terms of value added for the business sector, was estimated to be 13 times the initial EU investment. With the current reforms this should still increase significantly, meaning that the value of Horizon 2020 would under a conservative assumption exceed €1 trillion.

The EU budget has proven its value added and importance in the programmes of support to SMEs and in particular to innovative businesses. The credit crunch has significantly limited the availability of financing for SMEs, and the EU support schemes channelled through the European Investment Fund play a critical role in many member states. The main role of the funds is to leverage funding for SMEs particularly through Guarantees, but also to share risks through equity instruments. The leverage ranges from 6 times the EU support for innovative businesses, to 30 for other SMEs. With less than €1 billion, the expected total leverage approximates €18 billion. The economic effects of promoting SMEs are highly positive, and the returns to the EU in terms of economic growth and employment are a multiple of the investment.

In the area of Cohesion policy the EU budget provides a key instrument to foster EU objectives across EU regions and countries. The size of the policy (€355 billion for 2007-2013) goes beyond its EU contribution, together with leveraged funds the total investment increases to €700 billion. The economic effect has been estimated to be in the range of four times the EU contribution, or €1.4 trillion. For the future, the improved strategic planning requirements and implementation rules are expected to improve considerably the economic impact of the policy. In addition, the expanded use of financial instruments and the possibility to combine different sources of finance for projects should strengthen the policy. The Cohesion policy's impact on strategic planning and knowledge transfer will most likely have an important positive economic effect in the long-term.

In the area of Trans-European Networks the EU budget is essential to provide the necessary basis to achieve its objectives, which are essential to realise the potential of the single market. The results have largely been disappointing due to the lack of significant resources from the EU budget. By 2012 the EU budget leveraged €44 billion with a €7 billion investment, which is far too little when taking into account an estimated infrastructure need in transport and energy of €1.8 trillion. The required member states contribution of €285 billion has not been delivered due to the economic crisis and its impact on national budgets. An important share of the leverage originates from the LGTT (Loan Guarantee Instrument for Trans-European Transport) financial instrument. This instrument managed to raise €12 billion in capital by 2012 with an initial €400 million (half by the EU budget and half by the EIB). This is a leverage factor of the instrument of 30 (60 times the EU budget share of €200 million), which is higher than initially estimated.

Based on the experience of the LGTT financial instrument, the EU has launched the Project Bond Initiative, a high-leverage instrument for large infrastructures. The pilot phase during 2013-2015 is expected to raise over €4 billion in capital, with an initial €230 million allocation. The CEF should be able to provide much higher levels of funding and expected to raise around 20 times the EU budget element, i.e. €3.3 billion (the maximum allowed in the Connecting Europe Facility could thus provide €66 billion in funding). The €33 billion

allocated to the Connecting Europe Facility are expected by the Commission to generate an investment 25 times the sum (€850 billion), an ambitious and probably excessive expectation. Nevertheless, even with half of the leverage the sums are substantial. Most likely FIs will leverage more and grants less than expected.

Other areas where the financial instruments are expected to lead to substantial benefits are energy and external action. The programmes for energy (such as Intelligent Energy Europe, the European Energy Efficiency Fund and the Marguerite Fund) have proven their leverage capacity and value added. Less than €1 billion in EU support is associated to a leverage of €25 billion.

In the area of external action, the EU's contribution to financial instruments (blending facilities) of €1.3 billion has led to a leverage of €41 billion by 2012. This is a significant addition to the EU's external action objectives.

For the period 2013-2020, the sum of the total leverage of the EU budget in the areas analysed in this report exceeds the size of the entire EU budget. In addition, the economic impact of EU interventions is estimated to be a multiple of the size of the budget. The RDI policy, for example, which amounted to around 5% of the budget in the 2007-2013 MFF period, has had an impact estimated to be higher than *the whole EU budget*, i.e. 0.5% of the EU GDP generated around 1% in additional GDP. The Cohesion Policy with 0.4% of EU GDP generated another 1% GDP *net* impact in addition. In total a net impact of 2% of GDP from about half the EU budget or 0.5% of EU GDP. Much of this impact has long-term implications raising the steady state level of GDP, i.e. the base physical capital stock of GDP level and basis of future growth. For Horizon 2020 the leverage could be higher than 1, this means a total investment of over twice the EU budget or 2% GDP. The **net** economic benefit could reach 2.5%-3% of GDP (from the Cohesion and Competitiveness investments of the budget equivalent to 0.5% of GDP). These figures are rough and partial estimations emerging from an overview of evaluations and studies and should not be taken at face value, but reflect the importance of the budget.

It is certainly possible to conclude that the EU budget is not "a drop in the ocean"; it is a truly important force in the EU. Looking at past performance, the EU budget has been an influential facilitator of integration in the EU. For the future, the budget can become a driving force in the areas it supports. The extent to which it will achieve its potential will largely depend on the quality of planning and implementation by national authorities.

1. Introduction

Over the years, the EU budget has been the focus of many negative and positive claims concerning its contribution to the European economy. Declarations range from its "being a financial waste" to "being essential for Europe's future". The EU budget's capacity to contribute to the EU's economy is strongly called into question, also due to the impacts of the financial crisis in those countries that were the main beneficiaries of the funds, i.e. the so-called 'Cohesion countries'. According to some critics, the EU budget contributions have not led to more resilient and better economies, and have been therefore largely misallocated.

The mixed reviews on the EU budget are not surprising. Europe is very eclectic and consists of 28 member states; most (approximately 80%) of the funds are managed by national administrations, with locally-determined plans and priorities. The result is a rich mosaic of EU budget impacts, some very positive, others highly ineffective. This opens the door to a variety of claims from both camps, supporters and detractors.

There is no doubt that some of the EU budget's expenditure priorities were questionable, and the well-known 2003 Sapir report highlighted its weaknesses. The success of the EU budget, however, is largely the result of local strategies, at least in the area of regional policy. Due to the increasing realisation that there needs to be a better focus towards long-term sustainable growth in line with EU priorities, the EU has strengthened earmarking and conditionality, and has expanded the use of the so-called 'innovative financial instruments'.

What matters for the future is not how the EU budget has performed so far, but whether it has the potential to contribute to the European construction and its long-term economic welfare? Would it matter if the EU budget were abolished given that it only represents 1% of EU GNI or 2% of EU public expenditure, which is hardly an amount able to make a large impact by itself?

This report seeks to provide some answers on the potential of the EU budget, taking into account its limitation in size and structure and the existing policy decisions. It provides a first, even if incomplete answer, on the added-value of the EU budget. The report briefly reviews the impact of the EU budget and analyses its future potential contribution, in particular as a driver for long–term sustainable economic growth. It is important to very carefully differentiate between the impacts of the EU budget in the past due the way member states have implemented it, and its actual potential. Various factors may radically change the impact of the EU budget: First, the reorientation of the EU budget and the reinforced strategic requirements, the earmarking and the conditionalities, and second, the increased use of the so- called innovative financial instruments, aimed at leveraging private funds for objectives of central importance to the EU.

This document will focus primarily on the role and potential of the (innovative) financial instruments (FIs) that support the EU budget in the form of equity and guarantees to leverage public or private finance. The FIs have the potential to radically change the nature and reach of the EU budget over time. The introduction of financial instruments combining EU budget support with loans by the EIB Group (European Investment Bank and European Investment Fund), as well as from other financial institutions, is seen as one way of expanding the reach of the EU budget and increasing its effectiveness. The financial and sovereign debt crisis has also increased the need for new innovative financial solutions to address a weakening credit market for public infrastructures, SMEs (small- and medium-size enterprises) and RD&I (research, development and innovation). While EU level financial instruments cannot replace the vacuum created by the credit crunch and the sovereign debt crisis, they can offer specific support in areas with a European value added, as well as

significant long-term returns in terms of growth and jobs creation. Moreover, these instruments create a new space for collaboration between institutions and levels of decision-making, facilitating the pooling of resources and the development of common standards across the EU. These indirect implications of well-devised mechanisms can potentially create considerable efficiencies of scale.

This report provides an overview of the rationale and impacts of the EU budget, and within it the role of the innovative financial instruments. It shows that the EU budget has had a considerable impact and can be an important additional motor for the future of the EU, far from the criticisms of being "a drop in the ocean". However, its effectiveness will still greatly depend on the decisions of member states and local authorities, and the budget will have to continuously adapt and reform to better fit the different needs. The EU budget's past and future impacts are thus conditional on what beneficiaries do with the funds. With the financial crisis attracting attention on new models of financing and the need for longer-term and sustainable impacts, there is a chance for the EU budget to realise more of its intrinsic potential. In fact, the European Union's objectives and aspirations have increased considerably in the last two decades, while the budget of the Union has fallen in real terms as a percentage to GNI since the 1990s. The EU requires a budget, if not bigger, certainly better allocated and managed than it has been to date.

This report focuses mainly on the investment policies of the EU budget, e.g. the research and cohesion budget. However, to their exceptional nature, the financial instruments for external action are also addressed. It does not cover, for example, the Common Agricultural Policy (CAP) and its rural development arm. Agricultural policy is the only fully common policy required by the Treaty and is not designed as an investment policy in the way the research and cohesion policies are. The CAP is an important as well as controversial policy, and an analysis goes beyond the scope of this paper.

2. Impacts of the EU Budget Expenditures on Europe's Development

This chapter is not designed to give a detailed assessment of the impact of the EU budget, but rather to offer a general overview, and to discuss some strengths and weaknesses of the EU budget. Generally, studies on the budget have focused on the impact of economic growth of EU funds, but the EU budget has a number of other functions and objectives. We can summarise the objectives as:

- Achieving regional convergence
- Increasing economic growth
- Achieving EU targets and objectives

Evaluations of EU policy have yielded mixed results on the first objective. From a theoretical point of view, regional convergence in GDP is not achievable as the endogenous potential of regions is different.[1] It is not surprising that the main convergence process in the EU has happened at national rather than regional level.

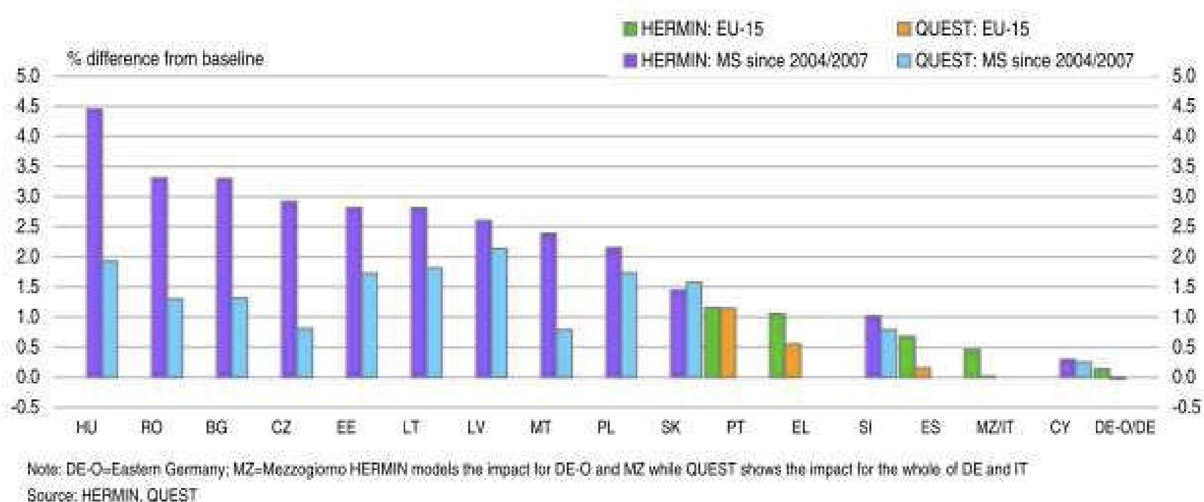
As concerns the EU level growth objective, there is some evidence that the EU budget has induced higher economic growth in the beneficiary countries, and this should further

[1] GDP is a measure of productive capacity at local level, not income which is addressed by national social policies. GDP and growth equalisation is not possible as growth potentials are different.

increase in the next financial perspective. Key models looking at the cohesion policy[2] show positive impacts of cohesion policy on growth in the beneficiary countries, compared to a counterfactual scenario with no EU budget support. This is central to justify EU budget expenditures for competitiveness, cohesion and trans-European infrastructures. Approximately half of the EU budget is 'direct investment' which is aimed at gross fixed-capital formation (i.e. mainly infrastructures), or €53.9 billion according to Eurostat, representing 15% of the EU direct public investment.[3] Similarly, while the EU R&D share of expenditure to total is only 5%, the fact that this funding excludes many capital expenditures which member states cover (e.g. buildings, existing machinery, non-R&D linked staff, etc.), this means that EU funding is essential in some EU priority areas of research. It is very important that the EU shows a positive growth impact.

