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IMPACT ASSESSMENT

Accompanying the document

Proposal for a
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing the InvestEU Programme

{COM(2018) 439 final} - {SEC(2018) 293 final} - {SWD(2018) 316 final}

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Glossary

Term	Definition
Blending facilities	A cooperation framework established between the Commission and development or other public finance institutions with a view to combining non-repayable forms of support and/or financial instruments from the EU budget and financial instruments from development or other public finance institutions as well as from commercial finance institutions and investors.
Contingent liability	A potential financial obligation that may be incurred depending on the outcome of a future event.
Equity investment	Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits.
Budgetary guarantee	Guarantee provided by the Union budget, pursuant to a legal commitment to support a programme of actions, representing a financial obligation that can be called upon if a specified event materialises during the programme implementation, and that remains valid for the duration of the programme.
Financial instruments	Union measures of financial support provided from the EU budget to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with other forms of financial support or with funds under shared management or funds of the European Development Fund.
Financial product	Financial mechanism or arrangement agreed between the Commission and the implementing partner under the terms of which the implementing partner provides direct or intermediated financing to final recipients mainly in the forms of debt or equity.
Financing and/or investment operations	Operations to provide finance directly or indirectly to final recipients, carried out by an implementing partner in its own name, provided by it in accordance with its internal rules and accounted for in its own financial statements.
Guarantee agreement	Legal instrument whereby the Commission and an implementing partner specify the conditions for proposing financing or investment operations to be granted the benefit of the EU guarantee, for providing the budgetary guarantee for those operations and for implementing them.
Implementing partner	Eligible counterpart such as a financial institution or other intermediary with whom the Commission signs an agreement to implement the Union funds.
Quasi-equity investment	Type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity and that can be structured as debt, typically unsecured and subordinated and in some

	cases convertible into equity, or into preferred equity.
Mid cap companies	Entities having up to 3 000 employees that are not SMEs or small mid-cap companies.
Multiplier effect	Investment by eligible final recipients divided by the amount of the Union contribution.
National promotional banks or institutions	Legal entities carrying out financial activities on a professional basis which are given mandate by a Member State or a Member State's entity at central, regional or local level, to carry out development or promotional activities.
Risk-sharing instrument	Financial instrument which allows for the sharing of a defined risk between two or more entities, where appropriate in exchange for an agreed remuneration.
Small and medium-sized enterprises (SMEs)	Micro, small and medium-sized enterprises as defined in Article 2 of the Annex to Commission Recommendation 2003/361/EC[1].
Small mid-cap companies	Entities having up to 499 employees that are not SMEs.
Technical Assistance	Advisory support for the identification, preparation, development, structuring, procuring and implementation of investment projects, or enhance the capacity of promoters and financial intermediaries to implement financing and investment operations. Its support may cover any stage of the life-cycle of a project or financing of a supported entity, as appropriate.
Third country	Country that is not member of the European Union.

[1] Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36)

Acronyms

Acronym	*Meaning*
BG	Budgetary Guarantee
CCS	Cultural and Creative Sectors
CEF	Connecting Europe Facility
CEO	Chief executive officer
CMU	Capital Markets Union
COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises
COSME +	Europe's programme for small and medium-sized enterprises
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
EaSI	Employment and Social Innovation
EC	European Commission
ECB	European Central Bank
EDP	InnovFin Thematic Products - Energy Demo Projects
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
EIPP	European Investment Project Portal
ERC	European Research Council
ESI Funds/ ESIF	European Structural and Investment Funds
FI	Financial Instrument
FR	Financial Regulation
IFI	International Financial Institution
INEA	The Innovation and Networks Executive Agency
IPE	Investment Plan for Europe
IPO	Initial Public Offering
MDB	Multilateral Development Bank
MFF	Multiannual Financial Framework
MS	Member State
NCFF	Natural Capital Financing Facility

NPB	National Promotional Bank
OPC	Open Public Consultation
PBI	Project Bond Initiative
PbR	Payment-by-Results
PF4EE	Private Finance for Energy Efficiency
PPP	Public–private partnership
R&D	Research and Development
R&I	Research and Innovation
RSB	Regulatory Scrutiny Board
SPV	Special Purpose Vehicle
TA	Technical Assistance
TEN	Trans-European Networks
TEN-E	Trans-European Energy Networks
TEN-T	Trans-European Transport Network
TFEU	Treaty on the Functioning of the European Union
VC	Venture Capital

1 INTRODUCTION: POLITICAL AND LEGAL CONTEXT

1.1 Scope and context

In line with the political orientation and guidance note of the College on the next Multiannual Financial Framework (MFF), there is a need to explore ways to incorporate the cross-cutting objectives of the new MFF in the future EU investment programme, particularly with regards to simplification, flexibility, synergies and ensuring coherence with other EU programmes. The considerations put forward in the Commission's Reflection Paper[2] on the future of EU finances highlight the need "*to do more with less*" and leverage the EU budget at a time of budgetary constraints. To address the overlaps inherent in the current multitude of EU-level financial instruments (FIs) and applicable rules, the Reflection Paper suggests as a possible solution their integration in a single fund. This single fund would provide support via a wide variety of financial products while having a strengthened focus on policy areas and objectives. It also requests EU-level financial instruments and those managed by Member States under cohesion policy to be complementary.

EU financial instruments and budgetary guarantees (BGs) are financial tools aimed to support investment and to achieve EU policy objectives. Financial instruments can take the form of debt, guarantees, equity, etc. Budgetary guarantees back financial products provided by implementing partners.

Their main objective is to address market failures and suboptimal investment situations related to the supply of financing to economic actors with a risk profile that private financiers are not always able or willing to address. The reasons can range from asymmetry of information to risk averseness of private investors, underdeveloped financial markets and liquidity problems.

This lack of financing provided by the market may have negative externalities that hinder economic growth, job creation, innovation, the pursuit of long term objectives, the emergence of more sustainable economic models and the resilience of the financial system. In these cases, financial public support may be justified.

The public support may be provided in the form of grants or repayable instruments. For economically viable projects with a revenue generating capacity, a more systemic use of financial instruments and budgetary guarantees can help increase the impact of public funds.

The EU has been successfully addressing investment gaps related to market failures with EU financial instruments since the mid-1990s. The EU's first budgetary guarantee, the External Lending Mandate, was created in the 1970s and is still used today to support EIB’s lending activities outside the EU. The New Community Instrument, mobilising investments by the EU budget in the form of loans "to stimulate an economic upturn and support common policies", was created in 1978.

Under the current and previous MFFs, financial instruments have been expanding under a variety of programmes. During the 2014-2020 MFF, the Commission established 16 centrally managed FIs[3]. The budget allocation for these instruments for internal action currently amounts to EUR

[2] COM(2017) 358 of 28 June 2017.

[3] These financial instruments were created under Regulations establishing different Union Programmes, under the relevant provisions of the Financial Regulation. This impact assessment does not consider financial instruments created under the previous MFF and those targeting external action.

5.4 billion[4]. These instruments aim at supporting investments in different policy areas, like Research and Innovation (R&I), small and medium size enterprises (SME) financing, infrastructure, cultural sectors as well as promoting environmental and social sustainability (see Annex 5 for a complete list of 2014-2020 centrally managed financial instruments and budgetary guarantee for internal action).

Financial instruments are also a delivery mechanism for the European Structural and Investment Funds' (ESI Funds) programmes delivered under shared management. These instruments address specific Member States and regions and they are managed by the relevant Managing Authorities. The total budget planned to be delivered through financial instruments under shared management for the 2024-2020 period amounts to approximately EUR 21 billion.

Moreover, in the aftermath of the financial and sovereign debt crisis, boosting jobs, growth, and investment has become one of the top 10 priorities of the Juncker Commission[5]. As a response to the subdued investment levels, the Commission launched in November 2014 the Investment Plan for Europe[6]. It focuses on removing obstacles to investment and seeks to deliver jobs, growth, and innovation in Europe. One of its key actions is the European Fund for Strategic Investments (EFSI)[7], which aims at mobilising EUR 500 billion of additional investment through support via an Infrastructure and Innovation Window, and an SME Window by end-2020. EFSI provides a budgetary guarantee of EUR 26 billion underpinned by provisioning of budgetary resources of EUR 9.1 billion. Moreover, the EIB provided additional risk-bearing capacity of EUR 7.5 billion.

Other actions include the European Investment Advisory Hub (EIAH) that provides technical assistance to private and public project promoters, as well as the European Investment Project Portal (EIPP) that is an online platform connecting project promoters and investors.

The conditions for an uptake of investment have improved since 2014, thanks to the improvement of the economic conditions and also due to the public intervention such as the EFSI. However, important investment gaps have been observed in different policy areas often held back by persistent market failures.

Based on the public consultation for the next MFF and the mid-term evaluations of the EU centrally-managed financial instruments and the EFSI, the Commission intends to propose the creation of the InvestEU Programme, a single EU investment support mechanism for internal action for the 2021-2027 MFF. The Programme would include an InvestEU Fund, InvestEU Advisory as well as the InvestEU Portal. The InvestEU Fund would be the successor programme to the EFSI and the current centrally managed financial instruments (excluding external action financial instruments). The InvestEU Advisory would be the successor mechanism to the EIAH and current centrally managed technical assistance initiatives. The InvestEU Portal is the successor of the European Investment Project Portal.

The InvestEU Fund will consist of providing an EU budget guarantee that will back the financial products provided by the implementing partners. It would target EU added-value priority projects and promote a coherent approach to financing EU policy objectives. It would use an

[4] Source: Commission services. See Annex 5.
[5] https://ec.europa.eu/commission/sites/beta-political/files/juncker-political-guidelines-speech_en.pdf
[6] https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan_en
[7] The Regulation (EU) 2015/1017 was amended by Regulation (EU) 2017/2396 of the European Parliament and of the Council of 13 December 2017 amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub (OJ L 345, 27.12.2017, p. 34).

effective and efficient mix of EU financing tools for specific policy areas and would target cross-sector needs and emerging priorities. It will also improve complementarity between different EU investment financing instruments by avoiding duplications and overlaps.

The InvestEU Fund would also be accompanied by technical assistance (TA), the InvestEU Advisory, aimed at preparing, developing and implementing a robust investment pipeline. The InvestEU Advisory will build on existing initiatives (e.g. EIAH, ELENA, InnovFin Advisory) and provide support where possible and appropriate within InvestEU Fund objectives. Such TA support will also promote environmental and social sustainability that are important cross-cutting objectives.

The envisaged scope of this impact assessment relates to identifying the main challenges to be addressed by this support mechanism with a focus on the main improvements and possible disadvantages in terms of budgetary efficiency, synergies, simplification, flexibility and policy impacts that it can bring compared to the current interventions from the EU budget in the form of financial instruments and budgetary guarantee.

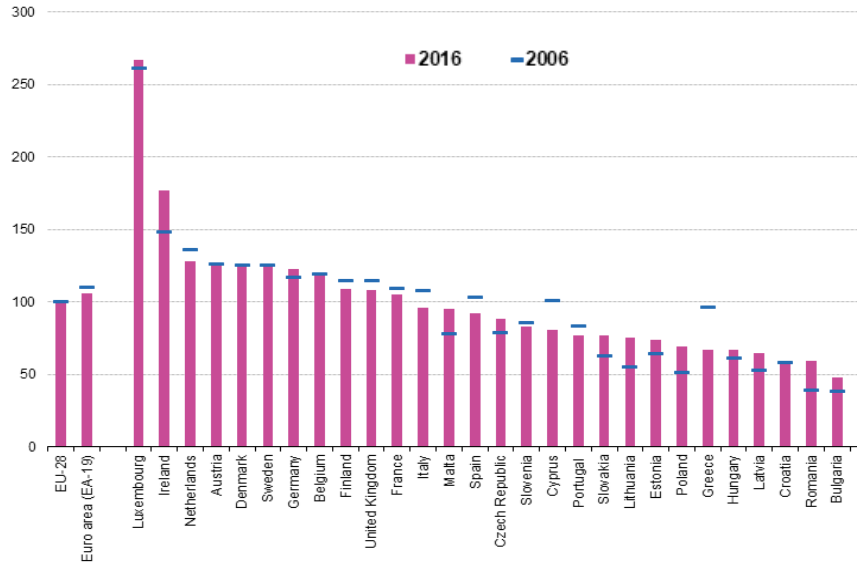
The baseline for the InvestEU Fund is built on the budgetary allocations under the current MFF for centrally managed financial instruments and the EFSI (more details in section 3 and Annex 5)

This impact assessment constitutes an ex-ante evaluation in the sense of the requirements of the Financial Regulation for the creation of the InvestEU Fund and its budgetary guarantee.

1.2 Investment in a post-crisis economic environment

Since 2008, the crisis has motivated specific initiatives aiming at promoting economic activity in order to support jobs and growth and/or mitigate the effects of the crisis: the European Economic Recovery Plan (2009-2010), the Marguerite Fund (launched in 2010), Progress-Microfinance (launched in 2011), the SME Initiative (launched in 2014) and the EFSI (launched in 2015).

Figure 1 - GDP per capita at current prices, 2006 and 2016 (EU-28 = 100)



Source: Eurostat

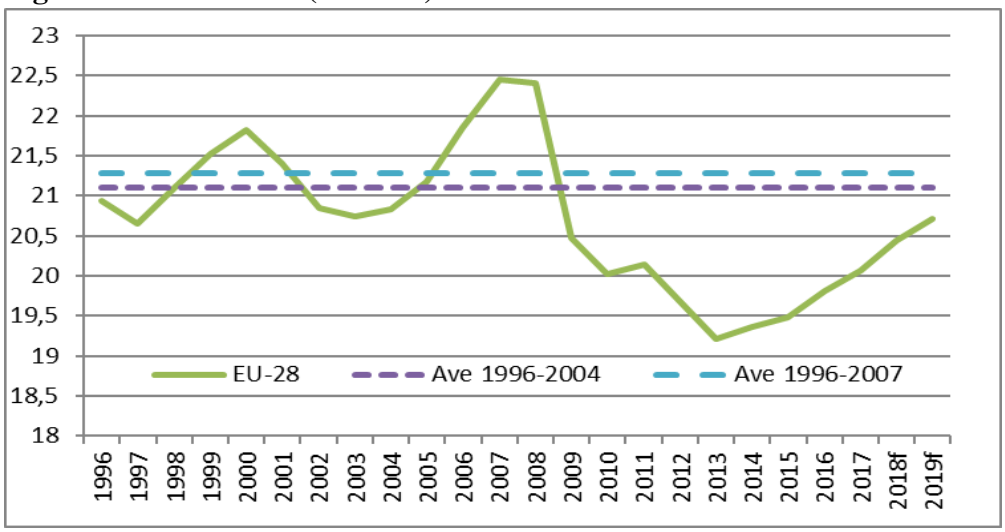
According to the last Commission economic forecasts[8], the expansion is making its headway. Lending to non-financial corporations grew by 2.9% in 2017 and investment should continue to

[8] European Economy Forecast, Winter 2018 (interim), Institutional Paper 073, February 2018

grow at a robust pace in 2018 and 2019. Over the forecast horizon, the expansion is expected to remain solid. By 2021, Member States are expected to have recovered their pre-crisis GDP level, with very few exceptions.

However, persistent market gaps holding back investment are still observed in different policy areas. The recent acceleration of investment in the EU has not managed to bring investment rates up to historical averages. Efforts will therefore need to continue beyond 2020 to bring investment back to its long-term sustainable trend with particular focus on current and emerging EU policy priorities.

Figure 2 - Investment (% GDP) in EU28



Source: AMECO and ECFIN calculations

Against this background, the InvestEU Fund will be designed by refocusing the EU investment support intervention in a more policy-oriented way, addressing the challenges identified below.

1.2.1 Sustainable infrastructure[9]

Infrastructure investment activities in the EU in 2016 were about 20% below investment rates before the global financial crisis. Investment rates in 2016 represented 1.8% of EU GDP, down from 2.2% in 2009[10]. Compared to 2009, current infrastructure investment in Europe declined most in the transport sector.

The Commission has estimated investment needs in several key policy areas. For example:

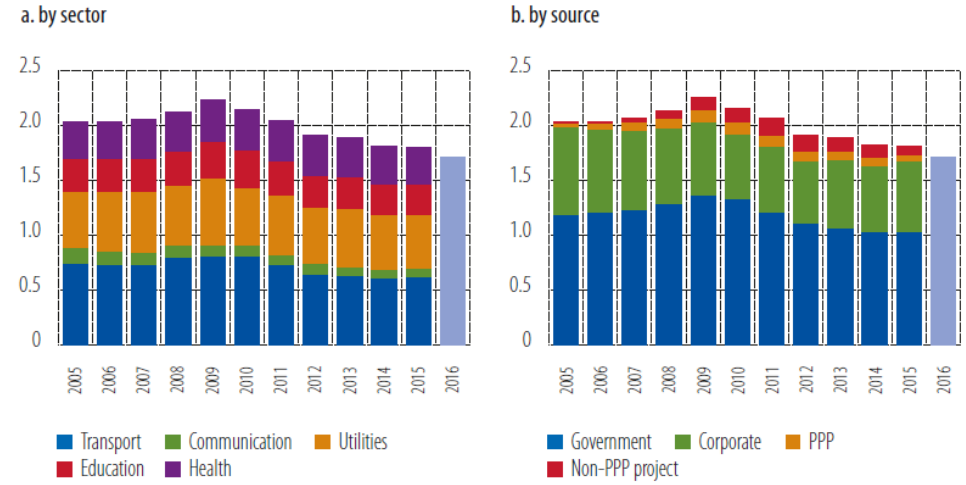
- To reach the EU's 2030 climate and energy target, about EUR 379 billion investments are needed annually over the 2020-2030 period, mostly in energy efficiency, renewable energy sources, and infrastructure[11] – excluding transport infrastructure.
- Circa EUR 500 billion will be needed to complete the TEN-T core network[12] during 2021-2030 and up to EUR 1.5 trillion, if the TEN-T comprehensive network and other transport investments are included. In case of the TEN-E (i.e. energy transmission projects with cross-border relevance), it is projected that EUR 179 billion will need to be invested during 2021-

[9] Infrastructure in this context is broader than large, cross border, network infrastructure (i.e. a concept used in trans-European network regulations) and refers broadly to the infrastructure necessary for economic development.
[10] EIB, *Investment Report 2017/2018 – From Recovery to Sustainable Growth*
[11] Clean Energy For All - European Communication COM(2016) 860 final
[12] TEN-T Work Plans: https://ec.europa.eu/transport/themes/infrastructure_en

2030[13]. These include investments that can enable important CO_2 reductions as well as other priority air pollutants, and/or provide alternatives for infrastructure with large impacts on natural capital.

- The estimated investment required to achieve the objectives stated in the EU Urban Waste Water Directive ranged between EUR 22 and 25 billion, according to the information gathered under the last article 17 Report from EU Member States forecasts[14]. Investments forecasted increasingly relate to the renewal, improvement and extension of the existing infrastructure.

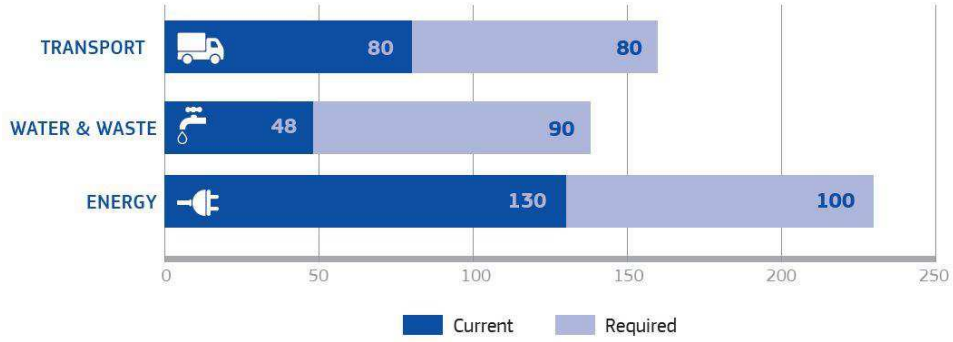
Figure 3 - Infrastructure investment by sector and by source, 2005-2016 (in % of GDP)



Source: Eurostat, Projectware, EPEC

The weak infrastructure investment in Europe has been largely attributed to a decline in investment activities by governments (primarily regional or local authorities). Fiscal constraints, regulatory or political instability and investment decisions driven by political choices have been identified as the main challenges to infrastructure investment. According to EIB estimates, the overall investment gap in transport, energy and resource management infrastructure has reached a yearly figure of EUR 270 billion[15].

Figure 4 - Annual Investment needs (current levels and gaps) for sustainable infrastructure



Source*:* Action Plan: Financing Sustainable Growth, COM (2018)97 final

[13] Based on the study "Investment needs in trans-European energy infrastructure up to 2030 and beyond", Ecofys, July 2017.
[14] Figures based on the information gathered from EU Member States forecasts under Art 17 of the Urban Waste Water Treatment Directive (UWWTD) . These include investment forecasted for achieving compliance with the UWWTD, also (and increasingly) for the renewal, improvement and extension of the existing infrastructure.
[15] See EIB, *'Restoring EU competitiveness'*, 2016. The estimate, until 2020, include investments in modernising transportation and logistics, upgrading energy networks, increasing energy savings, renewables, improving resource management, including water and waste.

In the field of telecommunications, the investment gap is approximately EUR 65 billion to reach the global benchmark for broadband services and to match US investments in cyber security and data centre capacity[16].

Therefore, it is essential to further stimulate private sector investment.

The lack of a strong pipeline of sustainable infrastructure projects is a recurring concern for investors. The capacity to develop and implement projects varies widely across the EU and between sectors. Therefore, technical assistance is key to further support the development of sustainable infrastructure projects in the EU and to scale up small and scattered projects.

In addition, from environmental, and climate policy perspectives, the failure to reflect environmental costs in market prices renders sustainable investment in infrastructure less attractive.

Further challenges arise for cross-border projects. Costs and benefits of projects involving several Member States are asymmetrically distributed among them, leading to coordination failures. At the same time, costs are charged at the national and local level, while benefits are realised transboundary or at EU scale and are dependent on other investments in the supply chain, value chain or network.

1.2.2 Research and Innovation

Research and Innovation (R&I) investment is a key driver of productivity and economic growth. However, private companies do not sufficiently invest in R&I from a welfare perspective. The reason is that companies do not take into account the positive externality from knowledge spill-overs, which benefit the whole economy. Indeed, the social returns from R&D investment are estimated to be two to three times higher than the private returns. The IMF (2016) shows that fully internalising the externalities of R&D would lead to 40% higher investments compared to the status quo. Such an increase could lift GDP in individual economies by 5% in the long term – and globally by as much as 8% due to international spillovers.[17]

R&I projects are more difficult to finance because they are risky and their returns are highly skewed. R&I may face significant adverse selection and moral hazard problems. This leads to lower investment both in terms of equity – as investors discount this uncertainty on financial markets – and in terms of debt financing – because of the intangible nature of investment or high risks related to innovative technologies, which makes collateralisation difficult, if not impossible. Financing constraints thus hamper profitable R&I investment opportunities, reduce firms' innovative performance and growth prospects of economies, as opposed to the case of frictionless capital markets[18]. R&D investment has typically also high adjustment costs (i.e. it relies on highly skilled human capital with firm specific knowledge). Firms therefore tend to smooth their R&D investment over time. Corporate liquidity can have an important impact on innovative firms' behaviour: young and smaller firms rely extensively on cash reserves to buffer R&D from the volatility in key sources of finance.[19] The InvestEU Fund would allow financially

[16] IDEM.
[17] IMF (2016), *Fiscal Monitor: Acting Now, Acting Together,* Washington, April.
[18] Carpenter, R, and B. Petersen (2002) "Capital market imperfections, high-tech investment, and new equity financing", *The Economic Journal*, 112. Hall, B, Moncada-Paterno, P, Montresor, S and A. Vezzani (2016) "Financing constraints, R&D investments and innovative performances: new empirical evidence at the firm level for Europe". *Economics of Innovation and New Technology.*25:3, 183-196.
[19] Brown, G. Martinsson, and B. Petersen (2012)" Do Financing Constraints Matter for R&D?", *European Economic Review*, 56(8).

constrained firms to maintain a relatively smooth flow of R&D expenditure in the face of shocks to finance, thereby reducing adjustment costs.

The intensity of financial constraints for R&I vary with the structural and sectoral characteristics of companies. While financing constraints are in particular acute for younger and smaller innovative companies, such barriers can also be nonlinear. D'Este et al (2012) demonstrate that cost and market barriers for innovation are very present for non-innovative firms that want to embark on innovative projects as well as for highly innovative firms.[20] This is in particular the case in the EU. R&D investments made by EU leading innovators, which are typically large firms, are more sensitive to financing constraints than their US counterparts, particularly in high-tech sectors[21].

Better access to finance could also improve sluggish productivity growth. A slowdown in productivity growth is particular acute in the EU and threatens future increase in living standards. Recent research shows that the productivity puzzle is not due to a lack of innovation, but to a lack of innovation diffusion between firms across all sectors. [22] Cutting-edge firms are not slowing down in their productivity growth, but other firms are not keeping up. The gap between a handful of innovation leaders and the rest is widening. Furthermore, greater inequality among firms is one of the main culprits behind the rise in income inequalities. Coad, Pellegrino and Savona (2015) show that the cost and the availability of finance appear as crucial innovation barriers and negatively affect productivity across the whole distribution (conditioned on size, age, exports and education levels of firms).[23] Brown, Martinsson and Petersen (2012) results suggest that better access to equity finance would significantly increase firm-level R&D intensity[24].

Although ample evidence exists that economies achieve large and significant returns on R&I investments, and that the latter create new and better jobs in an economy that is ever more knowledge-based and intangible asset-intensive, the EU underinvests in R&D compared to its major competitors[25]. Businesses in the EU spend far less on R&D than, those in the US and Japan, and less than a half of the South Korea, and the latest figures show a further increase of the gap. The underinvestment in business R&D is one of the reasons behind the widening of the EU's productivity gap compared to the US.

The R&D investment gap to reach the 3% EU GDP amounted to EUR 144 billion for the year 2016[26].

1.2.3 SMEs

There are 23.8 million enterprises in the EU that employed 93 million people in 2016, and which accounted for 67% of total private-sector employment and generated 57% of value added in the

[20] D'Este, P. et al (2012), "What Hampers Innovation? Revealed Barriers versus Deterring Barriers", *Research Policy* 41(2)
[21] Cincera, M., J. Ravet, and R. Veugelers (2016) "The sensitivity of R&D investments to cash flows: comparing young and old EU and US leading innovators," *Economics of Innovation and New Technology*.
[22] "The future of productivity", OECD, 2015.
[23] Coad, A. , G. Pellegrino and M. Savona (2016) "Barriers to innovation and firm productivity", *Economic of Innovation and New Technology*, Volume 25.
[24] Brown, G. Martinsson, and B. Petersen. (2012) "Do financing constraints matter for R&D?", *European Economic Review,* Volume 56, Issue 8, Paes 1512-1529.
[25] Gross domestic expenditure on R&D in the EU is stagnating around 2% over recent years, while the United States, Japan and South Korea invest 2.8 %, 3.3 % and 4.2 % respectively. China, at 2.1 %, has also recently overtaken the EU. Business R&I intensity in the EU stands at 1.3 % compared to almost 2 % for the United States and nearly triple that for South Korea, at almost 3.5 %: http://ec.europa.eu/eurostat/statistics-explained/index.php/R_%26_D_expenditure.
[26] Commission services calculations based on Eurostat data.

EU-28 non-financial business sector. About 85% of newly created jobs in the EU are accounted for by SMEs. However, obtaining financing in the form of debt or equity can still be a hurdle for company creation and its growth and scale-up, in particular in Member States with less developed financial markets. European SMEs rely heavily on debt finance in the form of bank overdrafts, bank loans or leasing. Market-based instruments (e.g. equity) are only considered relevant by 12% of SMEs[27] although in many cases equity (risk-capital) is more suitable, as small companies often lack collateral or have irregular cash-flows (equity does not impose specific repayment schedule, and hence can be less of a burden during times of economic stress).

Providing more diversified sources of funding is necessary for increasing the ability of SMEs to withstand economic downturns and for making the financial system more resilient during economic shocks. This is a key objective pursuit under the Capital Markets Union.

Problem with access to debt finance

Following the financial crisis, higher capital requirements (e.g. CRD) and the need for banks' deleveraging, negatively affected banks' willingness and ability to lend and to accept risk. This had a major negative effect on available SME bank finance across the EU. Credit standards tightened considerably and SMEs as a consequence experienced a credit crunch.

The ECB's monetary policy has significantly improved the liquidity situation and positive economic developments have helped as well. In addition, an SME Supporting Factor was introduced, thus reducing the capital requirements for exposures to SMEs in comparison with the pre-CRR/CRD IV framework.

All of these activities have led to an improvement in the conditions for access to finance, and SMEs have on average recovered. Moreover, financial markets in the Member States show different degrees of development, in terms of diversity of financial institutions, product offerings and risk appetite. SMEs have no means to overcome these national differences because they rely on local or national providers of finance. SME financing is predominantly provided within national boundaries due to regulatory constraints. Cross-border lending is only at a nascent stage, predominantly fuelled by the emergence of fintech companies.