These results include considerable positive growth effects for Greece, Spain, Portugal and Italy (which means that they would have been even worse off without the support of the EU budget today), However the models show in some cases large discrepancies in their results: for example Quest shows a long term 2-3% GDP impact for some countries, where Hermin gives a result inferior to 0.5% for the 2000-2006 financial framework. For the 2007-2013 period impacts are all positive, but this time with higher estimated impacts during the period in the Hermin model. The largest impacts are all expected to take place in the new member states, with most new member states achieving GDP rates between 2-5% higher than in a 'no-support' scenario (Figure 1).

Figure 1. Hermin and Quest model results for Cohesion Policy 2007-2016



Source: Bradley and Untiedt (2012), p. 16.

Employment is also assessed, and while the Hermin model predicts considerable employment effects for 2014, Quest shows very little impact. Nevertheless, the results are positive in all cases. Unfortunately, the models tell us very little beyond GDP and some employment effects.

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[2] The Hermin model was developed by the Economic and Social Research Unit in Dublin and used extensively in analysing cohesion policy impacts. Quest is the main model used by the Commission's Economic and Financial Affairs Directorate General.

[3] A. Illés, R. Sauter and J. Núñez Ferrer (2014), "Financing Europe 2020: a consolidated view", Report to the Committee of the Regions (http://tinyurl.com/pma2hkc).

In the area of RDI, an OECD study that estimated the impacts on the economy of the EU 6th and 7th Framework Programme. Each Euro spent in those programmes have increased the Value Added in the business sector by €13.[4]

The EU budget is, however, much more than just a transfer for GDP generation, in particular since the Multiannual Financial Framework is being used to influence national spending priorities towards a number of EU objectives. Many non-financial impacts have an important bearing on social and environmental conditions, which lead to welfare increases. The long-term impacts of the EU budget on national strategies and administrative capacity is also difficult to evaluate in such models. The exercise of drafting national and regional strategies for EU funds might considerably facilitate the capacity of member states to draft coherent national reform strategies for the European Semester. In addition, the EU budget has important impacts in the transfer of best practices across the EU, as administrations of member states, candidate and associated countries introduce similar practices. For many regional authorities, the EU budget also offers the possibility to demonstrate new systems and subsequently mainstream them if successful. This test-bed nature, breaking up established administrative rigidities at national and regional level, may well have considerable implications, even if this is difficult to estimate.[5] Without the EU budget much of what is taken for granted would not exist.

This does not mean that the EU budget is well and sound, and much still needs to change. The presently concluded Multiannual Financial Framework 2007-2013 and the one for 2014-2020 have introduced radical changes to the way the funds are programmed in EU member states and regions. Earmarking and integrated planning have transformed the EU budget support from a sectoral and cohesion oriented transfer to a powerful EU policy implementation tool. With Europe 2020, the EU budget has become fundamental to incite regions and member states to focus on the Europe 2020 flagship objectives. In addition, some fundamental changes are in motion with the increasing use of FIs. The EU budget is promoting a key change in the way administrations at all levels plan and finance many areas of public spending. Through the FIs, the weight of the EU budget interventions will increase considerably, not due to the direct transfers, but due to the leverage effects. Indirectly the budget could see a doubling of its financial weight (including items which do not create a leverage, e.g. direct payments in the agricultural sector). This does not only increase considerably the EU budget influence, but it will also change significantly the actual impact of the budget across countries.

3. Rationale for the Expanded Use of Financial Instruments

An argument that is often raised in favour of the use of financial instruments is that they have a high leverage effect, i.e. they attract a much higher level of private or public funding than the EU contribution. While this is true, financial instruments are not a panacea and cannot replace grants and increase investment single-handedly. Financial instruments are debt instruments and as such have a specific role. If they can substitute traditional grants in certain areas, it mostly means that the EU was subsidising in excess such projects to start with.

[4] Presented in Box 10, p. 30 of the Commission Staff Working Paper accompanying the impact assessment of the Horizon 2020 proposals (SEC(2011) 1427 final) of 30 November 2011.

[5] Authors' assessment based on discussions with regional authorities and experience in local projects, cases from France, Germany, Italy, Spain and Bulgaria.

Financial instruments are a complementary tool, which in some areas of intervention are better suited and more powerful than grants.

Box. 1 Definition of Financial Instruments (FIs), leverage and multiplier effect

Financial Instruments (FIs) are defined in Financial Regulation, p. 39, as measures of "*financial support provided from the budget in order to address one or more specific policy objectives by way of loans, guarantees, equity or quasi-equity investments or participations, or other risk-bearing instruments, possibly combined with grants*".

- The EU budget can offer funds to support loans by the EIB or other financial institutions.
- Guarantees offer support to loans to reduce investors' risks by covering the first losses of projects.
- Equity aims to provide finance for early growth-stage investments in businesses and to boost the EU venture capital market.

Leverage in this report represents all additional funds from third parties, public or private, which are mobilised by the EU budget funds.

The **multiplier effect** is the economic impact generated from supported project, including indirect impacts not directly related to the activity.

3.1 Economic rationale for using innovative financial instruments

Projects with high European added value and which can potentially raise revenue to be self-financing, may initially need support from financial instruments, because they either do not generate sufficient revenue to cover the interests of a loan, or because the risks are too high according to the assessment of private investors.

FIs are thus primarily a risk mitigation tool for financial institutions and investors, as they take over some of the risks associated with any given project. This affects the cost-benefit balance of projects for the investors, enabling projects and sector investment programmes which would otherwise have not taken place.

The Financial instruments have the positive feature of allowing a better allocation of scarce public resources, by differentiating between projects where grants are needed and those where guaranteed loans or equity would suffice. The recently published financial regulation[6] now allow for a combination of support instruments to develop a project. This allows also to combine traditional grants to support non-bankable aspects of a project, while a bankable but risky revenue generation aspect can benefit from FIs.

FIs allow for a better allocation of scarce public resources, leaving grants for activities of economic and social value that cannot be revenue-generating, while simultaneously allowing for a larger number of public programmes with the same budget allocation.

3.2 Potential forms of financial instruments

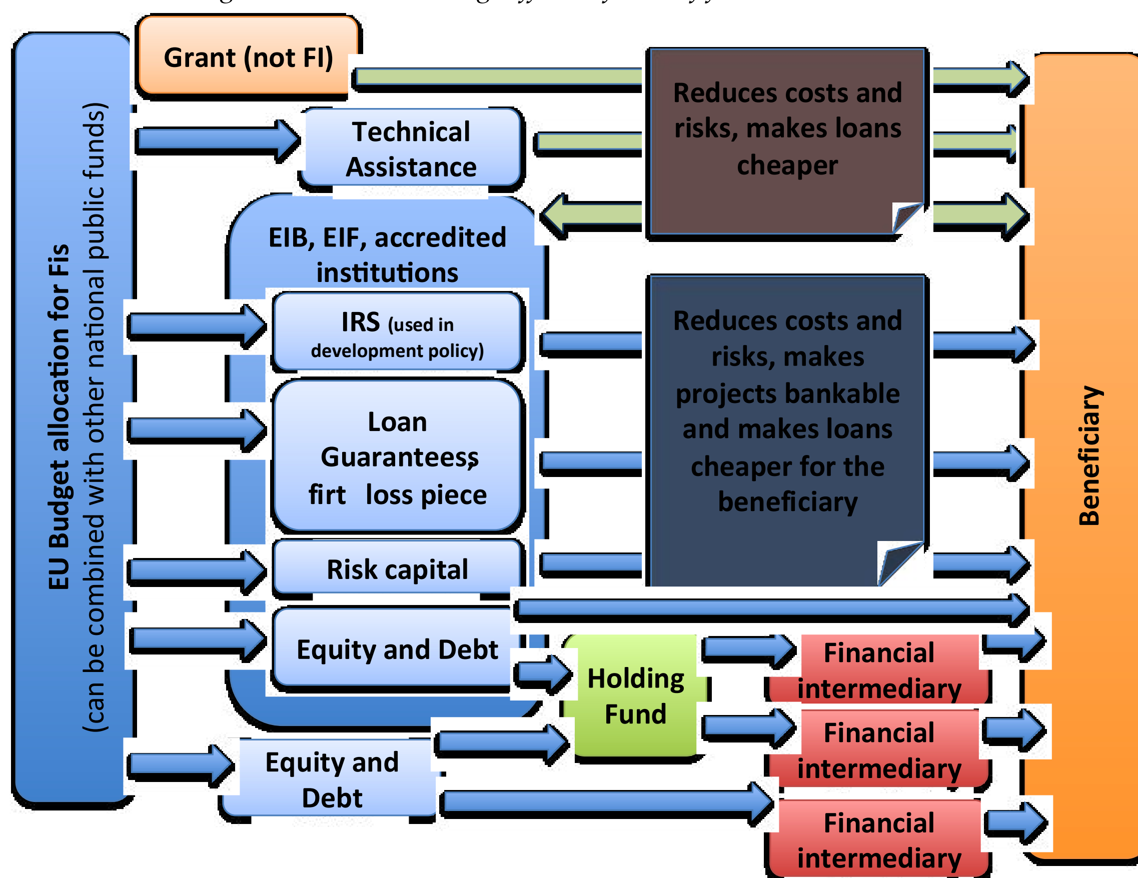
FIs can take many forms, such as loan guarantees, venture or risk capital (seed money, equity, quasi-equity or mezzanine loans) or interest rate subsidies (used in external action

[6] Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council.

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

programmes). Figure 2 depicts the flow from the EU budget support to the final beneficiary. Some of the support can be paid directly to beneficiaries, such as technical assistance programmes, considered also financial instruments, due to their direct link to raise funding and reduce project risks. For completeness, grants are also included in the figure, as they can be combined with FIs, and contribute in reducing the costs of a project, as well as the financial risks for the investor.

Figure 2. Understanding different forms of financial instruments



Source: Authors own configuration.

EU funds (maybe complemented by other public funds) are then used as equity and debt instruments either through financial institutions, or through holding funds than may be set up by national managing authorities (MAs).

For the 2007-2013 Financial Framework there were 24 FIs: 10 internal instruments managed by the European Commission centrally or jointly with a financial institution, 3 instruments under shared management as part of the Cohesion Policy (thus mainly under the control of national authorities), and 13 external instruments. A detailed description of these instruments is available in the Annex.