For SMEs, the debt finance gap is estimated at EUR 30 billion annually[28]. The financing problem is acute for firms that are undertaking activities with significant financial, technological, organisational or business-model risk and those wanting to finance growth projects which do not result in the acquisition of fixed assets which could be collateralised (e.g. in the area of culture and creativity, digitisation, internationalisation, etc.). For example, the financing gap for creative SMEs across Europe has been estimated at between EUR 8 and EUR 13 billion over 2014-2020. This sizeable gap is the consequence of a very dynamic sector that contributes 4.4% (approximately EUR 558 billion) of the EU GDP and 3.8% (8.3 million jobs) of the total EU workforce.[29] Moreover, SMEs face a knowledge gap regarding investments in their digital transformation including Artificial Intelligence adoption. This is shown by the difference of take up of digital technologies by large companies (42% are highly digitised) vs SMEs (only 16% are highly digitised).

[27] Survey on the Access to Finance of Enterprises in the euro area April to September 2017, section 3.1: https://www.ecb.europa.eu/pub/pdf/other/ecb.accesstofinancesmallmediumsizedenterprises201711.en.pdf?beb1832df4af9efa945a5a1f7b99eeb7

[28] COSME+ impact assessment

[29] The economic contribution of the creative industries to EU GDP and employment, TERA, 2014,

Furthermore, undertaking innovative and other high-risk activities that are poorly understood by finance providers, result in low credit scores and lead to high interest charges to compensate for the perceived risk.

Moreover, especially younger and smaller companies or those requiring rather small financing amounts are faced with a structural financing gap due to information asymmetries, lack of financial track records and disproportionate dossier costs, which is independent of the economic cycle or the country they are located in. If financing is offered at all, it is offered at unreasonable conditions in terms of interest rates applied, maturities, repayment terms and collateral required.

These market failures – prevalent cross the EU – hinder the start-up and growth of companies. Companies rarely have the internal funds they need, and consequently seek external financing.

This market environment results in an access to finance gap for SMEs that have a higher risk profile or insufficient collateral, and such access to finance gap differs from country to country.

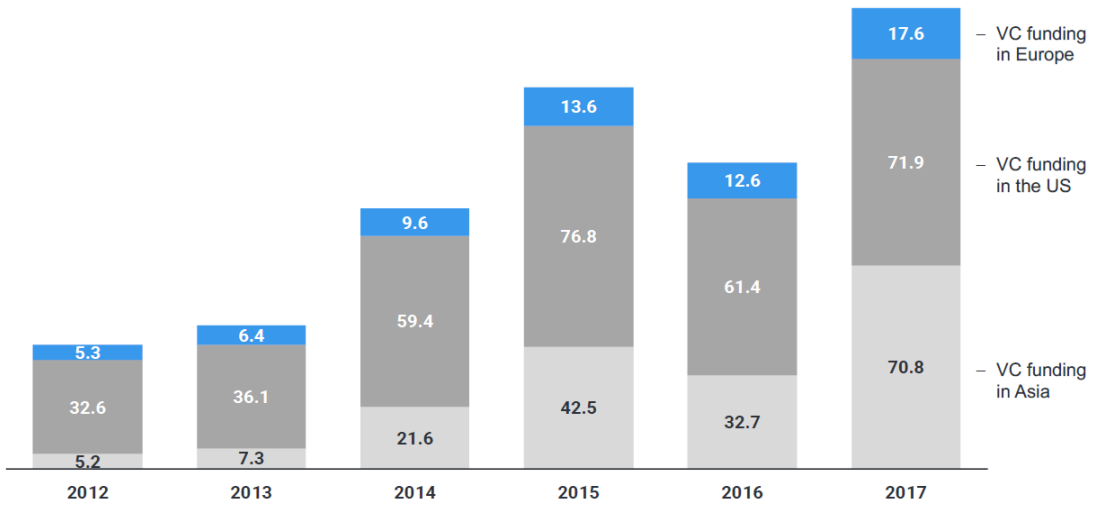
Insufficiently developed equity financing market

Despite the fact that only 12% of SMEs currently consider equity financing relevant for their business, it is an important financing component, specifically for high-risk start-ups and high growth companies that require significant long-term investments and which do not produce immediate free cash-flows which would allow servicing debt payments nor do require the need for a collateral.

Alternative sources of finance, complementary to bank-financing - including public equity markets – private equity and venture capital - are more widely used in other parts of the world, and should play a bigger role in providing financing to companies that struggle to get funding, especially SMEs

But Europe's capital markets are still very fragmented and underdeveloped (EU SMEs receive five times less venture capital funding compared to US as shown in figure 5).

Figure 5 - Total annual venture capital funding by continent (USD billion)



Source: PwC, MoneyTree Report, Q4 2017

For high-risk start-ups and high growth of companies, obtaining equity finance on reasonable terms is difficult for different reasons: one is the asymmetry between the information held by the firm and that known to the investor; and conflicts of interest between a firm's managers and its shareholders (the principal-agent conflict).

Figure 6 - 448 emerging, current & exited tech companies valued at more than $500m

Sources: TechCrunch, Rocket Internet Research

While private capital for initial public offerings (IPOs) and pre-IPOs is in principle available, it is not sufficiently made available for this particular asset class of risk capital investments. Investors consider the risk/return profile for venture and growth capital investments inappropriate and the cost of undertaking research too high. Moreover, investors find it inefficient to invest because the funds are very often too small. These framework conditions create a market gap for equity risk capital finance that narrows the opportunities for exit strategies for leading technology companies (see figure 6). Matching US levels of venture capital financing as share of GDP would require around EUR 35 billion a year in additional EU venture capital activity[30].

1.2.4 Social investment and skills

Investments in social infrastructure, social economy enterprises or social enterprises producing goods ('tangibles') as well as social services, ideas and people ('intangibles') are crucially lacking in the EU, yet are critical for the EU and its Member States to develop into a fair, inclusive and knowledge-based society. At the moment the social sector as a whole continues to experience a significant investment shortfall, and has to date been considered in a fragmented and scattered manner. Efforts to bridge the investment gap should also contribute to make social infrastructure and service provision more people-centred, accessible, and affordable.

The social infrastructure investment gap is not easily quantifiable. Due to the heterogeneity of the sector, no comprehensive market gap analysis on the entire social sector in Europe has been performed to date. According to the report of the "High-Level Task-Force on Investing in Social Infrastructure in Europe" (HLTF)[31], public investment in social infrastructure, including for education, health and housing, has been and remains low over the past decade, despite EIB/EFSI support. The HLTF has estimated that the investment gap for the priority sectors of affordable housing, education and healthcare can be calculated as an uplift of 25% of the current percentage

[30] *EIB report: Restoring EU competitiveness. 2016 updated version* available at http://www.eib.org/attachments/efs/restoring_eu_competitiveness_en.pdf

[31] The report of the "High-Level Task-Force on Investing in Social Infrastructure in Europe" estimated the minimal investment gap for Education, health & long-term care, and affordable housing at EUR100-150 billion annually. See: http://ec.europa.eu/info/publications/economy-finance/boosting-investment-social-infrastructure-europe_en

of GDP identified for each sector. This estimate determines an investment gap of EUR 142 billion p.a. as illustrated by the table below.

Table 1 - Minimum estimate of the gap in social infrastructure investments

Sector	Current annual investment in EUR billion p.a.	Minimum gap per sector in EUR bn p.a. (uplift of 25 per cent of the current percentage of GDP)	Additional items in EUR bn p.a.	Annual Investment GAP in EUR bn p.a.
Education & Lifelong Learning (0.4% of GDP)	65	15	-	15
Health & Long-Term Care (0.5% of GDP)	75	20	EUR 50 billion pa for long-term care Unknown amount for disability and migrants	70
Affordable housing (0.4% of GDP)	28	7	EUR 50 billion pa to address energy poverty	57
Totals	**168**	**42**	**100**	**142**

Source: HLTF Report on Investing in Social Infrastructure in Europe, January 2018

Microfinance and social enterprises in Europe are still recent developments and part of an emerging market that is not yet fully developed. Both micro-enterprises, in particular those employing vulnerable persons, and social enterprises are often confronted with difficulties in getting access to finance, which is a significant barrier to their growth and development while public finance in this area is still lacking, especially at the European level.

The investment gap for micro-enterprises has been estimated through the same Survey on Access to Finance of Enterprises[32], and constitutes between EUR 33 billion and EUR 81 billion of the loan gap. Social enterprises constitute around 10% of EU business. This indicates that the financing gap for social enterprises is at least 10% of the total estimated gap, between EUR 3 billion and EUR 8 billion.

As regards skills development, there are very large gaps in terms of providing apprenticeship-type training across the EU[33]. Overall, the average annual company spending on apprenticeships in the EU is around 0.5% of their annual labour costs, or around EUR 30 billion, with potential gap of EUR 30 billion of investment to reach the level of financing in countries with advanced apprenticeships systems – i.e. 1% of the annual labour costs[34].

[32] Survey on the Access to Finance of Enterprises in the euro area April to September 2017: https://www.ecb.europa.eu/pub/pdf/other/ecb.accesstofinancesmallmediumsizedenterprises201711.en.pdf?beb1832df4af9efa945a5a1f7b99eeb7

[33] Most of this type of training is performed in a small number of countries (notably Germany, contributing around 50% of all EU company spending on apprenticeships). Annual company spending on apprenticeships is estimated to stand at around 1% of their annual labour costs, or around EUR 30bn, see: Eurostat, Labour Cost Survey, 2012

[34] Source: Eurostat, Labour Cost Survey, 2012

A Commission analysis[35] shared and discussed in the Eurogroup confirms the importance of investments in human capital to raise productivity and boost potential growth. The EIB[36] considers that to reach US standards mostly in higher education annual investment of EUR 10 billion for state-of-the-art education facilities would be required, in addition to annual EUR 90 billion increased operational spending.

EU support is therefore needed for improved educational attainment and skills providing easier access to labour market, lifelong skills development facilitating career progression, and minimising the risk of poverty/social exclusion[37]. This includes investing in quality and affordable education, childcare, healthcare, long-term care, social housing and access to essential social services. Support for companies (particularly SMEs) to get involved more in combined school-and work-based education and training programmes as well as to improve the utilisation of skills through redesigned business processes is also needed.

1.3 Lessons learned from previous programmes

It has been recognised that financial instruments such as guarantees, loans, and equity play an important role for the achievement of EU policy objectives and one of the advantages is that the FIs support has to be repaid, which leads to resources being used for several funding cycles. Their repayable nature also ensures better alignment of interests between different stakeholders, greater economic scrutiny of projects, as well as more financial discipline. An additional important feature is the leverage effect. This relates to the total investment mobilised by private investors in relation to the deployment of EU budget resources. These financial instruments and the EFSI "*have [also] become EU trademarks, making the EU visible and recognisable in the daily lives of its citizens*"[38].

However, there have been numerous requests underlining the need to simplify and streamline the available offer of EU investment support instruments. The fragmentation of the EU offer led to the emergence of overlaps, different sets of rules by instruments and a lack of visibility of the EU activity in this field. This results in unnecessary complexity and higher budgetary and administrative costs. There is also some criticism that the proliferation of financial instruments led to insufficient accountability and control.[39] More importantly, final beneficiaries and financial intermediaries have become confused about the different solutions offered in terms of instruments and products. The post-2020 investment support scheme must therefore be focused, simpler and more transparent, while allowing for quick response to a changing market environment through an increased flexibility of budgetary allocations to emerging priorities. A similar need for simplification has also been identified for the TA offers as they often underpin individual initiatives.

The Reflection Paper on the Future of EU Finances"[40] underlined that there seems to be evidence that *"[t]he number of EU-level financial instruments and rules applying to them is an obstacle to*

[35] Commission note: Investment in human capital discussed at Eurogroup on 06/11/2017 http://www.consilium.europa.eu/media/31409/investment-in-human-capital_eurogroup_31102017_ares.pdf
[36] See EIB, *'Restoring EU competitiveness'*, 2016.
[37] https://ec.europa.eu/info/business-economy-euro/growth-and-investment/structural-reforms/ageing-and-welfare-state-policies_en
[38] "Reflection paper on the future of EU finances", June 2017, https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en
[39] Annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2016, OJ 2017/C 322/01, p. 55.
[40] https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

their efficient use". The Commission Communication on the next MFF[41] also underlined that *"[…] the current landscape of EU market-based instruments is fragmented, with almost 40 financial instruments and three budgetary guarantees and guarantee funds managed centrally, which amount to a share of around 4% of the current Multiannual Financial Framework. There is clear scope for rationalisation and greater efficiency.*"

The High Level Group on Simplification for post 2020[42] recommended: "*For those EU funds which support investments (ESIF, EFSI, CEF, Horizon 2020, etc.) overlaps which lead to competition based on a more beneficial legal regime should be identified and removed, with effectiveness and results being the relevant factors to determine which instrument should be the most appropriate in a given context*".

The European Parliament also calls for simplification and greater efficiency. In its Resolution on the Reflection Paper on the Future of EU Finances[43] the European Parliament:

- *"[A]dvocates a real and tangible simplification of implementation rules for beneficiaries and a reduction of the administrative burden*".
- "*Encourages the Commission, in this context, to identify and eliminate overlaps between instruments offered by the EU budget which pursue similar objectives and serve similar types of actions.* "
- In particular, the Parliament "*calls on the Commission to simplify and harmonise the rules governing the use of financial instruments in the next MFF with the aim of creating synergies between the different instruments and maximizing their efficient allocation*."[44]

Finally, there is a need to step up mainstreaming efforts notably related to the EU (and global) sustainable development objectives. It is important to ensure that EU investment support mechanisms such as the InvestEU Fund are guided by robust and advanced sustainability criteria, including those set by the EU climate and environment policy[45].

Therefore, the InvestEU Fund will draw lessons from the past and current EU investment support instruments. This concerns in particular the experience with the 2014-2020 financial instruments as well as the EFSI. Detailed lessons learned and past evaluation results are included in Annex 3.

Past evaluations have demonstrated that the EFSI has been effective in delivering concrete results and encouraging a sustainable increase in the low investment levels in Europe.

In particular, the budgetary guarantee underpinning EFSI has proven to be an efficient tool to increase considerably the volume of riskier operations financed by the EIB. The EFSI budgetary guarantee freezes less budgetary resources compared to financial instruments, as it requires limited provisioning needs compared to the level of financial engagement. In other words, it assumes a contingent liability and is consequently expected to achieve efficiency gains that result in higher investment mobilised per euro spent. A budgetary guarantee has also proven more cost-

[41] "A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020", February 2018, COM(2018) 98 final – http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A52018DC0098&from=EN

[42] "Final conclusions and recommendations of the High Level Group on Simplification for post 2020", July 2017 - http://ec.europa.eu/regional_policy/sources/newsroom/pdf/simplification_proposals.pdf

[43] European Parliament resolution on the Reflection Paper on the Future of EU Finances (2017/2742(RSP))

[44] European Parliament resolution of 14 March 2018 on the next MFF: Preparing the Parliament's position on the MFF post-2020 (2017/2052(INI))

[45] https://ec.europa.EU/info/files/180308-action-plan-sustainable-growth_en

efficient for the EU budget, as it is remunerated for the risk taken and it limits the payment of management fees to the implementing partner(s).

Past EFSI evaluations have also stressed the need to improve EFSI's geographical balance, avoid overlaps with other EU Financial Instruments, as well as reinforce and clarify additionality. It is also generally recognised that there is a need for greater advisory and technical assistance which would contribute to a sizeable pipeline of projects that contribute to the EU policy objectives.

Evaluations of investment support programmes noted a certain level of fragmentation and overlaps among different EU investment support instruments as well as with financial instruments under shared management. For instance, CEF evaluation showed that its financial instruments have seen limited uptake, partly due to the new financing opportunities opened by the EFSI. The Interim Evaluation of Horizon 2020 also points out that "*since the set-up of EFSI in 2015, it has proved challenging to reach InnovFin's objectives, as a significant part of the products deployed overlap with EFSI in terms of both risk spectrum and eligibility*".

There is currently a certain overlap also between different financial instruments targeting SMEs, including with programmes under shared management. More detailed assessment of duplications and overlaps is presented in Annex 12. Moreover, as highlighted in the European Court of Auditors' report[46] on the COSME Loan Guarantee Facility, the latter has achieved positive results, but needs better targeting of beneficiaries and more coordination with national schemes. In particular, the report recommended that the Commission carries out an assessment of market needs and how EU guarantee instruments can best respond to these needs alongside national/regional instruments. In this regard, the Commission has prepared an in-depth market assessment at the level of each Member State demonstrating the market gap and the rationale for an intervention at EU level (more details are available in the IA related to the Single Market Programme).

The EU support has also played an important role in the development of the nascent social investment market through the Programme for Employment and Social Innovation (EaSI), in particular for microfinance and social entrepreneurship, empowering European citizens and fostering social inclusion[47]. Based on the public consultation, the social inclusion and employment areas are seen as the biggest challenges where the EU response in terms of investment is least sufficient. However, the resources have been rapidly absorbed and there is an important unmet demand.

The experience of blending CEF grants with financing products or EIB or National Promotional Banks conventional lending or private finance has also been positive. More effort is needed to facilitate combining, when appropriate, different forms of support to maximise the leverage and impact of private or public funds.

For future instruments, it will be important to strengthen the mobilisation of private capital and avoid potential crowding out effects (linked to additionality).

1.3.1 Complementarity between the EU level and ESIF

According to the ESIF Operational Programmes 2014-2020, financial instruments will account for 9.5% of the European Regional Development Fund (ERDF), 2.7% of the Cohesion Fund

[46] "Special Report EU-funded loan guarantee instruments: positive results but better targeting of beneficiaries and coordination with national schemes needed, 2017, n. 20, European Court of Auditors, Special Report (pursuant to Article 287(4), second subparagraph, TFEU)", https://www.eca.europa.eu/Lists/ECADocuments/SR17_20/SR_SMEG_EN.pdf
[47] http://ec.europa.eu/social/main.jsp?langId=en&catId=1081&newsId=9071&furtherNews=yes

(CF) and 1.3% of the European Social Fund (ESF) allocations included in multi-fund programmes. The average allocation to FIs is 7.2%. This compares to 5% of ERDF allocation to FIs in the previous programming period[48].

Experience under the current and previous programming periods show that the complementarity of financial instruments under shared management and those centrally managed could be further improved. In particular, the Court of Auditors noted that how the various EU guarantee instruments can best respond to SMEs needs alongside nationally/regionally funded instruments, thereby ensuring EU added value, was not adequately assessed[49].

The attempts to combine FIs centrally managed and those under shared management have proven to be complex and this might have been one of the reasons that slowed down their uptake.

The Commission's Reflection Paper on the EU's finances[50] pointed out that the "*new EU-level financial instruments and the loan, guarantee, and equity instruments managed by Member States under cohesion policy should be complementary*". It further indicates that this "*complementarity between the different instruments should be ensured, through upstream coordination, same rules and clearer demarcation of interventions*" (p. 27).

1.3.2 Results from the Open Public Consultation

Open Public Consultations (OPC) for the post-2020 impact assessment were organised per group of policy areas. This impact assessment will mainly consider the results from the OPC on the EU Support for Investment[51]. For this policy area, 642 replies were received from all Member States. Relevant results from OPCs regarding different policy areas like Cohesion; Security, Migration and Asylum; Strategic Infrastructure; Values and Mobility are also taken into consideration.

The following issues raised are particularly relevant and have been taken into account in assessing the different possible actions presented in this report:

- Most respondents believe that the current EU support for investment does not sufficiently address policy challenges like reducing unemployment, support social investment, facilitate digital transition, facilitate access to finance in particular to SMEs, ensure a clean and healthy environment and support industrial development.
- The respondents stressed the importance of EU wide policy challenges, among others, in areas like research, support for education, clean and healthy environment, and transition to low carbon and circular economy, and reducing unemployment.
- Most participants believe that current EU investment support programmes to a fairly large extent add value compared to what Member States could achieve at national or regional level.
- Around 60% of respondents to the OPC on Strategic infrastructure expressed a view that difficulty to access financial instruments is an obstacle that prevents the current programmes from successfully achieving policy objectives. For OPC on Security and Cohesion, the insufficient use of financial instruments is identified by around 40% of participants.

[48] "The use of new provisions during the programming phase of the European Structural and Investment funds" – Final Report , Altus Framework Consortium, May 2016.
[49] ECA Special report No 20/2017: https://www.eca.europa.eu/Lists/ECADocuments/SR17_20/SR_SMEG_EN.pdf
[50] Reflection paper on the future of EU finances", June 2017, https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en
[51] This was a subpart of the OPC on Investment, research and innovation, SMEs and single market.

- A vast majority of participants support the identified steps that could help simplify and reduce administrative burdens. In particular, this includes fewer, clearer and shorter rules, alignment of rules between EU funds, as well as a stable but flexible framework between programming periods.

1.4 The way forward: a single investment support instrument

The Reflection Paper on EU Finances[52] proposes the following: "*[o]ne option to address this could be […] integration [of financial instruments] within a single fund which would provide loans, guarantees and risk sharing instruments — blending with EU grants where appropriate — depending on the project and windows for the different policies (such as research, innovation, climate action, environment, SME support, infrastructure, including for energy efficiency) to cater for different objectives*".

The Commission Communication further clarifies that *"[o]ne option to improve the efficiency and impact of instruments aiming at investment support in the EU could be their integration within a single investment support instrument. This would further reinforce the European Fund for Strategic Investments and have a positive impact on investment levels, economic growth and employment across the EU"*[53].

The European Parliament[54] "*considers the option of a single fund that would integrate financial instruments at EU level that are centrally managed under such programmes as the Connecting Europe Facility (CEF), Horizon 2020, COSME, Creative Europe and the Employment and Social Innovation programme (EaSI) on the one hand and the European Fund for Strategic Investments (EFSI) on the other, a proposal to be discussed further*".

The European Parliament "*is of the opinion, however, that such simplification should not result in the replacement of grants by financial instruments and must not lead to a sectorialisation of EU programmes and policies, but should guarantee a cross-cutting approach with complementarity at its heart. [It also] calls for a far-reaching harmonisation of rules with the aim of creating a single rulebook for all EU instruments*."

Based on the above consideration it is proposed to set up a single investment support instrument - the InvestEU Fund. It will be a centrally managed instrument/framework for financing EU investment priorities. It will integrate under a single framework all centrally managed financial instruments and the EFSI budgetary guarantee.

2 THE OBJECTIVES

2.1 General objectives of InvestEU Programme

As single investment support scheme for internal Union policies, the InvestEU Programme is both a policy instrument and a delivery tool. As a policy instrument, the InvestEU Programme general objective is to support EU policy priorities by financing investment operations that contribute to:

- the competitiveness of the Union, including innovation and digitisation;

[52] Reflection paper on the future of EU finances", June 2017, https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en
[53] https://ec.europa.eu/commission/sites/beta-political/files/communication-new-modern-multiannual-financial-framework_en.pdf, COM(2018) 98 final
[54] http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+MOTION+B8-2017-0565+0+DOC+XML+V0//EN

- the sustainability of the Union economy and its growth;
- the social resilience and inclusiveness of the Union; and
- the integration of the Union capital markets and the strengthening of the Single Market, including solutions addressing the fragmentation of the Union capital markets, diversifying sources of financing for Union enterprises and promoting sustainable finance.

The objective is to mobilise public and private investment operations within the EU addressing market failures and investment gaps that hamper the achievement of EU goals regarding sustainability, competitiveness and inclusive growth. Underpinned by an EU guarantee, the InvestEU Fund will contribute to the modernisation of the EU budget and will increase the impact of the EU budget by "*doing more with less*".

The InvestEU Programme should have the capacity to shape the EU strategy to tackle the subdued investment activity in Europe. With this, it should increase the competitiveness of the Union and contribute to the economic growth and job creation. By diversifying the sources of funding and promoting long term and sustainable finance, the InvestEU Programme will contribute to the integration of European capital markets and the strengthening of the Single Market. As an EU wide resource pooling financial, market, technical and policy expertise, the InvestEU Fud shall also be a catalyser for financial innovation at the service of policy objectives.

2.2 Specific objectives

In particular the InvestEU Programme would aim at the following specific objectives:

- to promote financing and investment operations supporting sustainable infrastructure;
- to promote financing and investment operations supporting research, innovation and digitisation;
- to increase the access to and the availability of finance for SMEs and, in duly justified cases, for small mid-cap companies; and
- to increase the access to and the availability of finance to social enterprises, promote financing and investment operations supporting social investment and skills and develop and consolidate social investment markets.

As a delivery tool, the InvestEU Programme aims at implementing financial instruments and budgetary guarantees more efficiently, achieving economies of scale, increasing the visibility of EU action and enhancing the reporting and accountability framework applicable to those instruments. The proposed structure aims at simplification, increased flexibility, and removal of potential overlaps between seemingly similar EU support instruments.

The InvestEU Programme interventions will be channelled through four thematic policy windows, each one entailing two compartments, one at EU level and one under ESIF, the Member State compartment (see section 3.1,):

- Sustainable infrastructure;
- Research, innovation and digitalisation;
- Small and medium-sized enterprises; and
- Social investment and skills.

In addition, the InvestEU Programme will include the InvestEU Advisory for project development and advisory support throughout the investment cycle to foster the origination and development of projects. The TA support will be provided in the InvestEU policy areas and will

also ensure a single point of access for final beneficiaries including project promoters and intermediaries.

These general and specific objectives will be taken into account in section 5 (Delivery mechanism) and section 6 (Performance measurement). The above general and specific objectives are translated into operational objectives for each policy area, as detailed below.

2.2.1 Sustainable Infrastructure Window

The objective of the investment support from the InvestEU Fund under this window would be the provision of finance to sustainable infrastructure[55] in areas such as transport, energy (including energy efficiency), network infrastructure (smart grids, energy storage, e-mobility), broadband, environmental related sectors (e.g. waste, water, air, circular economy), innovative sectors (such as green infrastructure and other natural-capital related projects), and emerging priorities in areas such as urban mobility and digital service (see scoping paper on Sustainable Infrastructure available in Annex 4).

Support from the InvestEU Fund under this policy window will:

- Orient capital flows towards sustainable infrastructure investment, in order to achieve sustainable and inclusive growth[56];
- Stimulate investment needed to respond to the challenge of climate change mitigation and of meeting the greenhouse gas emission reduction commitments by 2030 taken by the EU under the Paris agreement;
- Contribute to coordinated investments in infrastructure projects involving several Member States (cross-border projects), in particular the financing of trans-European networks;
- Address emerging market needs, new technological developments and priorities;
- Promote interoperability;
- Foster cross-sectoral synergies between energy, transport and digitalisation; and
- Provide assistance to continue to build more capacity for developing projects, platforms and programmes.

Sustainability proofing of infrastructure investments

Long-lifetime infrastructure should be resilient to potential effects of climate change and other environmental challenges.

Climate change adaptation and mitigation considerations need to be integrated throughout the project cycle. Projects shall be subject to climate proofing, which entails two components: first, ensuring the resilience to the current and future adverse impact of climate change through a climate vulnerability and risk assessment and integration of relevant adaptation options; second, accounting for the cost of greenhouse gas emissions in the cost-benefit analysis facilitating due consideration of low-carbon options. Major projects – funded by the European Regional

[55] Sustainable and resilient infrastructure integrates environmental, social and governance (ESG) aspects into a project's planning, building and operating phases while ensuring resilience in the face of climate change or other shocks such as rapid migration, natural disasters or economic downturns. Service needs will be met in a manner that minimizes or reverses environmental damage, improves social equality and does not waste resources.
(UNEP & Global Infrastructure Basel Foundation; http://unepinquiry.org/wp-content/uploads/2016/06/Sustainable_Infrastructure_and_Finance.pdf)

[56] See also Commission Action Plan: Financing sustainable growth, COM(2018)97, 08.03.2018

Development Fund and Cohesion Fund in the 2014-2020 programming period – are already subject to climate proofing[57].

Factors such as the increase in weather related risks caused by climate change should also be taken into account when making investment decisions. In addition, other environmental challenges other than deriving from climate change per se should be addressed (such as biodiversity loss, air, water and soil pollution, due to fragmentation and degradation of land and unsustainable land-use,).

For investments in new sustainable infrastructure, negative externalities related to climate and other environmental risks need to be taken into account in the overall project risk assessments and mitigation strategies during planning and development phases.

The sustainability proofing of investments will need to reflect the latest developments in the field, notably the progress made to develop an EU taxonomy under the Commission Action Plan on Financing Sustainable Growth[58].

2.2.2 Research, Innovation and Digitalisation Window

The Research, Innovation and Digitalisation Window will aim to mobilise significant R&I investments to deliver higher productivity, economic growth and better living standards. It will stimulate all innovation: from radical to incremental.