3.3 Number and size of financial instruments in the 2014-2020 MFF

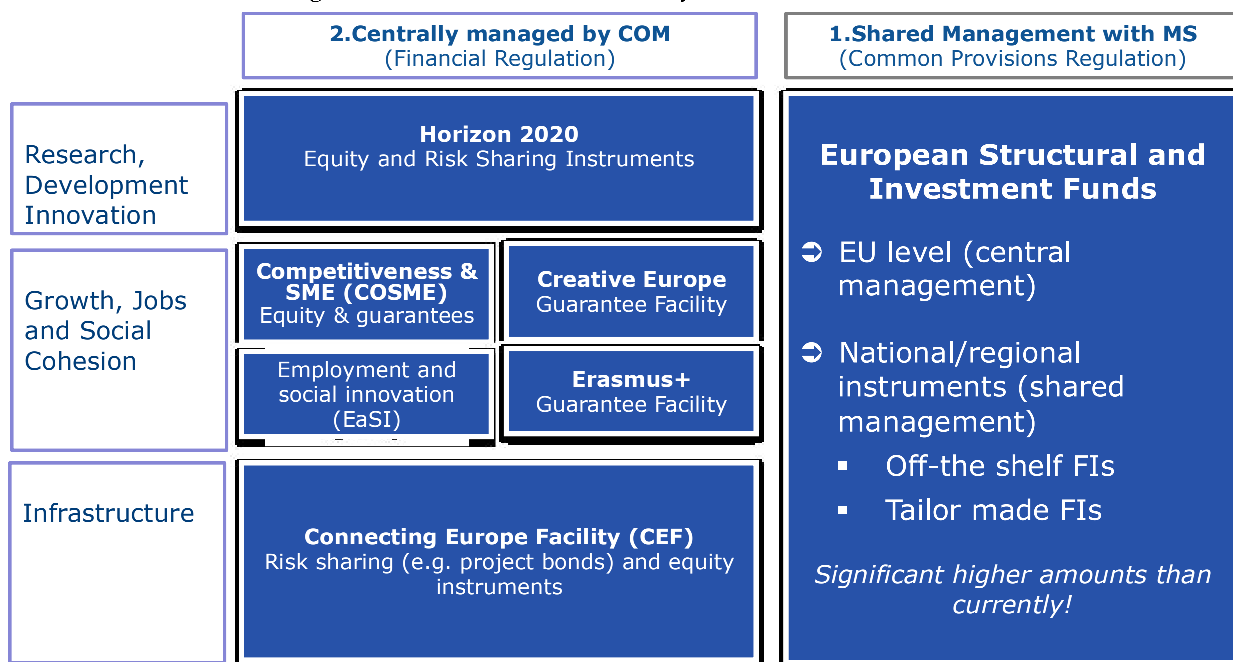
For the period 2014-2020, the new regulations open up considerably the use of financial instruments in all policy areas, and allow them to be combined with other instruments, such as grants. This means for example that FIs for SMEs (for example loans guaranteed by the EU) can co-finance a project or can allow co-financing of infrastructures that benefit from a grant. This is important given the credit crunch. It is also important because in a number of poorer member states one of the only sources of private lending for SMEs, and in particular

innovative SMEs, is through loans supported by EU financial instruments. The former rules led to illogical situations whereby, for example, a firm won a EU grant for 50% of a project but could not find any lender to cover the remaining investment.

The most important financial instruments will be associated to the Competitiveness and Cohesion programmes, and to external action, but will also be found in rural development policy, and in the environmental LIFE+ programme. This report will concentrate only on the Competitiveness and Cohesion programmes, where the FIs are most significant, and on external action, given their rapid increase in that sector.

The 2014-2020 MFF regulations also consolidate the financial instruments, developing a more coherent approach and correcting for inconsistencies (e.g. same beneficiary targeted by two different funds for the same objective). These are presented in Figure 3.

Figure 3. Financial instruments of the 2014-2020 MFF



Source: DG ECFIN – it excludes FIs that not in the competitiveness and cohesion policies.

4. Impact and Potential of the EU Budget in RDI

According to the economic theory of fiscal federalism, Research, Development and Innovation (RDI) is better managed and financed at EU level.[7] In the area of RDI,[8] the need for a central budget is well documented, as the potential economies of scale are very large.

The EU budget's role in R&D has seen an important change over the last decades, from a policy focusing on open calls for support to fundamental research, to an instrument of industrial policy. It is now generally recognised that the economic welfare of European nations depends on long-term growth and sustained industrial competitiveness. This is

[7] For an overview: J. Núñez Ferrer and Filippa Figueira (2011), "Achieving Europe's R&D Objectives: Delivery tools and the role of the EU Budget", Report No. 6, SIEPS, Sweden.

[8] The expression 'RDI' is used here, as it is more appropriate than the more restrictive term R&D, as it includes non research-based innovation.

achievable through the development of high added value goods and services which require continuous investment in RDI.

The Seventh Framework Programme (FP7) for the programming period 2007–2013 had a budget of just over €50 billion for its interventions. The follow up Horizon 2020 program has seen its budget increase to €70.2 billion. Although the budget represents less than 5% of total government expenditure on research in the EU, it has a significant impact in the specific areas in which it intervenes (e.g. in energy research a third of the public research budget is financed by the EU). The Financial Instrument of the FP7 assistance in the area of RDI at EU level provides important advantages:

- It promotes cross-border collaboration and economies of scale, thereby capturing the full capacity within the EU by improving cooperation and coordination;
- It addresses RDI projects that are too big for any one member state or requires coordinated actions among member states to provide value;
- It copes with the risks associated with new RDI projects and helps to reduce the risk of duplicating national or regional initiatives implemented in an uncoordinated fashion; and
- It also allows for transfer of knowledge and the build up of new capabilities in institutes participating in collaborative cross border research.

Through the Framework Programmes, the EU principally offered grants with the objective to strengthen industrial competitiveness and to meet the research needs of other EU policies, thereby contributing to the creation of a knowledge-based society. RDI support should contribute towards promoting growth, sustainable development and environmental protection. FP7 promoted excellence in scientific and technological research, development and demonstration through its programmes. An OECD model has been used by the European Commission to estimate the impact of the EU's 6th and 7th Framework Programme: for each Euro spent the Value Added in the business sector is estimated to have increased by €13,[9] which can be considered a very good result.

A 2010 interim evaluation of the Framework Programme identified concrete positive effects of the FP7 including a wide diversity and high quality of projects under both Cooperation and People programmes, the establishment of research infrastructure, and leverage in promoting national research efforts.

However, one of the central weaknesses of EU's FPs has been the low level of private sector involvement and the lack of market deployment of successful research outputs. Figure 4 shows the rationale for support beyond traditional academic RDI. For many research outputs, which can potentially lead to new products, public grant support does not cover the high costs of testing at industrial scale and of marketing that would be required to launch the innovation. These costs are often referred to as the 'valley of death' in the literature or the 'technology death risk area'.

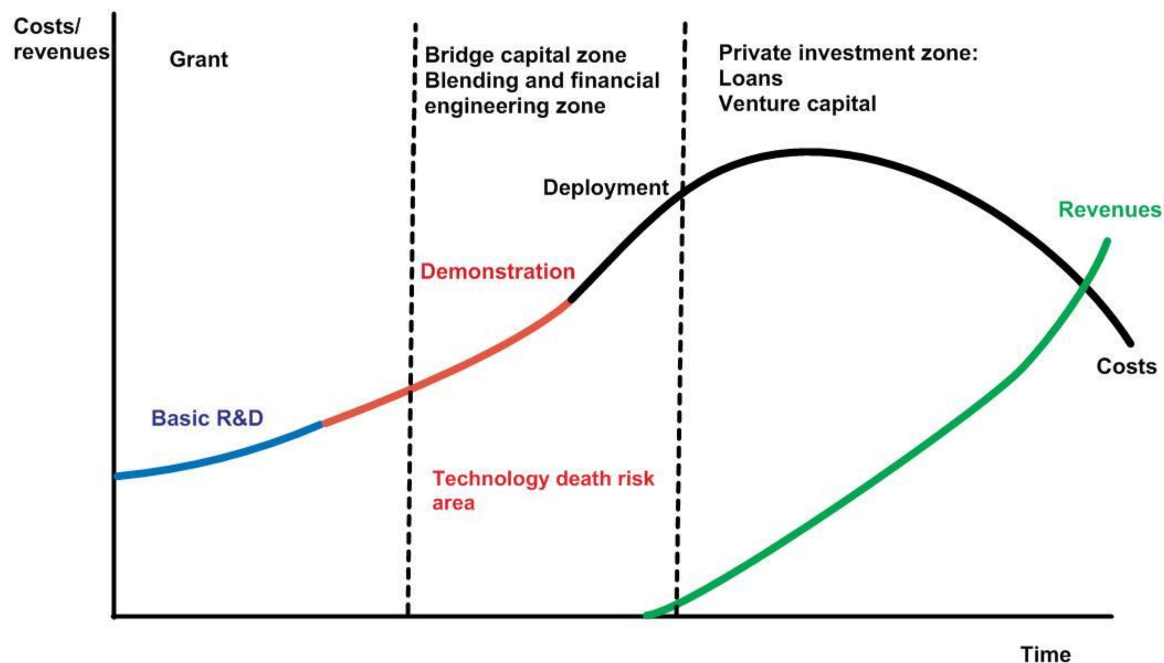
To bridge the gap between academic research, and large scale (real life) demonstration and the market, FP7 offered additional support, in particular through a new Financial Instrument called the Risk Sharing Finance Facility (RSFF). The RSFF is a guarantee instrument supported by European Investment Bank (EIB) loans, and is an important instrument to bridge the gap. RSFF provides risk capital aimed at covering potential losses in the financial

[9] Presented in Box 10 of p. 10 of the Commission staff working paper accompanying the impact assessment of the Horizon 2020 proposals (SEC(2011) 1427 final) of 30 November 2011.

sector from RDI investments over the advanced stages of innovation, demonstration and deployment. It supports private projects with a high-risk profile to become bankable.

By investing in high-risk projects that would otherwise not be implemented, the RSFF aims to ensure that the additionality principle is preserved. The RSFF's expert group evaluation concludes that there is no evidence of a crowding out of other national/private financial sources, but rather a complementarity. The demand for RSFF R&D funding is much higher than what is provided by the market. The high leverage factor (in excess of 10) has significant impact on the EU innovative economy – with €1 billion by the EU budget and an equivalent amount by the EIB, the RSFF was expected at its inception to raise private risk capital in the value of approximately €10 billion over the 2007–13 period. In its mid-term evaluation report of 2010, the EIB noted that the leverage achieved as of end 2009 reached factor 14, triggering some EUR 16.2 billion of investments in research and innovation. In 2010, the European Commission also introduced the Risk Sharing Instrument (RSI) to cater for the special financing needs of innovative SMEs (this is described in more detail in chapter 5).

Figure 4. Technology cycle and financial needs



Source: Núñez Ferrer et al. (2011), *SET-Plan, from concept to Successful Implementation*, CEPS Task Force Report, May, p. 24.

Innovation is at the core of long-term economic growth in the European Union. RDI is one of the most suitable areas of investment at European level. This allows to pool resources and to improve coordination across the EU, to avoid duplication and to generate economies of scale. It also allows for large collaborative projects to emerge, which no member state would be able to finance by itself.

In general, providing access to risk capital is a promising and key success factor. The RSFF has started at a moment where investment in R&D has been affected by the crisis, providing a welcome financial injection in an area of highest priority for the EU.

There is some evidence that the actions during the 2007-2013 MFF have had an impact. Since 2009, and despite the financial crisis, the share of RDI investment in the GDP of the EU has crossed the level of 2% of GDP for the first time and is steadily increasing. RDI investment

tends to be sensitive to downturns, but the policy emphasis on RDI as an important element of the sustainability of Europe's economy seems to have had a considerable effect.

For the next programming period 2014-20 the EU, Horizon 2020 will become the biggest EU Research and Innovation programme to date with nearly €70.2 billion of funding available over 7 years (2014 to 2020). Together with a streamlining of the process, and a more focused approach, Horizon 2020 should increase the value added it generates. The goal is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation. The objective of new FI is to complete and further develop the European Research Area and to create a genuine single market for knowledge, research and innovation.

The Horizon 2020 programme envisages to set aside €4 billion for financial instruments. Given the high leverage of the RSFF and RSI, the financial instruments' leverage may reach over €40 billion, nearly doubling by itself the research budget. If the funds recovered were to be reused (revolving funds), the leverage would be increased even further.

Despite the importance of Horizon 2020 and of public funding support in general, it is important to point out that it is not only funding that promotes progress in innovation, but also the regulatory environment and the macroeconomic conditions. The share of public investment in RDI in the EU is not very different from the levels in the US or Japan, but the challenges arise in the private sector.[10] Much of the private RDI investment is performed by companies operating internationally, and those based in the EU can easily shift their RDI operations and market launch to other regions. The environment for commercial RDI may well not be optimal in the EU and attention should also be paid to this factor. The European Commission also warns that quality of funding is more important than quantity.[11]

Box 2. Contribution of EU RDI support

Leverage: The grants have limited leverage due to the high co-financing rate by the EU. For the RSFF however the leverage has been estimated to be in the order of 1-14, which would mean for the present period an estimated total of €14 billion. With a similar leverage the RSFF could potentially generate over €50 billion for Horizon 2020, nearly doubling the innovation funds of the EU budget and directly investing in the economic potential of Europe.

European Value Added: EU-level RDI is of a high European Value Added due to the strong economies of scale and efficiency gains it provides. The multiplier effect on the economy is expected to be very high. Assuming that the OECD estimates are upheld, the total value added for business would reach €650 billion, which is probably much higher under Horizon 2020. The export, employment and growth effects are significant, worth a 5.6% of higher steady state level of GDP in the long-run.

Additionality: The need for risk capital is large in Europe, which is lagging behind its international competitors in private and public risk capital. The demand gap is considered substantial and instruments like the RSFF are needed.

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[10] K. Uppenberg (2009), *R&D in Europe, Expenditures across Sectors, Regions and Firm Sizes*, CEPS-EIB special report, Brussels.

[11] Box 3, p. 10, European Commission staff Working Paper accompanying the impact assessment of the Horizon 2020 proposals (SEC(2011) 1427 final) of 30 November 2011.

5. Impact and Potential of the EU Budget and its Financial Instruments for Business Creation

SMEs are a backbone of European economy. The more than 20 million small and medium enterprises (SMEs) in the EU represent 99% of businesses, and are a key driver for economic growth, innovation, employment and social integration.[12] They provide two out of three of the private sector jobs and contribute to more than half of the total value added created by businesses in the EU.[13] Therefore, the European Commission provides special policy intervention instruments for SMEs in collaboration with the EIB and the European Investment Fund (EIF).

The European Commission is well aware that supporting SMEs with adequately developed Innovative Financial Instruments has and will have significant beneficial impact on the EU economy, and more specifically on the Europe 2020 objective for more jobs and higher growth.

The financial crisis and the credit crunch have strongly reduced for lending sources for SMEs reasonable capital cost, particularly for those undertaking innovative but riskier projects even with high-growth potential. Thus, the EU FIs for SMEs have an important role to play to promote business and entrepreneurship and thus generate growth and employment.

SMEs are the main target of the EU's Competitiveness and Innovation Programme (CIP) of the 2007-2013 MFF.[14] The CIP supports innovation activities (including eco-innovation), provides better access to finance, and delivers business support services in the EU regions. As part of the CIP, the Entrepreneurship and Innovation Programme (EIP) has the objective of increasing access to finance for the start-up and growth of SMEs in the EU, through the means of two financial instruments: the high growth and innovative SME (GIF) and the SME guarantee facility (SMEG). This chapter does not address instruments for SMEs from the Cohesion Policy, which are mentioned in chapter 5.

5.1 The high growth and innovative SME (GIF)

The GIF is an equity investment financial instrument. GIF1 addresses early stage (seed and start-up) businesses by investing in specialised venture capital funds and other investment vehicles which in turn provide risk capital to innovative SMEs. GIF2 covers expansion stage investments by offering specialised risk capital funds which in turn provide quasi-equity or equity for innovative SMEs with high growth potential.

The overall objective of the GIF is to improve access to finance for the start-up and growth phases of SMEs and for investment in innovation activities, thus overcoming the existing market gap. The budget allocation to the GIF amounts to €623 million. By the second half of 2013, €438 million have leveraged €2.3 billion, which equals a leverage coefficient of 5. Under the same leverage, by the end of the GIF programme in 2015-2016, the total investment might

[12] http://ec.europa.eu/enterprise/policies/sme/

[13] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm

[14] The text uses the present tense, because while new programmes start this year, many of the 2007-2013 programmes will still be operating until 2016 under the n+2 and n+3 rules, and new programmes are in any case enhancing the existing programmes.

exceed €3.2 billion.[15] The multiplier effect has not been estimated, but is much higher than the leverage factor.[16]

5.2 The SME guarantee facility (SMEG)

The SMEG Facility consists of four business lines:[17]

1) Guarantees for *debt financing* via loans or leasing to reduce the difficulties that SMEs face in accessing finance;
2) Guarantees for *microcredit* financing to encourage financial institutions to play a greater role in the provision of smaller loans;
3) Guarantees for *equity or quasi-equity* investments in SMEs in the seed and/or start-up phase, as well as *mezzanine* financing;
4) Guarantees to support *securitisation* of SME debt finance portfolios to mobilise additional debt financing for SMEs.[18]

The overall objective of SMEG is to improve access to finance for the start-up and growth phases of SMEs, and for investment in innovation activities (including eco-innovation). It provides counter-guarantees (or, where appropriate, co-guarantees for guarantee schemes operating in eligible countries), as well as direct guarantees for any other appropriate financial intermediary. The budget for the 2007-2013 period amounts to €506 million. By the second half of 2013, €460 million leveraged €14.2 billion of loans to SMEs, (i.e. a factor of 30), and volumes continue to increase. By the end of the programme by 2015-2016 the lending level is expected to increase further, and could potentially exceed €15 billion if the same leverage factor is maintained.

5.3 Added value and additionality of the EIP

The interim evaluation of the CIP notes that FIs under the EIP cater for a range of financing needs for SMEs, at different stages of their development and for different levels of financing (small to large). They offer a mix of pro-cyclical (venture capital) and counter-cyclical (guarantees) instruments, which allows for responsiveness to changing market conditions. The flexible design of the FIs allows to adapt to local conditions, while a global budget (with the possibility to transfer resources easily between different instruments) facilitates absorption and the maximum utilisation of available funds. The evaluation concluded that the underlying intervention strategy of the FI remains valid and highlights the need for the EIP to place greater emphasis on risk-capital and hybrid instruments (as compared to purely

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[15] Presentation by DG REGIO, 'EU Financial Instruments and European Structural and Investment Funds (ESIF), Open Days Seminar, 9 October 2013

[16] J. Núñez-Ferrer, A. Volkery, S. Withana and K. Medarova (2012), "The implications for the EU and national budgets of the use of innovative financial instruments for the financing of EU policies and objectives", study for the European Parliament's Committee on the Budget, Directorate General for Internal Policies, Strasbourg.

[17] Decision N° 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013) - OJ L 310/15, 09.11.2006

[18] Presentation by DG REGIO, 'EU Financial Instruments and European Structural and Investment Funds (ESIF), Open Days Seminar, 9 October 2013

debt-based instruments) to support the financing needs of innovative SMEs with high growth potential.[19]

The GIF has proven its usefulness in terms of European added value, because it directly addresses the EU core objectives of innovation, growth and jobs. As concerns the SMEG, the results are more controversial. Similar national schemes for assisting SMEs exist in many member states, and although a certain level of deadweight is inevitable when providing assistance on the basis of portfolios, the Court of Auditors estimates that deadweight losses (an estimated 38%) are nevertheless too high.[20] While the SMEG is important to develop SME programmes in countries where there is no such assistance, it is not clear whether it should operate where such instruments already exist.[21]

Nevertheless, the impact on the EU economy is clear – the EIP FIs (SMEG and GIF) enhanced the access of SMEs to finance, and received very positive feedback from final beneficiaries.[22] Between 2007 and mid-2013, the EIP FIs - GIF and SMEG - have assisted more than 240 700.[23]

The support of beneficiaries by SMEG through guarantees encourages other investors or financiers to come on board as a result of the sharing of financial risk. 42% of SMEG beneficiaries stated that receiving the guaranteed loan made it easier to obtain additional financing, thus indicating the considerable leveraging effects attributable to the investment made by the Facility.[24]

5.4 Improvements in the 2014-2020 MFF

The SME support assistance under the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) programme under the MFF 2014-2020 addresses the overlaps and ensures instrument coordination. COSME is a successor of the current Competitiveness and Innovation Programme (CIP) support for innovative start-ups and SMEs and will be coordinated with the Risk Sharing Instrument (RSI) programme for SMEs under the umbrella programme in Horizon 2020.

The COSME programme will be running from 2014 to 2020 with a planned budget of €2.3 billion. COSME aims at strengthening the competitiveness and sustainability of EU enterprises, at encouraging an entrepreneurial culture, and at promoting the creation and growth of SMEs. These objectives will be met by improving:

- access to finance for SMEs,
- access to markets, both inside the Union and internationally,
- framework conditions for businesses, and
- promotion of entrepreneurship and entrepreneurial culture.

The European Commission expects 330 000 EU firms to benefit from this facility until 2020, with the objective to helping them to create or save hundreds of thousands of jobs, and

[19] GHK, Technopolis (2009) Interim Evaluation of the Competitiveness and Innovation Framework Programme (2007 – 2013), Specific Contract No ENTR/A4/04/093/1/09/22 Implementing Framework Contract No ENTR/04/093-Lot 1

[20] European Court of Auditors (2012), Innovative Financial Instruments for SMEs co-financed by the European Regional Development Fund, Special report No 2, 2012

[21] Núñez Ferrer et al. (Ibid.)

[22] EC (2012) Entrepreneurship and Innovation Programme EIP Performance Report, January 2012

[23] Presentation by DG REGIO, 'EU Financial Instruments and European Structural and Investment Funds (ESIF), Open Days Seminar, 9 October 2013

[24] CSES, EIM (Ibid.)

launch new business products, services or processes.[25] If well targeted, the potential of the instrument is very high; the transfer of knowledge it provides in countries where financial institutions do not traditionally operate those loans for lack of capacity is invaluable.

Box 3. Contribution of SME support programmes

European Value Added: The support is in line with the Europe 2020 Strategy, because it directly addresses the core EU objectives for innovation, employment and higher growth. The value added for businesses for each Euro invested is expected to exceed €13. This means a minimum added value of €650 billion and a minimum €1 trillion for Horizon 2020, but expected to be substantially higher.