The specific objectives of the Research, Innovation and Digitalisation window will aim to:

- Improve access to and availability of finance for R&I projects adapted to the different needs and risk appetite of potential final beneficiaries at various stages of the innovation cycle;
- Create critical mass of financing to stimulate industrial scale demonstration of innovative technologies, disruptive innovation and support high-risk investments in R&I and new technologies to boost the EU's global competitiveness;
- De-risk investment in R&I and help upscale and deploy innovative solutions at commercial scale;
- Support innovation diffusion and transfer established solutions to new markets to improve innovation performance across the EU;
- Address investment gaps through supporting new Financial Products and innovative financing solutions such as crowd-lending or hybrid instruments and cross-border financing options;
- Foster the transfer of best practices between financial intermediaries with a view to encourage the emergence of a broad product offering supporting R&I activities and R&I-intensive entities; and
- Provide technical assistance to improve investment readiness and bankability of R&I projects, including deep tech[59] companies, middle market firms, universities, technology transfer offices, public research organisations and large research infrastructures.

[57]See guidance on the climate change related requirements for major projects in the 2014-2020 programming period: European Commission, "*Climate change and major projects*" 2016: https://ec.europa.eu/clima/sites/clima/files/docs/major_projects_en.pdf
[58] Communication from the Commission, Action Plan: Financing Sustainable Growth, COM(2018)97, 08.03.2018
[59] "Deep tech" refers to companies of any sector that are "founded on a scientific discovery or meaningful engineering innovation".

2.2.3 SME Window

The main objective of the SME Window is to increase the access to and availability of finance for European SMEs, in support of employment creation and economic growth.

This could be achieved by providing support for categories of SMEs for which the access to finance problem is the most pronounced – start-ups, younger and smaller companies, SMEs lacking sufficient collateral to realise their investment projects linked to the growth of the company, and innovative companies. At the same time, the SME window would also aim to promote the implementation of specific policy priorities of the EU that do not receive sufficient level of support from the private sector. For example, the areas of internationalisation, digitisation or the uptake of innovation, and in sectors such as innovative SMEs and the cultural and creative industries. Furthermore, the capacity of financial intermediaries to work with SMEs, e.g. in the cultural and creative sectors, needs to be improved so that they can fully play their market role of channelling private investment resources to these areas and thus increase their growth potential. The SME window could also contribute to supporting farm investments for restructuration and modernisation, as well as rural entrepreneurship.

The SME Window will also support the Capital Markets Union strategy by promoting more diversified sources of funding and overcoming fragmentation of capital markets as a means to increase the ability of SMEs to withstand economic downturns and making the financial system more resilient during economic shocks.

The EU-level debt products should focus on SMEs that would not receive support from the market due to the perceived higher risk or the lack of collateral. Where justified, more dedicated support may be provided for SMEs or organisations or, were justified to small mid-caps, for a specific sector or a specific policy orientation.

Concerning equity in particular, the aim would be to increase private equity investments in R&I-intensive or high-risk SMEs and small midcaps and tackle market gaps that are not properly addressed by national and regional programmes. The strengthening of the EU equity industry's ability to attract institutional and other investors to operate on a pan-European basis and to provide European exit strategies for leading growing companies will also be targeted.

To ease high growth SMEs to scale up beyond the private equity markets notably when going public, the window could also support and facilitate SMEs seeking a listing on a SME Growth Market[60] – Multilateral Trading Facility created by MiFID II, aiming to improve the functioning of the entire funding escalator of the SMEs and providing fast and profitable exit opportunities for venture capital and private equity investors.

It is essential to ensure the complementarity and EU-added value of the support by focusing it on market gaps which are not adequately addressed through national or regional programmes. A possibility to avoid such overlaps would be that support targets especially those countries where the access to finance problem is most pronounced and not addressed nationally.

[60] In order to qualify as an SME Growth Market, at least 50% of the issuers whose financial instruments are traded on an SME growth market shall be SMEs, defined by MiFID II as companies with an average market capitalisation of less than EUR 200 million.

2.2.4 Social, skills and human capital Window

The European Pillar of Social Rights recognises among its core principles the right to education, training and lifelong learning as well as to social protection including childcare, housing, healthcare and long-term care.

The general objective of the Social Investment and Skills Window would be to support private and public investment in social infrastructure in areas such as education, social housing, and health, as well as to develop and consolidate the nascent market structures underlying the European social economy and social enterprises[61] and the training and education sectors, both in terms of financing support and technical assistance/capacity building.

Taking account of and providing leverage to policy instruments in support of the social dimension of the EU in the next MFF and against the backdrop of the European Pillar of Social Rights, support from this Window will aim to:

- Consolidate the nascent market structures underlying the European social economy organisations and social enterprises ecosystem;
- Increase access to, and the availability of, microfinance for vulnerable persons (e.g. unemployed, youth, elderly, migrants) and micro-enterprises, social enterprises;
- Build up a stronger capital market for social infrastructure promoters investing in areas such as education (including childcare), social housing, and health (including long-term care);
- Support human capital investments (both demand and supply side), for students and workers and other persons in need of initial training, reskilling and upskilling, as well as for education and training providers, start-ups and companies at large;
- Support the Commission's future action in the field of social enterprises at EU level[62]; and
- Support the emergence and consolidation of social investment markets by boosting both the supply and demand sides; supporting investment readiness and capacity building of public authorities and of intermediaries active in the micro-finance, social economy organisations and social enterprise finance sector.

2.3 Simplification

Suboptimal investment situations are currently addressed through a heterogeneous and fragmented portfolio of EU financial instruments and the EFSI. These all come with different legal, administrative, and operational arrangements that result in unnecessary complexity.

The aim of the InvestEU Fund would be to simplify the EU investment support by constructing a single framework that would help to reduce the complexity. Due to a lower number of agreements under a single set of rules, the InvestEU Fund will simplify the management of investment support instruments, the governance and the final beneficiaries' access to the EU support.

[61] "Social enterprise" refers to businesses which have an explicit primary objective to generate positive social or societal impact, independently of their legal form. They are part of the "Social economy" which, as a broader concept, also includes all co-operatives, mutual societies, foundations and associations and which are based on principles such as the primacy of people over capital, the democratic control by the membership, the reinvestment of the surplus to carry out its societal objectives or to the interest of its members, and an autonomous management. Altogether the social economy is estimated to represent 10% of jobs and 8-10% of EU GDP.

[62] In its 2016 Start-up and Scale-up initiative the Commission identified five priorities for further actions, drawing form the experience of the 2011 SBI initiative, the Council conclusions of 7 December 2015 and the recommendations of the Expert Group on Social Entrepreneurship (GECES) as well as the conclusions of the evaluations conducted so far.

Moreover, as the InvestEU Fund covers all investment support policy needs, this would allow streamlining and harmonising the reporting requirements and performance indicators.

2.4 Enhanced flexibility

EU investment support instruments address market gaps and suboptimal investment situations. However, investment support needs are constantly evolving due to changes in technology, laws and rules, policy priorities, economic cycles, and risk appetite of financiers and investors. It should thus be possible to modify easily the products. Imposing strict and rigid rules and mechanisms would negatively affect beneficiaries. This could have negative repercussions on investment levels, growth prospects, employment, as well as on achievement of policy objectives.

The EU investment support needs to respond quickly to these changes and requires flexibility in the following areas:

- Ability to align existing financial products to new market conditions. This implies an ability to change particular investment guidelines, criteria as well as the amount of support during implementation;
- Possibility to discontinue underperforming financial products or create new ones. This would also include a possibility for the Member States to withdraw contributions from a financial product set up under the InvestEU Fund Member State compartment (see section 3.2) under certain principles;
- Ability to reallocate resources between products within a specific policy window;
- Possibility to reallocate a portion of resources among policy windows. Any reallocation of resources between windows could be limited to [15%] of the guarantee amount of any of the windows;
- Possibility to easily combine or blend, when appropriate, support under the InvestEU Fund with grants from other EU programmes;
- It should be possible to design products with specific risk coverage rates (e.g. level of first loss piece or guarantee rates) for particular market failures; and
- The Commission should also have the flexibility to grant the EU guarantee to several implementing partners that fulfil the required eligibility criteria (see section 5.3).

3 PROGRAMME STRUCTURE AND PRIORITIES

The current experience with the EU financial instruments and the EFSI budgetary guarantee demonstrated a need for simplification, streamlining and better coordination of EU's investment support instruments during the next MFF. Experience with the EFSI also revealed significant benefits and efficiency gains inherent in using, where possible, a budgetary guarantee instead of traditional financial instruments.

It is therefore proposed to set up a single investment support instrument, the InvestEU Fund, underpinned by a budgetary guarantee. It will be a centrally managed framework for financing EU investment priorities. It will integrate under a single framework all centrally managed investment support instruments and the EFSI and will allow to also cover new and emerging priorities.

The budgetary guarantee underlying the InvestEU Fund will be allocated to four thematic policy windows as indicatively shown in the table below. The split is based on policy prioritisation, absorption capacity, and the size of the investment gasps. The InvestEU Fund will however foresee a possibility to reallocate a limited portion of resources among policy windows (see 2.4).

The InvestEU Fund assumes a slight increase in the EU budget from EUR 14.5 billion during the current MFF (see Annex 5) to 15.2 billion allocated or an increase of almost 5%. The InvestEU Fund is however expected to increase the overall available budgetary guarantee much more. The available EU support would increase by 21% to EUR 38 billion and the total expected investment mobilised by 16.3% to EUR 650 billion (as illustrated in the table below). The increase of the available EU support is due to a shift from the current mix of FIs and the EFSI (EU) guarantee to the use of a single budgetary guarantee that is a much more efficient delivery mechanism.

Table 2 - Overview of budget allocations and estimated investments to be mobilised in the current MFF and under the InvestEU Fund

(EUR m)	**2014-2020** (Baseline: EFSI + FIs)		**2021-2027** (InvestEU Fund)		**Weight of windows** (based on the budgetary guarantee/FIs)	
Thematic Policy Windows	**Budgetary guarantee / FIs**	**Investment mobilised**	**Budgetary guarantee**	**Investment mobilised**	**2014-2020**	**2021-2027**
Sustainable Infrastructure	12.215	216.370	11.500	185.000	39%	30%
Research, Innovation and Digitisation	7.560	148.250	11.250	200.000	24%	30%
SMEs	9.413	171.848	11.250	215.000	30%	30%
Social, Investment and Skills	2.233	26.520	4.000	50.000	7%	10%
Total	**31.421**	**562.988**	**38.000**	**650.000**	**100%**	**100%**
EU Budget	14.521		15.200			

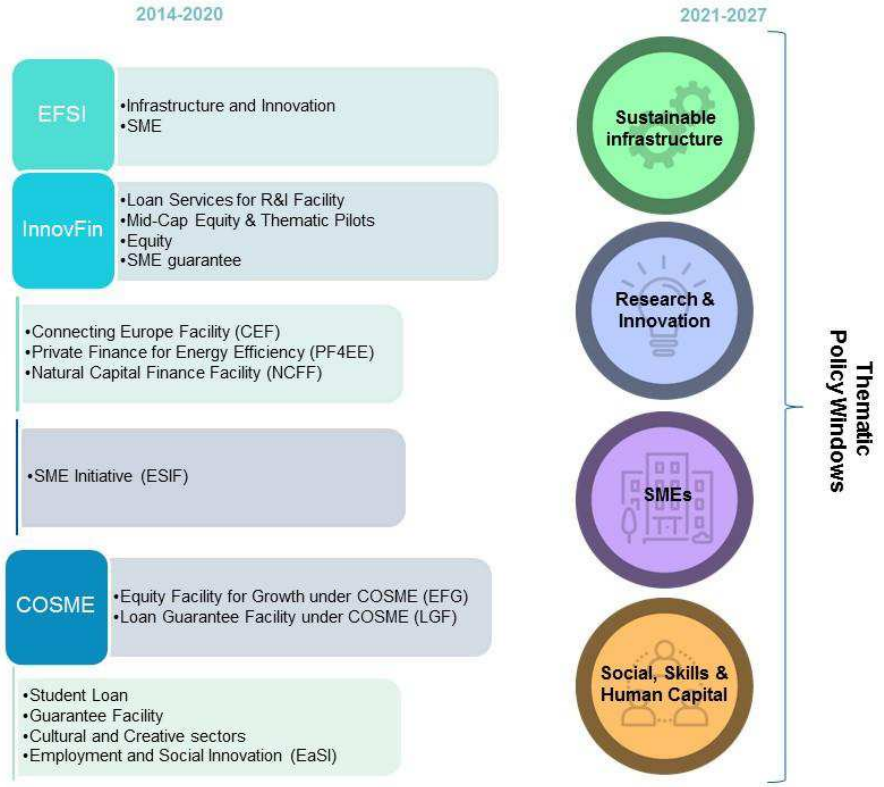
Source: Commission services, 2018 (indicative split in current prices)

The fact that the budgetary guarantee is set to increase more (21%) than the expected investment mobilised (16.3%) is explained by the following InvestEU Fund characteristics:

- Compared to the EFSI, it would include more targeted products oriented on delivering more additionality and having more policy value added;
- The InvestEU Fund assumes a much higher share for the thematic products that are more budget consuming and also display a lower multiplier; and
- The InvestEU Fund would also have more implementing partners and there is therefore a need for a more cautious estimate of the provisioning rate and the multiplier.

The funding priorities for each policy window will be developed in investment guidelines. These investment guidelines will determine some basic principles of intervention, such as additionality criteria, alignment of interest, proportionality, good market practice, sustainability, support to new investment (no refinancing), sectoral and geographic balance, leverage and multiplier effect.

Figure 7 - Correspondence between existing instruments & proposed InvestEU Windows



Source: Commission services

For each policy window, the guidelines would furthermore specify:

- Policy areas for intervention – this would define in more detail the areas/sectors of intervention responding to the specific policy objectives and sectors identified under the InvestEU Programme regulation;
- Type of financial products envisaged to serve the different objectives identified in the regulation and the policy areas, including risk and revenue sharing arrangements;
- Blending needs with other EU programmes;
- Monitoring and performance framework to be put in place to measure the impact of the financial products envisaged.

For each window, a Policy Board, composed of representatives of the lead policy Directorate-Generals and a number of other relevant Directorate-Generals, will define the strategy of the policy window, in line with the investment guidelines and design concrete financing products (see section 3.4 for more details on the governance of the InvestEU Fund).

The InvestEU Fund will also allow for a voluntary contribution of shared management resources where this delivers on ESIF policies i.e. Member States would use InvestEU Fund as the delivery mechanism for part of their ESIF allocation. This would be used under the InvestEU Fund framework but would be earmarked for investment support in specific Member States.

The InvestEU Fund would also be accompanied by the InvestEU Advisory providing technical assistance support building on existing TA initiatives (EIAH, ELENA, InnovFin Advisory) which aims at preparing, developing and implementing a robust investment project pipeline.

Furthermore, the InvestEU Fund will enable additional contributions from other EU programmes, including those outside the EU budget, where relevant and appropriate (e.g. the EU ETS Innovation Fund[63]).

The InvestEU Fund main characteristics include:

- A single structure, directly communicated to financial intermediaries, project promoters and final beneficiaries in search of financing;
- Flexibility measures that will enable the InvestEU Fund to quickly react to market changes and policy priorities that evolve over time;
- The ability to deliver sector-specific instruments to support particular market failures e.g. Green Shipping, energy demonstration projects, natural capital;
- Increased leverage and more efficient use of budgetary resources through the use of a budgetary guarantee. Compared to financial instruments, budgetary guarantees freeze less budgetary resources due to limited provisioning compared to the level of financial engagement and the overall investment mobilised;
- Simplified and focused offer of investment support instruments targeting the main EU policy objectives. Such offer would also enable combining grants and finance from different EU programmes, or EIB conventional lending or private finance;
- An integrated governance and implementation structure that enhances internal coordination and strengthens the position of the Commission towards implementing partners. This would lead to management cost efficiencies, avoidance of duplications and overlap and increased visibility towards private investors;
- Simplified reporting, monitoring, and control requirements; due to the single framework, the InvestEU Fund will foresee integrated and simplified monitoring and reporting rules;
- Better complementarity and ease of combination between programmes managed centrally and those under shared management;
- A possibility for Member States to channel shared management allocations through the InvestEU Fund (in the Member State compartment);

[63] The Innovation Fund is established by the Article 10 (a) 8 of the ETS Directive (EU) 2018/410.

- Possibility to contribute additional resources, if relevant and appropriate, from other EU programmes for specific policy objectives such as low-carbon innovation in energy, CCS (Cultural and Creative Sectors), and energy intensive industry supported under the EU ETS Innovation Fund; and
- Association of the InvestEU Advisory to the InvestEU Fund in order to support the development and implementation of a pipeline of bankable projects.

Furthermore, the single integrated structure of the InvestEU Fund offers the opportunity to address the shortcomings identified in the lessons learnt section in the following way:

- Better coordination, single approach to implementing partners. Instead of a multitude of delegation agreements and different provisions in different delegation agreements (even when addressing the same issue), the InvestEU Fund will feature a single agreement per implementing partner. The governance structure, comprising all relevant DGs, will ensure effective coordination among instruments.
- Competition among implementing partners. Under the current MFF, most intervention under budgetary guarantees and financial instruments for internal policies is operated via the EIB Group. The InvestEU Fund opens up the possibility for other partners or consortia to enter in agreements directly with the EU, ultimately increasing the choice of policy implementation options for the EU.
- Additionality and EU added value. In response to recommendations from evaluations and audits of the EFSI and financial instruments, the InvestEU Fund will aim to strengthen requirements on additionality and EU added value of the intervention.
- Stronger verification of compliance with policy objectives, to balance the demand-driven approach at the level of individual operations. The scrutiny of the EU policy consistency of the financed projects will be intensified due to the work of the Commission staff in the Policy Boards and the Project Team.

Table 3 - From the EFSI and financial instruments (2014-2020) to the InvestEU Fund

InvestEU (Next MFF)	**Improvement compared to the current MFF**
Shift towards budgetary guarantees by default	Less budgetary resources to achieve the same objectives.
A single budgetary guarantee	More efficient due to economies of scale and diversification compared to several ring fenced budgetary guarantees: less provisioning needed for the same level of protection from the EU budget.
A single fund: common rules, consistent products, single voice	Overcomes fragmentation, overlaps and inconsistencies.
Flexibility	Higher capacity to redeploy resources and to develop new products according to the demand.
Efficiency gains	For financial intermediaries and final beneficiaries: single set of rules and reporting requirements, cross-reliance on audits. For implementing partners: single contractual framework. For the EU Budget, risk remuneration and limited fees.

InvestEU (Next MFF)	Improvement compared to the current MFF
Budgetary guarantees under ESIF	Higher impact with fewer resources.
Upfront coordination between the EU centrally managed instruments and ESIF levels	Better respect of the subsidiarity principle. More efficient allocation of budgetary resources. Qualitative upgrade of interventions. Synergies. Lower need for combinations, but when needed: single set of rules.
Non-exclusive access to the EU guarantee	Diversification of pipelines and wider coverage of policy objectives. Enhanced coordination and negotiation capacity.
A structured and streamlined framework for blending	Simplification.
Increased visibility, enhanced accountability	Single brand. More effective democratic control.
Coherent framework for technical assistance	Technical assistance will be streamlined under a single framework

3.1 InvestEU Fund structure

The InvestEU Fund aims at achieving a balance between a lean and flexible structure with simple rules and the need to cater for specific investment support needs in different policy areas and for different types of beneficiaries. While there are some trade-offs to be made, these two objectives are not mutually exclusive.

Lessons learned from the EFSI's structure and in particular the use of windows[64]suggest that an organisation into policy windows achieves a good balance between simplicity, streamlining and ability to target specific policy needs.

The windows will be used to deploy financing products (e.g. debt, equity) as well as thematic sub-instruments and pilot initiatives targeting high risk and first-of-a-kind projects, as currently done under certain financial instruments (e.g. InnovFin Energy Demo Projects, Natural Capital Financing Facility, SME guarantees) and provide for a more comprehensive guarantee coverage.

The number and scope of InvestEU Fund's policy windows would need to achieve the following objectives:

- Simplicity – there should be only a handful of policy windows to avoid fragmentation and confusion among implementing partners and beneficiaries;
- Target specific EU policy priorities and respond to market needs that can be addressed with similar financial products; and
- The structure should minimise potential scope overlaps between windows through simple and pragmatic demarcation rules.

[64] Under the EFSI, investment support is provided under two windows: Infrastructure and Innovation Window and SME Window.

Based on the main policy challenges and their nature (see section 1.2), it is proposed that the InvestEU Fund includes the following four windows: (i) sustainable infrastructure, (ii) research, innovation and digitalisation, (iii) SMEs, and (iv) social investment and skills and human capital.

The InvestEU Fund budgetary resources will be distributed among the four windows. This allocation will be based on the size of the respective market gaps and experience with the current financial instruments and the EFSI. An additional argument to be taken into consideration is the absorption capacity by implementing partners, financial intermediaries and final beneficiaries.

The InvestEU Advisory/TA support will be allocated among policy windows according to identified needs and market gaps. Moreover, limited resources would be kept outside the policy windows at the InvestEU Fund level to support initiatives like a single entry point and cross-policy advisory products and would ensure flexibility for emerging needs.

3.2 Member State compartments

The EU budget implemented through shared management with Member States also deploys financial instruments to address local market failures or sub-optimal investment situations. The policy objectives of the EU-level and investments support instruments under ESI Funds are not identical; the former focus on EU-wide and the latter on regional or national suboptimal investment situations. However, the experience has demonstrated the need to increase complementarity and ease of combination between the two types of support mechanisms.

In the current programming period, not many Member States have channelled part of their ESIF allocations through EU level financial instruments. The InvestEU Fund will offer a compelling opportunity to increase effectiveness and impact of ESI Funds for investment support in a given Member State through the use of a budgetary guarantee. The same objective of budgetary efficiency that recommends the shift from financial instruments to budgetary guarantees at EU level (see section 5.2) applies to ESIF.

Member States will have the possibility, on a voluntary basis, to channel part of their ESIF resources through the InvestEU Fund. For this purpose, the InvestEU Fund structure would include a Member State compartment under each window. However, the possibility for the Managing Authorities to implement their programmes partly through tailor-made financial instruments including in combination with InvestEU Fund would be kept in the post-2020 legal framework.

The EU would be the guarantor (otherwise, in most convergence Member States the guarantee would be weaker and, thus, financially less effective) and the EU budget (ESIF) would provide the provisioning against expected losses, managed in the common provisioning fund established by Article 212 of the revised Financial Regulation (FR), and Member States would assume the contingent liability. No national co-financing would be required. The Commission would select the implementing partner, among those eligible for indirect management according to Article 154(4) FR and which have expressed an interest to become an implementing partner for the Member State compartment. The Commission would then sign a guarantee agreement providing the EU guarantee to the selected implementing partner.

This proposal would bring the following benefits for Member States and for the EU budget:

- Wider impact of the EU budget on investment and economic and social welfare with fewer budgetary resources.

- No national co-financing required by the Member State and very low probability of any disbursement related to the contingent liability. Any provisioning left at the end of the budgetary guarantee comes back to the Member State.
- Predefined scheme and products provided by the InvestEU Fund, which simplify for Member States the design of effective market instruments (or provides them with a product they do not have the expertise to develop) and facilitate the switch from grants towards market instruments; it also reduces the scope of the ex-ante assessment to be carried out by Member States. Products designed for the entire window may need to be adjusted to address specific policy issues.
- As the management model for the ESIF compartment is indirect management, not shared management, the choice by the Member States of the implementing partner does not need to follow public procurement rules.
- The management role of the Commission will alleviate the administrative burden for Member States and will ensure spread of good practices across the EU.
- A simplified State Aid compliance mechanism would be put in place.
- Member States will have the possibility to withdraw from InvestEU Fund their contributions under certain principles.
- The InvestEU Fund would provide central performed monitoring and evaluation activities, including centralised reporting. Reporting systems will ensure sufficient information flows to the Member States.

Respective scopes of the EU level and the Member State compartments

The proposed structure with two compartments in each window should allow a better complementarity and division of labour between the two levels and a more effective application of the principle of subsidiarity. In addition, the two compartments within each window will share the same InvestEU Fund rules, which would allow a clearer and simpler framework for combining different sources of EU funds.

The scope of the EU level compartment would comprise:

- Investments supporting EU policy priorities addressed at EU level;
- EU wide market failures and investment gaps; and
- The design, development and EU wide market testing of innovative financial products, and the corresponding ecosystems to spread them, for new or complex market failures and investment gaps.

The Member State compartment would address country specific market failures and investment gaps ensuring a critical mass and a more efficient geographical concentration of resources.

Country specific market failures and investment gaps widespread among Member States would be addressed in a complementary manner, whereby the EU level compartment would ensure the possibility to address the market failure in all Member States, while the Member State compartment would allow a more effective geographical concentration of resources in accordance with the needs of each Member State.

During the InvestEU Fund mid-term review the Commission will assess whether certain instruments developed and tested at EU level, but that address market failures and investment

gaps that have a local dimension, could better be deployed at Member State level in line with the principle of subsidiarity.

3.3 EU added value

The EU long-term goals regarding sustainability, competitiveness and inclusive growth require significant investments in different policy areas. This includes, *inter alia,* new models related to mobility, renewable energies, energy efficiency, natural capital, innovation, digitalisation, skills, social infrastructure, circular economy, climate action, and small businesses growth and creation.

Renewed efforts are needed to tackle persisting market fragmentation[65] and market failures caused by private investors' risk-averseness, the public sector's limited funding capacity and structural inefficiencies of the investment environment. Member States cannot sufficiently bridge those investment gaps alone.

An intervention at EU level ensures that a critical mass of resources can be leveraged so as to maximise the impact of investment on the ground. Intervention at EU level can better attain the objectives pursued mainly because of the disparities in Member States' fiscal capacity to act. In addition, the EU level provides for economies of scale in the use of innovative financial products by catalysing private investment in the whole EU and making best use of the European institutions and their expertise for that purpose. The EU intervention also provides access to a diversified portfolio of European projects, thereby catalysing private investment, and allows for the development of innovative financing solutions which can be scaled up or replicated in all Member States.

Added value could also be expected from channelling ESIF contributions to the InvestEU Fund where the budgetary guarantee could enhance the support to specific final recipients or products in the programme areas.

In addition, an EU intervention is the only tool capable to effectively address investment needs linked to the EU-wide policy objectives. Tackling the problem only with structural reforms and improved regulatory environment would not be sufficient to address the remaining investment gaps in the post 2020 period.

A more detailed analysis of the EU Added Value per policy window is available in the Annex 4 (Scoping Papers per policy Window).

Moreover, the InvestEU Fund will develop a set of principles and criteria to address additionality at project level. An initial reflection on the subject is included in Annex 10.

3.4 Governance

There are several options on how the InvestEU Fund’s governance could be organised. These options relate to several possible layers: centralisation versus decentralisation, in-house governance at the Commission level versus independent governance structure outsourced to an implementing partner similar to the system for the EFSI.

The governance structure currently used for the EFSI exhibits important drawbacks in the context of the InvestEU Fund ambitions. Compared to the EFSI, and also due to the need for flexibility to respond to changing market needs, the InvestEU Fund will be more focused on

[65] Market fragmentation - preventing the smooth and effective functioning of the internal market - can only be truly tackled through an intervention at Union level because of the disparities in Member States' fiscal capacity to act.

addressing specific policy objectives. This will require a stronger policy steer. Second, the need for simplification, flexibility, and the fact that InvestEU Fund foresees several implementing partners exclude the possibility for external governance organised at a specific implementing partner level. Under the InvestEU Fund, the Commission will be able to grant the EU Guarantee to any implementing partner that fulfils the relevant criteria.

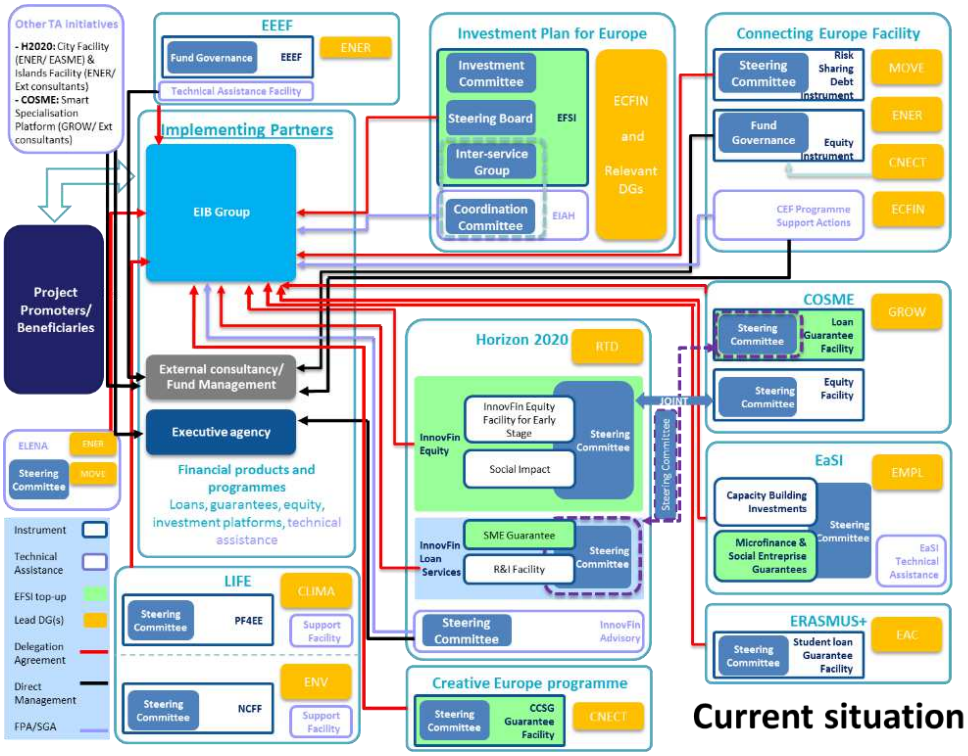
Therefore, maintaining the governance at the Commission level will better fulfil the InvestEU Fund's objectives and accountability, and in terms of structure will ensure an adequate and coherent policy steer. It will also facilitate a more in-depth overview of the supported projects and consequently facilitate risk management. Outsourcing the governance to several implementing partners would weaken the policy steer compared to an in-house Commission solution and potentially weaken the alignment of interests and coherence in decision-making.