Leverage: Leverage is very high. With leverage coefficients of 5 and 30 for GIF and SMEG respectively, with one billion of the EU budget, total funding has reached €18 billion. This means that COSME and RSI in the 2014-2020 period have the potential to raise €40-50 billion.

Additionality: The importance of SMEs for the European economy, and the lack of lending and investment sources are well documented. National support for SMEs is very low or inexistent in some member states, in particular for innovative enterprises. The EU programmes provide support that otherwise would not reach SMEs.

6. Impact and Potential of the EU Budget and its Financial Instruments for Cohesion

The impact and rationale of the Cohesion Policy is highly controversial and results have been mixed. However, the potential of the policy is considerable. The benefits of increasing the economic performance of regions and countries lagging behind are important in three aspects, in addition to traditional equity and cohesion considerations:

First, the economic development of lagging regions in the EU (if well designed) create new opportunities for all European businesses (within and outside the regions supported), i.e. through higher demand from the regions. Of course, some specific sectors in wealthier countries and regions may face competition from the regions supported by this policy, but this is not negative for the EU economy as a whole, and is not worse than competition from other non-EU trading partners. It is important to point out that in the case of Cohesion support to new member states, accession was not only an opening to positive opportunities: The impacts on Central and Eastern European Country industries also meant a harsh restructuring that led to the collapse of many firms and businesses on the face of stronger and more efficient EU competitors. Without the Cohesion Policy poorer member states could also put into question the internal market.

Second, the Cohesion policy is increasingly becoming the main vehicle to ensure the achievement of central EU objectives in a number of domains, particularly in the area of energy, transport and environment.

Third, the transfer of knowledge and practices promoted by the Cohesion Policy for the public and private sectors is of great importance. While in the past programming was lacking focus affecting results, the increasing requirements in the last decade to integrate EU objectives, earmark funding and now ensure coherence with the National Reform

[25] European Commission press release: http://europa.eu/rapid/press-release_IP-13-1135_en.htm

Programmes. The common planning and programming procedures are improved the quality of knowledge gathering and of economic strategy. This should improve considerably both performance and impact.

It is clear that the Cohesion Policy is far more than a mere solidarity and financial transfer mechanism to poorer regions; it is a driving force for further changes in the member states' economies to pursue EU objectives. There is evidence of it having positive long-term effects on the economies it has assisted (see chapter 2).

What the crisis revealed is that national strategies require a focus on endogenous growth factors, namely the development of human capital and the necessary environment for innovation, and the generation of value added. Investing in infrastructure alone in a rapidly changing knowledge drive global economy is no longer a sufficient condition. The European Commission has been reinforcing the strategic focus of cohesion policies, with a particular emphasis already in the 2007-2013 MFF. In addition, the economic crisis has created a political momentum allowing for stronger conditionalities on strategic planning and targeting, in line with the Europe 2020 strategy, with a focus on what the Commission calls a 'competitive (constructed) advantage'.[26]

Much of the Cohesion Policy focuses on infrastructures and social policy, mainly with grants co-financed by national governments. The leverage effect of most interventions is thus rather low, although the economic multiplier of well-targeted interventions can be very large, shifting up long-term growth as estimated by econometric models (see chapter 2).

The total allocated budget of the Cohesion Policy in 2007-2013 amounted to €355 billion (in 2011 prices) – i.e. 34% of the total EU budget for that period, from €45 to €48 billion a year. The rate of financing varies between regions, and while in convergence regions it is just under 1, it increases to 3 in competitiveness regions. The total leverage rate is around 1 to 1, with a total investment thus approaching €700 billion.[27] What matters, however, is the resulting impact, or multiplier. The economic effect, or value added, was estimated to amount to four times the EU investment[28] for the 2000-2006 MFF. If the impact were to be the same, this would result in a return of about €1.4 trillion, or €700 billion in net. This figure, as the model results in chapter 2 suggest have a large margin of error, but the impact is most likely considerable.

6.1 The Role of the Financial instruments in Cohesion Policy

According to Article 44 of the General Regulation,[29] financial instruments under the 2007-2013 Cohesion Policy take the following forms:

1. Financial engineering instruments for enterprises, primarily SMEs, such as *venture capital*, *guarantee* funds and *loan* funds;

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[26] The word 'constructed' denotes new activities that can be developed from scratch, and not just the maintenance and promotion of existing structures and businesses, as long as the new activities are sustainable in the longer-term.

[27] European Commission Key statistics for the Cohesion Policy (http://ec.europa.eu/regional_policy/thefunds/funding/index_en.cfm)

[28] Figure derived from the Hermin model estimations for the MFF 2000-2006 and presented by Commissioner Lewandowski, see http://www.euractiv.com/euro-finance/lewandowski-euro-invested-eu-lev-interview-514566

[29] COUNCIL REGULATION (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999

2. *Urban development funds*, interested in PPP and other projects included in an integrated plan for sustainable urban development; and
3. Funds and other forms of incentive schemes, providing *loans*, *guarantees* for repayable investment, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing.[30]

For the Programming Period 2007-2013, in cooperation with the EIB, the EIF, the Council of Europe Development Bank and other financial institutions, the European Commission developed several FIs[31] for the Cohesion Policy, namely:

1. Two initiatives were set up to promote the use of **financial instruments**:
   - **JEREMIE** (Joint European Resources for Micro to Medium Enterprises) – is an initiative that promotes the use of financial instruments to improve access to finance for SMEs via Structural Funds interventions. JEREMIE can support the creation of new business or the expansion of existing ones, and the access to investment capital.
   - **JESSICA** (Joint European Support for Sustainable Investment in City Areas) – is an initiative that supports sustainable urban development and regeneration through financial engineering mechanisms.
2. Two technical assistance facilities were also launched:
   - **JASPERS** (Joint Assistance to Support Projects in European Regions) – is a technical assistance facility for the twelve EU countries who joined the EU in 2004 and 2007. It provides the Member States concerned with the support they need to prepare high quality major projects, which will be co-financed by EU funds.
   - **JASMINE** (Joint Action to Support Microfinance Institutions) - provides both technical assistance and financial support to non-bank micro-credit providers/micro-finance institutions and helps them to improve the quality of their operations.

During the 2007–2013 programming period, member states and managing authorities (MAs) are permitted to use some European Regional Development Fund (ERDF) and European Social Fund (ESF) resources to support FIs. By the end of 2010, around 5% of the ERDF allocations in the current programming period, and around 0.7% of declared ESF eligible expenditures were allocated to FIs. Contributions of EU Structural Funds used for FIs are capped, so the risk is limited to the amount allocated to the different instruments.

The leverage of each FI depends on the type of instrument, its sector and contextual conditions. Based on information to date, the following leverage effects have been estimated by the Commission:

- For *equity-based* instruments, it is estimated that €1 of public support led to equity investment into enterprises between €1 and €3.4.
- For *guarantee-based* instruments, the estimated leverage amounts to between €1 and €7.5.
- For *loan-based* instruments, the estimated leverage effect amounts to between €1 and €2.[32]

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[30] European Commission (2012), Revised guidance note on financial engineering instruments, under article 44 of Council regulation (EC) No1083/2006. 8.2.2012, Brussels.

[31] http://ec.europa.eu/regional_policy/thefunds/instruments/index_en.cfm

[32] European Commission (2012), Financial instruments in Cohesion Policy, Commission Staff Working Document, SWD(2012)36, 27.2.2012, Brussels.

Further to this, FIs under Cohesion Policy has led to other important benefits beyond the leverage effect, which are relevant in terms of understanding the broader impact of FIs. For example, the revolving nature of FIs still allows for EU public resources to be reinvested in the same projects, which is not possible with grants. Also, FIs are subject to more stringent rules on fiscal discipline, which has arguably provided an incentive for better quality projects.

6.2 Next Programming Period 2014-2020

In the next programming period 2014-2020 the use of financial instruments within the Cohesion policy is expanded and strengthened. The potential impact on the economies of the EU is considerable, so in the light of the current economic situation and the increasing scarcity of public resources, financial instruments are expected to play an even more important role in pursuing the objectives of the cohesion policy in the 2014-2020 programming period.

The Commission's proposal provides greater flexibility for Member States and managing authorities when designing programmes, both to choose between delivering investments through grants and financial instruments, and to select the most suitable financial instrument. It also gives more clarity and certainty in the legal framework for financial instruments.

From a budgetary perspective, the strengthening of financial instruments, as catalysts of public and private resources, will help member states and regions to achieve the strategic investment levels needed to implement the Europe 2020 Strategy.

Box 4. Contribution of the Cohesion Policy and the FIs

European Value Added: The Cohesion policy's value added is in a number of areas beyond GDP growth in the targeted regions. The knowledge transfer, streamlining of strategic planning tools, etc. all have an important role in Europe's economic integration. On the economic value added, this is estimated to be in net double the EU contribution of the budget or equal to the total investment in 2013-2020.

Leverage: Given the dominance of grants, the total investment generated through the Cohesion policy is estimated to be approximately €700 billion, €1 of the budget co-financed by approximately €1. With the expansion of FIs in the future this should increase.

Additionality: The Cohesion policy has to follow EU additionality rules. For poorer member states and regions additionality is not a central problem. With the new programming requirements and targeting this concern is becoming less of a risk.

7. Impact and Potential of the EU Budget and its Financial Instruments for Trans-European Networks

The Commission estimates that during the period 2014-2020 about €200 billion are needed in order to complete the trans-European energy networks, while €500 billion should be invested in the trans-European transport network, and between €181 and €273 billion are needed in the ICT sector. The EU provides support to the trans-European networks (TEN) mainly in

the form of grants. Through the programme trans-European transport network TEN-T, the EU budget allocates financial aid / grants to projects of common interest.

The total budget allocated to TEN-T for the programming period 2007-2013 was €8.013 billion.[33] This figure was only 2% of the total estimated required expenditure for the TEN-T in this period. It was expected to be complemented by the means of projects under the Cohesion Fund and ERDF (€44 billion), in addition to €53 billion in EIB loans and guarantees. It was estimated that member states (or other investors would have to finance €285 billion to cover the remaining gap (63% of the total).[34] The figures do not mention additional private funding.

However, as the Impact Assessment accompanying the Connecting Europe Facility concluded, the financial leverage of the programme was poor.[35] For the first €7 billion of funding released by the budget under the TEN-T, the co-financing reached only €42 billion, which implies a leverage rate of around 6, which is far below the actual needs. Given the credit crunch, national investments and private funding have been low.

The programme for TEN-E was very limited, with a budget of only €155 million, as energy was not considered to be an EU competence until recently, and the network was left to operators to develop. Only with rising climate and energy security concerns did this area take a more important position, which is reflected in the new Connecting Europe facility. For ICT the investments needed were generally expected to be coming from the private sector.

7.1 Loan Guarantee Instrument for Trans-European Transport Network Projects

The LGTT is a financial instrument provided under the TEN-T programme since 2008. It is an EIB loan guarantee, which, if used, would become junior debt. The LGTT guarantee is provided in favour of commercial banks that provide a stand-by credit facility (SBF) to a project and will normally not exceed 10% of total senior debt (although it can be up to 20% in exceptional circumstances). It offers a maximum amount of LGTT guarantees of €200 million per project.[36]

The aim of this FI is to facilitate private sector involvement in financing TEN-T infrastructure, although the focus is on bank lending. The LGTT covers some of the risks associated with such projects, by improving the ability of a borrower to meet senior debt servicing obligations in the critical first five to seven years of operation to make up for any revenue shortfalls (i.e. where traffic levels are lower than anticipated). The target group are project promoters, who could be either Member State authorities or private companies (supported by Member States).