Neither a completely decentralised nor a centralised system is desirable. The decentralised governance would just imitate the current fragmented governance for the existing instruments. A single governance for the whole InvestEU Fund would on the other hand be too general and would not cater for specific policy needs. Thus, the governance should be aligned with the proposed window-based structure of the InvestEU Fund. This would include an overall InvestEU Fund governance complemented by separate but interlinked governance arrangements at policy windows level.

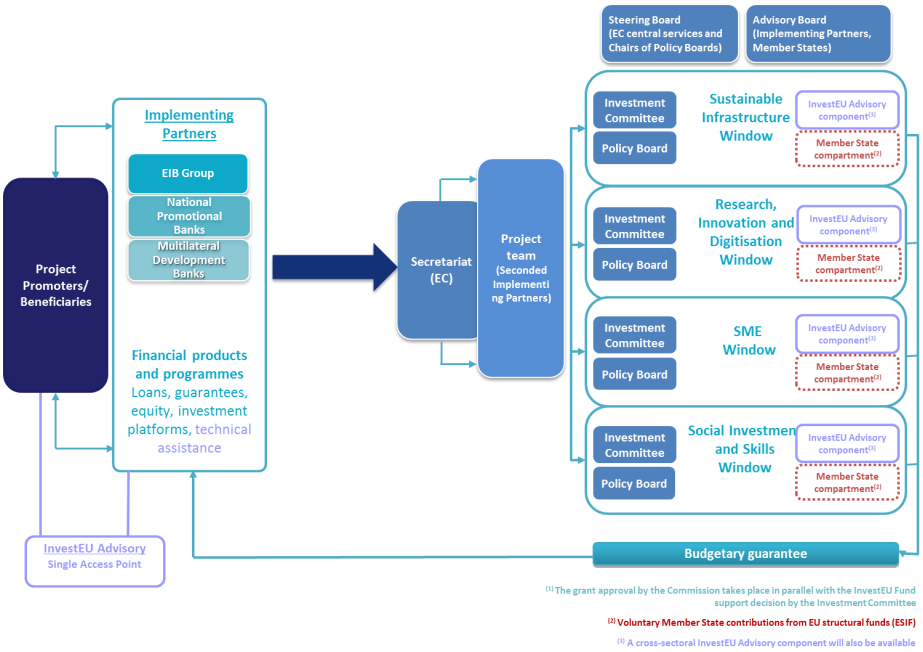
Figure 8 below presents a visual comparison of the governance arrangements for the EFSI and current centrally managed financial instruments compared to the proposal under the InvestEU Programme (full-sized graphs can be found in Annex 13).

A key challenge of a governance structure organised at a Commission level is to ensure an appropriate level of banking and investment expertise. This can however be mitigated with active involvement of experts and implementing partners in the InvestEU Fund's structure. Overall, the governance structure aims at looking at the InvestEU Fund as a whole while pursuing the different policy objectives and maintaining an acceptable level of risk. To this end, effective risk management with regard to the use of the EU budget guarantee is foreseen to be set-up and implemented with the aim to ensure that risks are identified, managed and communicated. In particular, a risk assessment function will be established for the purpose of monitoring the EU guarantee under the InvestEU Fund. Moreover, effective rules for managing conflicts of interest will be put in place to ensure segregation of duties, and proper verification at all governance levels will be consistently maintained.

Figure 8 - Current governance for EFSI and FIs vs the proposed governance under InvestEU



Proposed InvestEU Programme governance



Source: Commission services

Moreover, the governance structure of the InvestEU Programme reflects its reinforced policy orientation and strengthened steer by the Commission. The InvestEU Programme planned governance is composed of both external elements to be foreseen in the draft legislation (Advisory Board, Investment Committee and, partially, Project Team) and Commission internal coordination (Steering Board, Policy Boards, Inter-Service Coordination Committee, Secretariat and, partially, Project Team):

- **Advisory Board:** An Advisory Board meeting in two compositions: (i) representatives of the implementing partners, and (ii) representatives of the Member States will be set up in order to allow the Steering Board and the Policy Boards (see below) to consult the implementing partners and the Member States when preparing and designing new financial products, following market developments and sharing information.
- **Steering Board (Commission internal):** A Steering Board to ensure horizontal coordination and steering of the InvestEU Fund will be set up. The Steering Board will prepare the various horizontal documents necessary for the functioning of the InvestEU Fund (investment guidelines, scoreboard, harmonised format for project submission by implementing partners etc.). Moreover, the Steering Board will monitor the overall risk profile of the InvestEU Fund and verify that the risk characteristics of the financial products proposed under the policy windows correspond to the general risk profile and general orientations of the InvestEU Fund.[66]
- **Policy Boards (Commission internal):** Investment support will be allocated under four policy windows clustering financial products by policy areas. Each window will have a Policy Board, composed and led by policy DGs. The Policy Board will be in charge of the design of financial products within a window (including the resources attached to them and the necessary risk provisioning within the parameters set by the Steering Board) and monitoring of the performance of the implementing partners within that window.
- **Investment Committee:** The Investment Committee, which meets in four different configurations corresponding to the windows, approves the use of the EU guarantee according to the eligibility criteria set by the InvestEU Fund regulation to operations proposed by implementing partners. The Investment Committee will be composed of four independent experts who will be the same for all the four compositions to ensure horizontal consistency and of two independent experts per window specialised in the policy area of their respective window. It will make its assessment on the basis of the scoreboard.
- **Project Team:** The Project Team will comprise experts put at the disposal of the Commission by implementing partners. Subject to a positive confirmation by the Commission of consistency of the proposed operations with Union law and policies, the Project Team will perform a quality control of the due diligence of the proposed financing investment operations carried out by the implementing partners. Financing and investment operations are then submitted to the Investment Committee for approval of the coverage by the EU guarantee. All implementing partners will be requested to second a number of banking and risk management experts to the Commission who will review the risk features/issues of the projects submitted for this purpose. These experts will not work on projects submitted by their institution of origin to prevent conflicts of interest.
- **Secretariat (Commission internal):** The implementing partners will send projects or facilities/programmes to the InvestEU Fund Secretariat, which will attribute them through the Project Team to the Investment Committee of the relevant Policy Window.

[66] The existing risk management staff of the Commission will also need to be reinforced. This will be part of the financial statement for the legislative proposal. The risk managers will perform risk related calculations based on reporting from the implementing partners to allow for a thorough supervision by the Steering Board of the risk under the EU guarantee in total and under each window and to adjust, if needed, the financial products.

3.5 Avoiding overlaps among policy windows

The 2014-2020 investment support instruments have generally proven effective in addressing market gaps. However, the fragmentation of the EU offer led to the emergence of several overlaps. Past EFSI evaluations found overlaps between EFSI and other centrally managed financial Instruments. While these have been addressed during implementation by re-focusing existing instruments towards new market segments, it is important to avoid such overlaps in the future. Moreover, several overlaps have been identified between the centrally managed financial instruments. Under the current MFF there have been at least 14 different instruments focusing on SMEs under internal, centrally managed EU FIs and the EFSI (see annex 12). In addition, there are overlaps between centrally managed instruments and investment support instruments under shared management. Avoiding overlaps and simplification is one of the main reasons for the creation of the InvestEU Fund.

The InvestEU Fund structure is designed to group instruments into clear policy priorities. The InvestEU Fund with its centralised approach (i.e. a single fund, a single Steering Board, a single approval process of the operations by the Investment Committees, a single agreement with each implementing partner and participative involvement of all relevant policy DGs in the Policy Boards and the Inter-Service Coordination Committee) would ensure that EU financing is channelled in a coordinated and harmonised manner, without overlaps. The governance structure ensures coordination and provides for information exchange channels between the Commission services and key stakeholders. Furthermore, in its oversight capacity, the Steering Board will ensure avoidance of overlaps of eligibility between windows and products.

Avoidance of potential overlaps between financial products offered within a policy window would be a competence of relevant Policy Boards. Nevertheless, there may still be borderline cases that will have to be addressed based on demarcation principles for allocation of proposals submitted by implementing partners between windows. An example for a possible set of principles could be the following:

1. Does a product proposal support a social objective?
   Proposals for support having a social objective, regardless of their nature – whether it relates to infrastructure, microfinancing or SMEs - will fall under the social investment and skills window.
2. Does a product proposal support an SME via financial intermediary?
   Proposals that support SMEs through an intermediated lending will fall under the SME window, except for those proposals for support that have a social objective.
3. Does a proposal support research and innovation activities?
   The research, innovation and digitalisation window will support projects/products, which fall within the definition of research and innovation activities other than innovative SMEs and small midcaps (financed under SME window).
4. Does a proposal support an infrastructure?
   Infrastructure projects/products that are not social infrastructure and not [primarily/fully] R&D infrastructure will fall under the Sustainable Infrastructure Window.

In practice, the implementing partner will indicate the relevant policy window in their submission of a specific operation and financial product to which the operation would be assigned. This will then be reviewed by the Commission.

A similar solution is proposed for technical assistance, the InvestEU Advisory. In order to avoid overlaps and to simplify the access to the services for end-beneficiaries, the InvestEU Advisory

would provide for a single entry point and will also include technical assistance components at Policy Window level.

3.6 Geographical distribution

The InvestEU Programme support is available to all EU Member States. The InvestEU Programme could be also open to third countries that are members of the European Free Trade Association, acceding countries, candidate countries and potential candidate countries, countries covered by the Neighbourhood policy and other countries, in accordance with the conditions laid down between the Union and those countries. The geographical scope of the current instruments is included in Annex 11.

Based on the current experience and past EFSI evaluations recommendation to improve the geographical distribution in finance provisioning, the InvestEU Programme is designed in such a way to make sure it benefits all Member States, irrespective of their size and of the development of their financial market:

- **Implementing partners** (see section 5.3) - As the only financial institution active across the EU, the EIB will continue to deploy EU-wide financial products and therefore ensure equal access and coverage of financial products. In addition, the opening of the EU guarantee to NPBs aims at better targeting local financing needs. To avoid the EU guarantee benefitting mostly the countries with big, long-established NPBs, the InvestEU Fund is also open to consortia of NPBs that cover at least three countries. This will require NPBs to cooperate to develop joint products and will foster an exchange of best practices and expertise. Smaller and more recent NPBs will thus be able to benefit from this cooperation. Finally, multilateral development banks will also support a more balanced distribution of the EU financial support. The EBRD is active in 11 Member States[67] and will be able to increase its operations in these countries – especially in the crucial fields of energy transition and capital market development - thanks to the EU guarantee. The same applies to the Council of Europe Bank that has a specific focus on social investment.
- **Member State compartment** - This feature of the InvestEU Fund, which is described in Section 3.2, is designed to mainly benefit cohesion countries, which will benefit from an increased volume of EU supported finance.
- **Blending** - Synergies between EU instruments will be further facilitated by easier rules for a smooth and efficient blending of grants in with the InvestEU Fund guarantee. The addition of a grant element sometimes enables a project to become bankable and thus eligible for support under the EU guarantee.
- **InvestEU Advisory** – The InvestEU Fund will be accompanied by a comprehensive technical assistance scheme, the InvestEU Advisory. It will, *inter alia*, provide project development and capacity building support to develop organisational capacities and market making activities needed to originate quality projects. The aim is to create the conditions for expanding the potential number of eligible recipients in nascent market segments, in particular where the small size of individual projects raises considerably the transaction cost at the project level. Project promoters in cohesion countries are expected to be natural candidates for this technical assistance support.

[67] Bulgaria, Cyprus, Greece, Romania, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, and Slovenia

4 TARGET ACTIONS, FINANCING PRODUCTS AND BENEFICIARIES

The InvestEU Fund support will be delivered in the form of a budgetary guarantee, which will be able to support all types of financial products, such as debt, equity and quasi equity.

The InvestEU Fund will also foresee a limited envelope for thematic products under each policy window for pilot initiatives which feature high volatility of revenues and/or are deployed in uncertain markets and that cannot be covered by horizontal/standard products available in the windows. These products could target very high risk and first-of-a-kind projects, as currently done under financial instruments such as InnovFin Energy Demo Projects, Natural Capital Financing Facility, SME guarantees, and hence require higher guarantee coverage. New innovative instruments could be deployed in line with new developments to test market interest.

In certain circumstances, the combination of the EU level and the Member State compartment would be possible for example to co-invest in certain operations/products or to support investment platforms bundling small and medium-size projects.

The InvestEU Fund would be open to all Member States including for cross-border projects with certain third countries (e.g. similar to the EFSI).

4.1.1 Sustainable Infrastructure Window

The type of actions covered under the sustainable infrastructure window should be closely related to the type of investments, the beneficiaries, their risks and financial structuring fundamentals.

For investments that can be consolidated on the balance sheets of promoters (core business type of investments, strong promoters), standard type of instruments/ products (such as loans, guarantees, credit enhancement) could be provided. Same applies also for well capitalised special purpose vehicles (SPVs) backed-up by strong promoters. This type of products could be feasible e.g. for certain transport or energy infrastructure (inter-connectors for large-scale renewable power) projects. On the other hand, there may be investment situations and projects that would require less standardised instruments, with higher risk coverage and potentially a variety of financing products.

Compared to actions currently offered under various instruments, such as the CEF Debt Instrument, i.e. senior debt/project bond credit enhancement, funded senior loan, hybrid securities, guarantees, or development of new products specifically focusing on low carbon infrastructure (e.g. smart grids at intersection with energy storage/mobility), the future actions should expand the perimeter of the infrastructure window towards business models of the future, essentially laying the ground for their "standardisation" after reaching the critical mass.

For highly innovative and high-risk projects, blending with a grant component coming from other instruments should be possible. A technical assistance layer addressing the preparatory phase of projects until their financial close would certainly help speed up the pipeline evolution and reducing the risks of projects related to financial, legal, technical and procedural elements.