The budget of the LGTT is €1 billion, divided in - €500 million each from the Commission and the EIB.[37] The LGTT is intended to support up to €20 billion of senior loans. Thus the leverage reaches a coefficient of 40 (i.e. €1 provided by the EU budget is expected to bring €40 in the EU

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[33] Article 18(1) of Regulation (EC) 680/2007

[34] http://ec.europa.eu/transport/infrastructure/ten-t-funding-and-financing/doc/funding_figs.pdf.

[35] SDG (2011) 2011 'Commission staff working document accompanying the Regulation establishing the Connecting Europe Facility - Impact Assessment COM (2011) 665

[36] EIB and the European Commission (2008) *"The Loan Guarantee Instrument for Trans-European Transport Network Projects – Fact-Sheet"*

[37] Article 6(1)(d) of Regulation (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks; also EIB and the European Commission (2008)

economy). Thus, it was expected that over a decade the instrument could mobilise loans to a level of €50 billion. By early 2012, seven contracts had been signed for an amount of €400 million with LGTT Facilities underpinning some €12 billion of capital investment.

The LGTT was also designed to ease bank funding for infrastructure projects, but since all major markets have been affected by the strong contraction of available bank funding, in its current form the LGTT is not able to increase the available funding base provided by commercial banks. To address this issue, the EIB and the Commission have developed instruments that allow for new funding models based on institutional investors' capital resources. This accounts for the introduction of the Project Bonds Initiative (PBI). However, despite the PBI, the LGTT will not be abolished. It will instead be reformed for the new programming period 2014-2020, so as to be able to offer more flexibility and continue to support the remaining bank funding.

7.2 Project Bond Initiative

The Project Bond Initiative is a joint initiative by the European Commission and the EIB. It is designed to diversify the sources of financing for large-scale infrastructure projects in the sectors of transport (TEN-T), energy (TEN-E), and information and communication technology (ICT). Thus, the Project Bond Initiative would be a reliable substitute for the decrease in financing from traditional financiers due to the financial crisis. The Project Bonds are intended to attract funding through capital market financing from more conservative long-term institutional investors, such as pension funds.

In this straightforward mechanism, the EU budget will share the risk with the EIB in delivering a first-loss debt guarantee of up to 20% of the project's senior debt (EIB Sub-debt in Figure 5). This combined risk guarantee should improve projects' bankability and attract debt-capital market financing. The instrument can take the form of "a debt instrument or a contingent (guarantee) facility or both" so that a project bond can be issued. This effectively means that the EIB will create a standby loan facility, which can be drawn upon if the project ever suffers from financial problems, and/or supply subordinated debt at the start of the project. If the facility is used, it becomes subordinated debt.[38]

A pilot phase was launched for 2013-2015 to test the Instrument. This testing phase is funded by €230 million of EU budgetary resources from unused budget lines from the multi-annual financial framework 2007-2013 programmes (€200 million from TEN-T/LGTT, €10 million from the TEN-E budget and €20 million from ICT budget). This should enable the EIB to provide financing to infrastructure projects worth more than €4 billion across the three sectors. The EIB Board of Directors has already approved nine projects in six different Member States.[39] Based on experience with the LGTT, the Commission estimates a high leverage effect of between 15 and 20. It also notes that the effect will vary according to the details of the project.[40]

Starting with the financial framework 2014-2020, the Project Bonds Initiative will be rooted within the Connecting European Facility (CEF).

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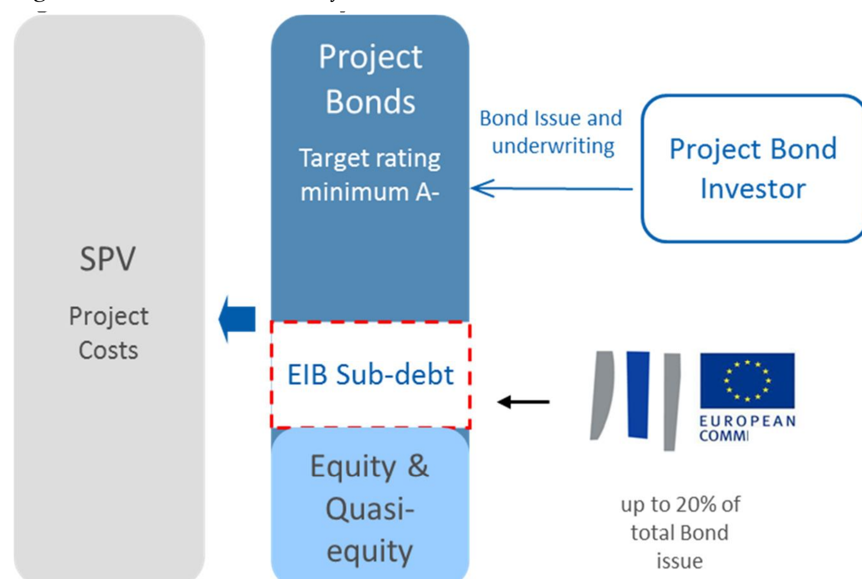
[38] Article 1a of Regulation (EC) No 680/2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks, as amended by Regulation (EU) No 670/2012; H. van Essen, L. Brinke, R. Bain, N. Smith and I. Skinner (2012) *Financing instruments for the EU's transport infrastructure* Report IP/B/TRAN/FWC/2010-006/LOT4/C2/SC1 for the European Parliament's Transport and Tourism Committee.

[39] See the EIB web page - The Europe 2020 Project Bond Initiative - Innovative infrastructure financing.

[40] SEC (2011) 1237; van Essen et al. (2012).

Figure 5. Subordinated Project Bonds Instruments



Source: EIB (2011) 'Supporting the EU budget: the EIB contribution', presentation at the CEPS Task Force meeting, power point presentation, version of 22 June 2011.

7.3 Conclusion for TEN programme and CEF

The European Commission has estimated that the level of investment that needs to be raised in order to complete the core trans-European networks amounts to €1.8 trillion.[41] In the new 2014-2020 MFF the EU budget will support the further development of the trans-European networks under the new Connecting Europe Facility (CEF). CEF is aimed at supporting the development of high-performing, sustainable and efficiently interconnected trans-European networks in the field of energy, telecommunications and transport. The CEF has an overall budget of €33.242 billion[42] to invest in those fields. €26 billion for transport, €5.8 billion for energy and €1.1 for telecommunications. It is expected that €1 million spent at European level will generate €5 million from Member State governments and €20 million from the private sector.[43] This is most likely an excessive expectation, but with a reinforced FI use and a better strategy considerable leverage should be achieved.

The size of this leverage will partially depend on the amount of funds dedicated to the LGTT and PBI FIs. The CEF regulation limits the use of funds for financial instruments to 10% of the total budget (a questionable limitation), if this was done and €3.3 billion were dedicated to FIs (PBI and LGTT) it could have a cumulative leverage impact on transport infrastructure between €46 and €70 billion.[44]

CEF investments will have a significant economic impact through its focus on increasing accessibility and improving the efficiency of network industries. Transport costs, for example, amount to between 2% and 10% of businesses' total costs, while households in the

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[41] "Financing Europe 2020: A consolidated view - Interim report for the Committee of the Regions", Raphael Sauter (IEEP), Andrea Illes (IEEP), Jorge Nunez (CEPS) 2014 (forthcoming publication).

[42] In current prices, Regulation No 1316/2013 of 11 December 2013 establishing the CEF

[43] http://ec.europa.eu/transport/infrastructure/tentec/tentec-portal/site/en/connectingeurope.html

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

EU spend about 13% of their income on transport-related goods and services. Improved infrastructure connections will contribute to reducing these costs, with a significant effect on competitiveness and wealth. Improved energy transmission infrastructure by 2020 will translate into at least 0.42% of GDP increase in the EU. For transport, an impact analysis estimated a socio-economic benefit worth 1.6 times the investment size.[45] The deployment of eProcurement, an EU-wide digital service, could lead to an estimated minimum of €50 billion in savings.[46]

Box 5. Contribution of the TEN and the FIs

European Value Added: The TENs have high European value added as they are strongly linked to the main pillar of the European Union for a Single Market, and the development of a well-integrated EU Internal Market with interconnection and interoperability of national networks. The economic impacts due to the CEF are expected to be high 0.2% of GDP in energy for example. For transport for each € spent the socio-economic return has been estimated at €1.6. In addition, significant savings for the business and citizens from eProcurement are expected.

Leverage: The leverage of the present TEN policy has been a factor of approximately five, raising by 2012 €44 billion with €7 billion investment. The CEF should increase the leverage to 25 or 825 billion. This is a very high objective, but even much lower leverage factor would contribute considerable funds.

Additionality: The additionality principle is preserved as the networks development is focused on priority projects that encompass more than one Member State, for which resources would unlikely be deployed at the sole national level.

8. Special Initiatives in the Area of Energy

This chapter presents some financial instruments which were modest in size in the MFF 2007-2013, but which have a large potential and will (under different names an forms) be replicated in the future.

8.1 Intelligent Energy Europe Programme (IEE)

The IEE Programme promotes the use of sustainable energy and runs under the CIP in the form of grants (through call for proposals), procurement (through call for tenders) and project development services. The total budget allocated for implementation of the IEE II Programme for the period 2007-2013 is €730 million. According to the IEE's performance report the programme forms the link from R&D to mass deployment, by means of activities aimed at accelerating the market uptake of energy innovations.[47] It is estimated that the leverage of IEE is 15.[48]

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[45] ECORYS (2007), 'Ex ante evaluation of the TEN-T Multi Annual Programme 2007-2013', Report for the European Commission.

[46] Connecting Europe Facility – Investing in Europe's growth" – brochure of European Commission, 2013

[47] IEE (2012): Intelligent Energy Europe II: performance report (2007-2011), http://ec.europa.eu/energy/intelligent/files/doc/reports/iee-ii-performance-report-2007-2011-final_en.pdf

[48] https://www.ffg.at/sites/default/files/09_iee_18dec2013.pdf

A particularly interesting programme under IEE is the European Local Energy Assistance (ELENA), which provides technical assistance to municipalities and public entities. Thus, EU cities and regions receive help to implement viable investment projects in the areas of energy efficiency, renewable energy and sustainable urban transport. The assistance originates from the IEE Programme, and as of July 2012 €49 million were committed. ELENA covers up to 90% of the technical support costs needed to prepare, implement and finance the investment programme. The expected leverage for the ELENA programmes is more than 20.

8.2 The European Energy Efficiency Fund (EEEF)

The EEE-F is a structured finance vehicle in the form of public-private partnership. It was launched in 2011 as part of the EC's European Energy Programme for Recovery, in support for both project development and investments in the following areas:

- *Energy saving and energy efficiency investments*
- *Small and medium-scale renewable energy projects*
- *Clean urban transport*

The fund provides senior and junior loans, guarantees or equity participation from institutional investors, professional investors and other investors. Targeted investors are donor agencies, governments, international financial institutions, and professional private investors. The initial fund volume is €265 million, offered by the European Union (€125 million), the EIB (€75 million), Cassa dei Depositi e Prestiti (€60 million), and Deutsche Bank (€5 million).

The EEE-F fund is operationally managed by Deutsche Bank and the resources will have to be allocated by end of March 2014. The leverage factor expected by the European Commission is expected to be of at least 20 (of the entire fund, for the EU budget contribution alone that would be 40). The fund is revolving and is not time limited, thus, in time leverage will multiply.[49]

8.3 The Marguerite Fund

As part of the European Economic Recovery Plan (EERP) the EC launched the 2020 European Fund for Energy, Climate Change and Infrastructure, or *the Marguerite Fund*. It provides funding for capital-intensive infrastructure projects of public interest and bridges a funding gap for such projects. The initiatives pursue the implementation of strategically important European policy objectives in the Energy/Climate, Renewable and Transport sector infrastructures, and apply a market-based principle of return to investors.[50]

Six major European financial institutions[51] have committed €710 million (€100 million from each) to the Marguerite Fund, and an incremental €110 million is provided by three further investors, including the European Commission which contributes €80 million out of the TEN-T budget. Marguerite targets fund size of €1.5 billion in total commitments for projects with attractive long-term and stable risk-adjusted returns. Thus, it is expected to leverage 18 to 19 times the contribution of the EU budget.

[49] http://ec.europa.eu/energy/intelligent/getting-funds/project-development-assistance/index_en.htm

[50] http://www.eib.org/products/equity_funds/infrastructure_equity_funds/marguerite_fund.htm

[51] Caisse des dépôts et consignations, France; Cassa Depositi e Prestiti, Italy; European Investment Bank; Instituto de Crédito Oficial, Spain; KfW, Germany; and PKO Bank Polski SA, Poland.

Box 6. Contribution of the Special Energy Initiatives and the FIs

European Value Added: These instruments promote the best projects across Europe and help knowledge transfer. The contribution to innovation and technology deployment are significant.

Leverage: These are very high leverage projects, in the sense that they promote the development of new financial models, developing new sustainable finance models for energy systems of the future.

Additionality: These projects are aiming at providing the technical and administrative capacity building necessary for projects. Additionality is very high and of no concern.

9. The EU Budget and External Action

This chapter addresses the financial instruments that are being developed in the area of external action, because of the valuable contribution they offer to extend the reach of EU's development aid. These instruments - often referred to as 'blending instruments' - have a governance structure that promotes an increased policy coherence and coordination of the different development actors, i.e. international financial institutions, national development agencies, member states and local actors.

An important avenue to increase the level of EU support to developing countries is to complement development aid grants with blending instruments, i.e. development loans under generous conditions thanks to specific grant elements. Blending instruments should not be used to substitute grants support, but to achieve a better distribution of assistance, by discriminating projects requiring pure grants from those that can be at least partially self-financing.

The EU blending instruments are still young, with the first launched in 2007 for Sub-Saharan Africa, the Infrastructure Trust Fund (ITF). Since then, the number of blending facilities has multiplied, bringing together European development financial institutions, and pooling development grant funding from member states in common funds. The different instruments are listed in Table 1.

Table 1. Brief overview of EU blending facilities

Name of facility Region covered	Launch date	Allocation of funds	Participating financiers
ITF: Infrastructure Trust Fund for Africa 47 African Countries[52]	2007	Grant funds allocated: €308,7m from 10th EDF + €64m from MS budgets (as of 31 Dec. 2010)	AFD, AfDB, BIO, COFIDES, EIB, FINNFUND, KfW, Lux-Development, MoF Greece, OEeB, SIMEST, SOFID, PIDG

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

NIF: Neighbourhood Investment Facility Countries eligible for ENPI[53]	2008	€700m for 2007-2013 from EU budget + €64.4m from MS budgets (as of 31 Dec. 2011)	AECID, AFD, CEB, EBRD, EIB, KfW, NIB, OeEB, SIMEST, SOFID
WBIF: Western Balkan Investment Framework Western Balkans[54]	2009	€166m from EU budget + €10m EIB, €10m EBRD, €10m CEDB + €47.6 m in grants from MS budgets (+ Norway) (as of 31 Dec. 2011)	CEB, EBRD, EIB, World bank Group, KfW, MFB, CMZR, OeEB, SID
LAIF: Latin America Investment Facility Latin American Countries[55]	2010	€125m 2010-2013 from EU budget	AFD, BCIE, IDB, CAF, EIB, KfW, NIB, OeEB
IFCA: Investment facility for Central Asia Central Asian countries[56]	2010	€20m 2010 from the EU budget	NIF accredited institutions can participate.
Asia Investment Facility Asian Countries[57]	2011	€30 m from the EU budget	EIB, EBRD, NIB, ADB, AfD, KfW, OeEB, SIMEST, SOFID
Caribbean Investment Facility ACP Caribbean countries[58]	2012	€40 m 10th EDF	EIB, NIB, CDB, IDB, others joining
Investment Facility for the Pacific ACP-Pacific countries[59]	2012	€10 m	EIB, AFD, KfW, AusAID, ADB, NZAID, WB

Source: J. Núñez-Ferrer, A. Volkery, S. Withana and K. Medarova (2012), "The implications for the EU and national budgets of the use of innovative financial instruments for the financing of EU policies and objectives", study for the European Parliament's Committee on the Budget, Directorate General for Internal Policies, Strasbourg.

The size of the EU blending facilities has been small so far, even if the leverage[60] achieved has been considerable (Figure 6). The EU budget grant of €1.3 billion has leveraged €41

[53] European Neighbourhood and Partnership Instrument countries: Ukraine, Belarus, Moldova, Armenia, Azerbaijan, Georgia and Russia and Ukraine, Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority of the West Bank and Gaza Strip, Syria and Tunisia.

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

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

[56] Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

[57] Afghanistan, Bangladesh, Bhutan, Cambodia, Chine, DPR Korea India, Indonesia, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand and Vietnam.

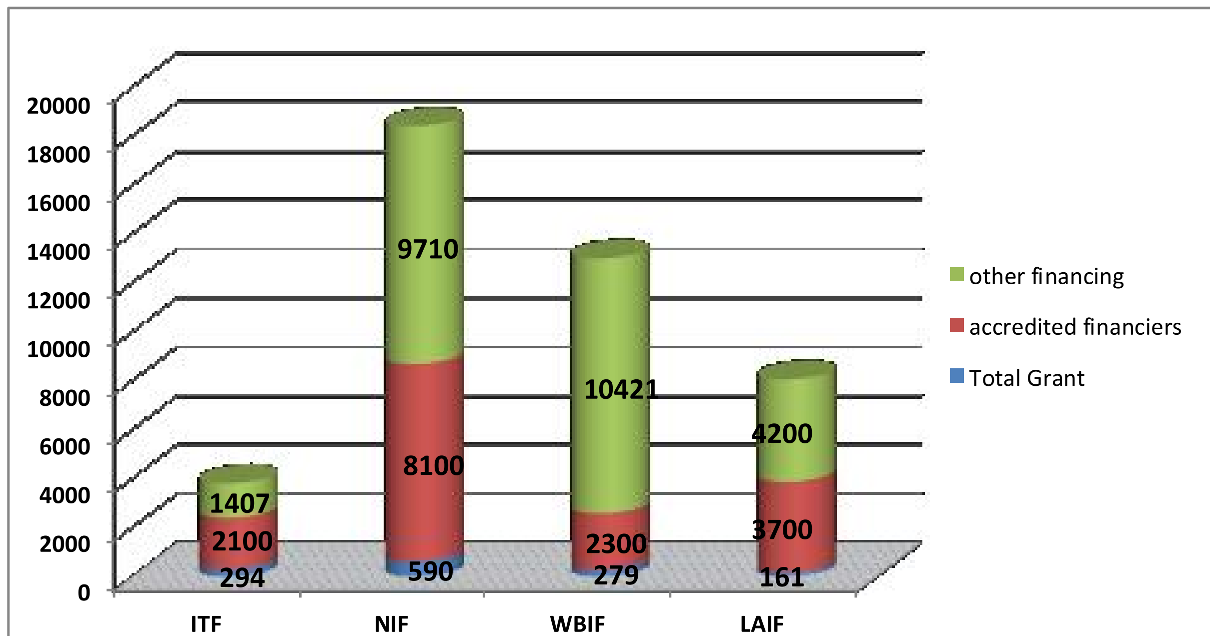
[58] Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts & Nevis, Saint Lucia, Saint-Vincent and the Grenadines, Suriname and Trinidad & Tobago.

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

[60] The leverage is to the total value of the support divided by grant offered.

billion in developing funding by 2012, i.e. a factor of 31. The amount allocated to the blending facilities is going to increase in the next Multiannual Financial Framework (MFF).

Figure 6. Grant, Financiers' Loans and Other Funding in the EU blending facilities, € million



Source: 2012 blending facility reports by the European Commission.

The blending facilities also offer the opportunity to use a number of grant assistance forms, which allow to tailor the support to the needs of the recipient country, the risk level faced by the financiers, and the stage of economic development of the country, i.e. the capacity to service the loans. This flexibility delivers better quality projects in terms of selection and economic results, as well as reduction in the levels of market distortion.

10. Making the EU Budget Become a Strong Driving Force

This short report has presented a list of factors that make the EU budget a driving force for the EU from both the economic and the political points of view, despite its modest size in terms of GDP. It is nevertheless quite substantial for its share of EU direct investments in infrastructure. It is futile to attempt to deny that not all is as it should. The use of the funds has been often suboptimal and, as a result, has undermined the policies it finances. This, however, is being addressed by the ever-growing strategic requirements on planning and targeting. While over-prescription should be avoided, regions and member states have to be motivated to focus on key areas of long-term economic development rather than on short-term gains. The EU budget should be treated as an investment tool and not as a vehicle to achieve short-term objectives.

The EU budget has a key role to play in European integration. First, it promotes the development of the underpinning infrastructures that are required for a functioning single market. It provides assistance to develop the endogenous growth potential in European regions using innovative methods, promoting also the exchange of best practice. The influence of the EU budget on European integration is also most likely underestimated.

From a financial point of view, the size is deceptive, as it additionally leverages a considerable amount of funding for projects in line with EU objectives. It is also worth noting that the EU does not cover all functions of government and does not finance operational

costs, but is mainly a capital investment. As such, the support it offers is often substantial in the specific operations it covers. While very important, leverage is of course not the objective: impact is the actual core of the matter. Leverage is important as a measure of the amount of funding that EU objectives manage to attract.

Concrete impacts of financial instruments can only be determined in detail in a few cases, such as for SMEs, as most financial instruments are relatively new, and the realisation of many of the projects is mostly still in the future. Table 2 summarises the leverage and some impacts of the measures listed above. As the results show, the EU's leverage in the areas presented is equivalent the size of the whole budget of the EU budget, excluding co-financing of rural development and some minor financial instruments. The **net** economic benefit could be reaching 1.5-2 times the whole EU budget or 1.5%-2% of GDP. For Horizon 2020, the leverage could be higher than 1, this means a total investment of over twice the EU budget or 2% GDP. The **net** economic benefit could reach 2.5%-3% of GDP. These figures are just illustrating the potential based on a sum of results of evaluations.

Table 2. The financial leverage and impact of the EU budget

Policy area	Leverage and impact 2007-2013	Potential leverage and impact 2014-2020
Research and Innovation	The leverage of grants is low. Leverage of FIs: €14 billion. Business added value: €650 billion.	The leverage of grants will increase. Leverage of FI: > €50 billion. Business added value: > €900 billion, probably much larger.
Support to SMEs (Competitiveness Policy)	The FIs developed to support SMEs have leveraged over €18 billion with less than €1 billion. The impacts are high economically and in employment terms.	The budget will more than double to €2.3 billion, with a more effective policy. The leverage should exceed €40 billion.
Cohesion	Leverage, €1 to 1€, total investment €700 billion. Total economic impact €1.4 trillion, net €700 billion.	Leverage likely slightly higher. The economic impact should increase due to better strategy, in particular long term.
Trans European Networks	The leverage factor of the policy has been estimated to be 6, should reach approximately €50 billion. Impact was limited in relation to needs due to limited resources.	With the new policy structure Commission expects a leverage factor of 25 (private and public) for the next MFF, which would represent €825 billion. Some of the leverage would be generated from the FIs. Economic impact approximately 1.6 times or €1.3 billion.
Special initiative in the Area of energy	The EU budget's contribution of €1 billion is helping to leverage approximately €15 billion	The programmes will continue.
External action blending facilities	€1,3 billion have contributed to leverage €41 billion	The facilities will expand considerably in the next MFF.

Contrary to what its size may convey, the EU budget is not a drop in the ocean; it is truly an important force in the EU. Looking at past performance, the EU budget has been largely a facilitator of integration in the EU. For the future, however, the budget can become a more powerful driving force in the areas it supports. How far it will go will largely depend on the quality of planning and implementation by national authorities.

Annex: Innovative Financial Instruments in the 2007-2013 period

Funds under centralised or joint management						
Acronym Full name	**Budget (€ million)**	**Type of EU support**	**Total investment at beneficiary level (€ million)**	**Objectives**	**Geographic coverage**	**Entrusted entity**
CIP GIF High growth and innovative SME facility	Budget allocation 2007-2013: 623 Actual Budget: (2007-2011) 408	Equity investment through Venture Capital Funds	1.900	i) Contribute to the establishment and financing of SMEs and the reduction of the equity and risk capital market gap, which prevents SMEs from exploiting their growth potential, with a view to improving the European venture capital market; and ii) support innovative SMEs with high growth potential, in particular those undertaking research, development and other innovation.	EU27+ European Economic Area +Turkey, Croatia, Montenegro, FYROM, Serbia	EIF
CIP SMEG07 SME guarantee facility	Budget allocation 2007-2013: 506 Actual budget: 393 (2007-2011)	Loan guarantee, microcredit guarantee, equity and mezzanine guarantee, securitisation guarantee	9.400	(a) debt financing via loans or leasing, to reduce the difficulties SMEs face in accessing finance and to stimulate job-creation through increased availability of debt financing, through the provision of Loan Guarantees, (b) micro-credit financing, to encourage Lenders to play a greater role in the provision of loans of a smaller amount, through the provision of Micro-Credit Guarantees and optionally grants to Intermediaries to partially offset the high administrative cost of micro-credit financing, (c) guarantees for equity or quasi-equity	EU27+ European Economic Area +Turkey, Croatia, Montenegro, (FYRo)Macedonia, Serbia	EIF

				investments in SMEs, to provide seed capital and/or capital in the start-up phase as well as mezzanine financing through the provision of Equity Guarantees, (d) securitisations, to support the creation of SME debt finance portfolios, by mobilising additional debt financing for SMEs		
RSFF **Risk Sharing Finance Facility**	1000	risk sharing	4.800	Improve access to finance for research projects	EU27 + European Economic Area + Western Balkans	EIB
LGTT **Loan Guarantee Instrument for Trans-European Transport Network Projects**	500 (200 of the LGTT budget to be utilised in the pilot phase of the project bond initiative)	risk-sharing	12.000	Facilitate greater private sector involvement in the financing TEN-transport infrastructure. It mitigates post-construction revenue risk during the early operational phase and encourages demand risk based Private Public Partnership schemes.	EU27	EIB
Marguerite Fund **The 2020 European Fund for Energy, Climate Change and Infrastructure**	up to 80	equity EU made direct equity participation in Marguerite Fund	current size of fund 780 target size 1,500	Contribute to infrastructure projects in key policy areas (TEN-T, TEN-E, renewables) through equity investment in Special Purpose Vehicles	EU27	none

EPMF European Progress Microfinance Facility	100	Microcredit guarantee, EU made direct equity participation in Progress Microfinance fund which is providing equity to Microfinance Institutions	current size of fund 178 target size of fund 225	Increase access and availability of microfinance for disadvantaged groups and people at risk who want to establish micro-enterprises or for existing micro-enterprises	EU-27	EIF and EIB
TTP Technology Transfer Pilot Project	2	Equity or quasi-equity investment		Facilitate the transfer of knowledge from universities and research bodies into the marketplace, in particular into SMEs. Invest in and support technology transfer operations between universities and research institutions and enterprises, in particular SMEs, such as the creation of 'spin-offs' and/or the implementation of licensing or collaboration agreements.	EU27	EIF
JASMINE Joint action to support microfinance institutions in Europe	5	Technical Assistance / Capacity building	n.a.	Promote a favourable legal and institutional and environment for micro micro-credit in European regions To help non non-bank financial intermediaries who want to act on the microcredit scene reach a high standard in terms of governance and lending practices	Regions of EU27	EIF

ELENA **European Local ENergy Assistance**	97	TA / Project Development Service (PDS)	1.600	Develop investment programmes that can then be replicated in other cities and regions; accelerating the introduction of energy efficiency and renewable energy sources, notably through innovative financial techniques and practices, often at an early stage of market penetration.	MS, (FYRo)Macedonia and EEA members (Iceland, Lichtenstein, Norway)	EIB, KFW, CEB, EBRD (soon)
EEEF **European Energy Efficiency Fund**	146,3 EU direct equity participation	technical assistance and awareness raising from the TA facility	current size of fund 265 target size of fund 600	Support energy efficiency and greenhouse gas reduction through promotion of energy efficiency and small scale renewable energy investment in a municipal context	EU27	EIB
Funds under shared management						
Acronym **Full name**	**Budget (€ million)**	**Type of EU support**	**Total investment at beneficiary level (€ million)**	**Objectives**	**Geographic coverage**	**Entrusted entity**
JEREMIE **Joint European Resources for Micro to Medium Enterprises**	around 700	equity, loans and guarantees	n.a.	Help managing authorities to design and implement programmes facilitating SMEs access to finance. Facilitate the use of financial engineering products such as Venture Capital, guarantees, etc.	regions of EU27	EIF

JESSICA **Joint European Support for Sustainable Investment in City Areas**	around 63	loans/equity provided by Urban Development Funds to PPP structures or other	n.a.	Help the authorities in the Member States of the European Union establishing financial engineering mechanisms to support investment in sustainable urban development and energy efficiency.	regions of EU27	EIB, CEB
JASPERS **Joint Assistance to Support Projects in European Regions**	35 million in 2010	TA / Project Development Service (PDS)	n.a.	Assist the 12 Central and Eastern EU Member States and Croatia in the preparation of major projects to be submitted for grant financing under the Structural and Cohesion Funds.	EU 12 and Croatia	EIB, EBRD, KfW
External instruments						
Acronym Full name	**Budget in (€ million)**	**Type of EU support**	**Total investment at beneficiary level (€ million)**	**Objectives**	**Geographic coverage**	**Entrusted entity**
FEMIP **Facility for Euro-Mediterranean Investment and Partnership**	128 (risk capital) + 105 (technical assistance) + 1 (FEMIP Trust Fund)	equity, Technical Assistance, contributions to FEMIP trust fund		Economic development and the integration of the Mediterranean partner countries; two priority areas: support for the private sector and creating an investment-friendly environment	Algeria, Egypt, Gaza/ Westbank, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia	EIB

WBIF **Western Balkans Investment Framework**	87 until now	Technical Assistance or co-financing		Support investments in priority infrastructure, private sector (incl. SMEs) and energy efficiency projects to be financed by grants from COM, IFIs, MS and other donors and loans provided by IFIs	candidate and potential candidate countries	EIB, EBRD, CEB, MS through their public financial institutions
NIF **Neighbour-hood Investment Facility**	700	Technical Assistance, interest rate subsidies, risk capital		Cover the investment needs of the EU neighbouring region for infrastructures in sectors such as transport, energy, the environment and social issues (e.g. construction of schools or hospitals). The NIF also supports the private sector particularly through risk capital operations targeting Small and Medium-sized Enterprises.	ENP countries, Russia, Algeria, Libya, Syria	EIB, EBRD, CEB, AFD, KfW, NIB
EU-A ITF **EU-Africa Infrastructure Trust Fund**	60 + 48,7 EDF resources	grants, interest rate subsidies, Technical Assistance		Contribute to achieving the strategic objectives of the EU-Africa Partnership by funding infrastructure in the region. Support fight against poverty, sustainable economic growth, social development, protection of environment, regional integration	Sub-Saharan African countries	EIB, AfDB
AIF **Asia Investment Facility**	€15 m 2011, 15m 2012 from the EU budget	Technical Assistance, interest rate subsidies, risk capital		To promote additional investments in key infrastructure with a priority focus on climate change relevant and 'green' investments in areas of environment, energy, as well as SME's ad social infrastructure.	Asian countries	EIB, EBRD, NIB, ADB, AfD, KfW, OeEB, SIMEST, SOFID
CIF **Caribbean Investment facility**	€40 m 10th EDF 2012	Technical Assistance, interest rate subsidies, risk capital		Contribute to development for strengthening regional integration and access to basic social services through improvements of physical infrastructure and related services, thereby supporting several EU cross-cutting themes and Millennium Development Goals (MDGs).	ACP Caribbean Countries	EIB, NIB, CDB, IDB, others joining

IFP Investment Facility for the Pacific	€10 m 10th EDF 2012	Technical Assistance, interest rate subsidies, risk capital		Contribute to development for strengthening regional integration and access to basic social services through improvements of physical infrastructure and related services, thereby supporting several EU cross-cutting themes, in particular climate change, and Millennium Development Goals (MDGs).	ACP Pacific countries	EIB, AFD, KfW, AusAID, ADB,NZAID, WB
ACP Investment Facility	EUR 3.185,5 million (revolving fund from EDF resources)	loans, equity, guarantees; blending with EIB own-resources loans, interest rate subsidies and technical assistance possible		Contribute to economic development, particularly of the private sector, in the ACP countries	African, Caribbean and Pacific States (ACP), Overseas Countries and Territories (OCT)	IFI, EIB
GEEREF Global Energy Efficiency and Renewable Energy Fund	80	EU is shareholder of the Fund providing equity and technical assistance	current size of fund 108 target size of 200	Expansion of RES, EE and other clean energy technologies markets and services in developing countries and economies in transition. Aims at maximising the leverage of public funds through investments in regional sub-funds. Objective is to promote public and/or private sustainable energy partnerships, to encourage technology transfer and deployment.	African, Caribbean and Pacific States, North Africa, Eastern Europe, Latin American and Asian countries	EIF

EFSE **European Fund for Southeast Europe**	about 70	EU is shareholder of the Fund providing loans, equity, guarantees	size of fund 732	Overall: Provide development finance in Southeast Europe, focusing on the needs of micro-enterprises and SMEs. Contribute to the strengthening of financial sector. Deliver SME, rural and housing development products. Specific: Increase access to finance for micro-enterprises; Attract private investors into the Western Balkans region	Western Balkans, Moldova, Romania and Bulgaria	EIF
GGF **Green for Growth Fund**	38.6 in fund 5 for Technical Assistance	EU is shareholder of the Fund providing direct lending and on-lending through local financial institutions, additional TA Facility	current size of fund 128 target size of 400	Broadening the financing base of EE and RE investments in the target region Increase awareness of energy efficiency and small renewable energy products among companies and private households Contribute to broadening and deepening the financial sector servicing those development needs Harmonize and coordinate donor initiatives	Western Balkans and Turkey	EIF

Source: Based on information compiled from the EP, EIB and EC.

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European Capital Markets Institute (ECMI)
European Credit Research Institute (ECRI)

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European Network of Economic Policy
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