With regard to the envisaged financing mechanisms, a key aspect is flexibly determining the most effective capital structure and mix of private and public funding through the life cycle of the project from greenfield into the brownfield phase. No refinancing would be possible under the InvestEU Fund.

In this context, the EU budget provisioning of debt financing that facilitates access to finance in suboptimal investment situations where projects will have difficulties to receive adequate bank

or capital market financing should be continued. Given the different needs emerging in infrastructure, such financing will support senior debt operations (loans and guarantees), and subordinated ones (funded and unfunded, including project bonds, loans and guarantees).

Given the continued need for infrastructure renewal and development and the ambitious decarbonisation targets set at European level, the need for equity remains high, particularly during project construction. Complex undertakings such as land remediation projects and assets with yet untested technology and revenue models such as battery storage still find it difficult to raise equity capital for their construction phase. Projects that have a greater degree of revenue risks, operating risks, or construction risks that limit the capacity to borrow may face financing gap where equity can be used to provide the necessary additional financial backing.

Technical assistance supporting the preparation of infrastructure investment shall also support the sustainability proofing of investment projects (notably related to climate), partly by ensuring due consideration of low-carbon and environmentally friendly options and solutions, partly by ensuring infrastructure's resilience to the current and future climate throughout its lifespan. The objective of these aspects of technical assistance lies in better identification and reduction of project risks during construction, maintenance, operation and decommissioning of the infrastructure at stake.

In the utility sectors, notably in the energy sector, project promoters would mostly come from a mix of public (cities, municipalities), semi-public and private sector, such as transmission and distribution system network operators, electricity suppliers and retailers, energy, water and waste service companies, generation companies, energy communities, large property owners etc. These entities may be public sector by tradition operating on commercial or non-commercial basis, privatised with or without public service objective, or recently created public entities in nascent markets (e.g. for energy services). The InvestEU Fund is well placed to realise cross-sectoral synergies, e.g. between energy, transport and digital connectivity. Large and medium private or public entities or SPVs also operate under concession or PPP such as in ports, airports and motorways projects, and as well to deliver water and wastewater services.

In the sector of telecommunications, project promoters can be private and public and vary significantly in size. It is of particular importance that smaller promoters have adequate access to such instruments. On the other hand, strict eligibility criteria should be imposed in relation to the projects deployed (e.g. contribution to EU's connectivity targets/increasing coverage, state of the art technology, innovative business model).

In the blue economy, project promotors cover the whole value chain, ranging from public, to semi-public and private entities varying from multinational, medium size maritime businesses to SMEs.

4.1.2 Research, Innovation and Digitalisation Window

An adequate mix of debt, equity and risk-sharing products will be developed to tailor to the needs of innovators depending on the nature, development stage and risk of R&I projects. This will take into account the variety of potential R&I beneficiaries such as European Innovation Council (EIC) beneficiaries, European Research Council (ERC) grantees, Marie Skłodowska-Curie actions, middle market companies, large companies, stand-alone projects, SPVs, Universities, Research Centres, Innovation Agencies, R&I infrastructures, and other R&I driven institutions such as research funding foundations and European Institute of Innovation and Technology (EIT) Knowledge and Innovation Communities.

The focus of the actions of the research, innovation and digitalisation window would be on:

- Creating critical mass of financing to support high-risk investments in R&I, digital market and new technologies. This will include large-scale first-of-a-kind demonstrations for which market investor interest may be low and which could deliver a step change in support of specific EU policy objectives, such as the low-carbon innovation in energy and industrial sectors; Innovation, in particular disruptive, will increasingly rely on complex combinations of various technologies, digital transformation and intangible assets. This new wave of much deeper and transformative innovations will merge digital with physical and will go more and more into 'deep tech'. This will foster emergence of new business models and changes in traditional business models that will require substantial financial resources.
- De-risking investments in innovative technologies, and transfer established solutions to new markets. Financial products of the InvestEU Fund would reduce time to market at potentially lower costs. Finance providers remain rather averse towards providing financial support for R&I activities, which results in low credit scores and high interest charges or sub-optimal repayment terms to compensate for the perceived risks embedded in the innovative technologies or ventures. In many instances, private sector financiers and investors do not finance uncollateralised projects with unsecure return prospects due to the early stage of their development, the capital intensiveness and the long time to market. This is particularly relevant in the case of R&I activities with medium and long-term innovation cycles such us deep tech, health, new advanced materials or low-carbon technologies in the energy sector, CCS and industry.
- Stimulating innovation diffusion and uptake of technologies from radical to incremental. It will help deploy innovative solutions, translate research results to market and support innovation diffusion. This window will help address societal challenges linked to health, energy, security, climate change mitigation and adaptation, decarbonisation of the economy, low-carbon mobility and transport, water and food crisis, environmental disasters, migration, digitalisation, oceans, and biodiversity loss.
- Foster the transfer of best practices between financial intermediaries with a view to encourage the emergence of a broad product offering supporting R&I activities and R&I-intensive entities.
- Technical assistance will be provided to promoters to structure their projects in order to improve their investment readiness and bankability. In addition, horizontal advice can be supported to improve investment conditions in sectors and markets with suboptimal investment. This includes measures such as: developing a business case for new financing mechanisms, preparing studies on increasing the effectiveness of financial instruments in addressing specific R&I and digital needs and should also cover the project development documents and advise related to speeding-up the project development, Front End Engineering Design studies, documentation and processes towards the financial close and legal contracting issues (e.g. Intellectual Property Rights) counterparty liabilities settlement).

Debt products will directly lend to final beneficiaries for investment in R&I activities: (i) indirectly via (counter-) guarantees to financial intermediaries providing debt finance to final beneficiaries, (ii) may set up investment platforms with public-private co-investment arrangements structures with a view to catalysing investments in a portfolio of projects through a combination of direct loans and indirect finance (counter-) guarantees with a thematic or geographic focus and (iii) guarantees and/or counter-guarantees for national or regional debt-financing schemes.

The equity and quasi equity products would focus on innovative mid-caps either through direct quasi equity investments or through risk sharing arrangements or co-investments with financial intermediaries and national public and semi-public financial institutions.

4.1.3 SME Window

Under the SME window all priority actions will be geared towards facilitating access to finance to SMEs and small mid-caps.

The EU-level debt instruments could focus on SMEs according to the applicable EU definition, more specifically those which would not receive support from the market due to the perceived higher risk or the lack of collateral. Where justified, more dedicated support may be provided for SMEs or organisations, or to small mid-caps, for a specific sector or a specific policy orientation.

On the debt side, the SME window could also encompass SME guarantee schemes which shall provide guarantees on a broad range of different financing transactions (including investment loans, guarantees, working capital facilities, leasing transactions, subordinated loans, bank guarantees). This is essential to achieve the appropriate coverage and to respond to the financing needs/business needs of SMEs.

The equity instruments could focus on investments in SMEs according to applicable EU definitions, and more specifically those which activities would help achieve the EU policy priorities. Where duly justified, investments may also be made into small midcaps. Targeting could be done on a sectoral basis (linked to the fields in which the policy priorities will be implemented) and a company life-cycle basis (on the basis of funding gap analyses).

As regards equity, the products to be included in the SME Window could support technology transfer, equity crowdfunding, business angel investments, venture capital (VC) investments (including investments into VC funds-of-funds), and initial public offerings. In addition, the SME window could support cornerstone and catalytic investments in established financial intermediaries, or entities to be incorporated, that make equity, quasi-equity, hybrid debt-equity and other forms of mezzanine finance investments in projects, start-ups and established SMEs and small midcaps.

Equity investments may be combined (blended) with debt finance and grant funding under EU central programmes or those established under cohesion policy (shared management) or under national programmes.

Technical assistance or capacity-building support where such activities are crucial to achieve a smooth implementation of the financial instruments, such as best-practice exchanges between financial intermediaries of a particular type, matchmaking between investors and investees (database, events) and investment-readiness training, coaching in raising finance, and mentoring for founders and CEOs.

4.1.4 Social Investment and Skills Window

The InvestEU Fund support can be used in multiple sectors under the scope of this window. While all the projects will have to be ultimately economically viable and generate revenues for the investors, the financial products in use, their investment guidelines, pricing and return conditions will change according to the specific policy sector, the market gap to be addressed and the specific project structure. The following areas have been identified as the focus of intervention for the InvestEU Fund support under this window:

- Supporting social economy and social enterprises and microfinance recipients: support to promote inclusive entrepreneurship, improve access to employment (including self-employment), job creation, labour market integration, social inclusion. This will be achieved by increasing the availability of and access to micro-finance, and access to finance including patient capital to social economy organisations and social enterprises. It also includes support for the upscale or development of new business models focusing on social return on investment.
- Skills, education, and integration: for building a knowledge-based society, investment is necessary in all levels of education and training (early childhood education and care, secondary schools, higher education), as well as support to increase vocational training and lifelong learning, including non-formal learning investment in human capital (inter alia focused on improving the integration of young people in society, of refugees and asylum seekers who are undertaking upskilling actions or qualifying training). Supporting investment projects in this field will result in more vibrant education and training systems and markets, enabling easier professional transitions for people and being responsive to the lifelong need for upskilling and reskilling. For knowledge-intensive institutions (such as universities, research & innovation centres) the combined support under several of the InvestEU Fund windows may provide a welcome boost towards a knowledge-intensive society.
- The InvestEU Fund will facilitate the mobilisation of investments in the health sector**,** for the transition to new care models in order to adapt to an increasing demand for healthcare due to population ageing and the rising burden of chronic conditions. Investments in reformed care models are complex and of high risk as they concern a range of elements in infrastructure, technologies and services, and the return is expected in the medium to long term. Up-front investments are required to set-up the new care models, followed by sustained investments over a period of time to facilitate the complete implementation of the reforms[68]. Return on investment may only come in the medium-long term and, consequently, investments in reformed care models are of high risk.
- Social infrastructure and services: investments in the construction, expansion or refurbishment of buildings and in the provision of related services for:
    - Education and training (educational facilities courses development, and digital equipment)
    - Childcare (e.g. nurseries and kindergartens)
    - Social housing (including energy efficient social housing)
    - Healthcare (e.g. clinics, hospitals, primary care centres, health promotion programmes, integrated care services) and
    - Long-term care (e.g. home-care and community-based services).
- Support to physical infrastructure developments could be complemented with funding for social economy and social service provision, including through outcomes-based projects, in an integrated way.

For several of the areas mentioned above the financial support by the window will be complemented by the offer of the InvestEU Advisory including capacity building to "grow" the respective market players, including social innovators, social entrepreneurs, social impact investors, and philanthropists and create a pan-European network of social impact and social

[68] See also: "The case for investing in Public Health", World Health Organization, Regional Office for Europe (2015) http://www.euro.who.int/__data/assets/pdf_file/0009/278073/Case-Investing-Public-Health.pdf

innovation relay and coaching centres. The capacity-building programme will need to take into account the different needs of financial intermediaries and procuring authorities in accordance with their investment portfolio and the long-term needs of market development as well as the geographical coverage of financial intermediaries throughout the EU.

As regards social innovation, creation of markets for social outcomes, expertise and capacity building, tools may be developed: (i) to help national, regional or local authorities develop skills for configuring investment strategies, blending financing, and bundling projects such as the development of social clusters; (ii) to grow social innovators, social entrepreneurs, social impact investors and philanthropists; and (iii) to facilitate agreement on operational definitions. Capacity building also include promoting innovation by and for the European society, in particular, targeting new products, services and organisational models that meet social needs, foster new social relationships or collaborations, and empower citizens.

Debt products offered under this window may include direct lending to project promoters and portfolio guarantees. Funded instruments are complementary to guarantees as they provide senior and subordinated loans to intermediaries that are in turn on-lent to vulnerable groups and social enterprises. It will target predominantly non-bank intermediaries given that these entities have difficulties obtaining debt finance in view of the early stage of their development. Subordinated loans are more relevant for bank intermediaries, as they often provide capital relief.

Equity support may be channelled to social enterprises which can benefit from risk financing structured in the form of equity/quasi-equity investment participations and hybrid funding. This spectrum of patient capital, used in the pre-bankable stages of business start-ups in all sectors, allows social enterprises (including micro-enterprises) to move gradually away from a charity-based funding approach and enhance their innovation and growth potential.

Thematic products: another specific delivery mechanism akin to equity-type investments is Payment-by-Results (PbR) which is a financing mechanism and tool for impact investing in which public procuring bodies purchase social impact based on pre-defined social outcomes delivered by social service providers with proven intervention models in a number of areas (including access to education, housing, health, and employment services). Social impact bonds are PbR schemes that facilitate risk-sharing between private and public investors to help local, regional and national governments improve efficiency in spending and increase the value for money in social service delivery.

4.2 Related programmes under preparation

Several programmes of relevance to the scope of the investment mechanism proposed herein are under preparation. The InvestEU Fund will broadly support policy objectives set by these programmes and will target areas where financing needs can be covered through the InvestEU Fund financial products (and not only by grants).

Examples of the priority issues tackled in these programmes under preparation are listed below:

- The CEF 2.0 programme targets transport, energy, and ICT projects;
- COSME+ in the framework of the Single Market Programme that will be predominantly dedicated to the support of SMEs;
- The European Social Fund including in particular a programme for upskilling, employment and social innovation;
- Erasmus + for education, training, youth and sport;
- The Framework Programme for Research and Innovation;

- The Programme for environment and Climate Action, including Natural Capital[69], Energy Efficiency, and the circular economy;
- The European Culture, Rights and Values programme for the cultural and creative sectors;
- The Digital Europe Programme supporting the digital transformation of the European industry through advanced technologies, including Artificial Intelligence; and
- The European Defence Fund.

The above mentioned programmes under preparation will focus on the use of grants and blending.

4.3 Blending and combinations

The InvestEU Fund will include a possibility for easier and more efficient blending or combination of its support with EU grants and EU Emissions Trading Scheme Innovation Fund.

Blending grants could be used for investments with high socio-economic and policy benefits that can be effectively realised, but where investment costs are higher than potential revenues. In other words, such projects would not be able to be rolled out and financed without non-repayable support. This would broaden the scope and would increase the impact of the investment support.

There are two options on how to organise easier blending and combinations. The first would be to include the grant budget under the specific policy windows. The grant and the investment support decision would both be taken under the framework of the InvestEU Fund. This would however require a capacity to plan, implement, and monitor two different types of EU support schemes with different objectives characteristics. Apart from investment support expertise, the InvestEU Fund would thus need to integrate a broad spectrum of policy know-how. It would also require a substantial administrative capacity for implementation.

It is thus proposed to use a second option where the decision on the use of grants and FIs under sectoral programmes is made by the relevant sectoral DGs in line with the sectoral programme policy objectives. The implementation of blending operations would be done in accordance with the InvestEU Programme Regulation and the Title X of the Financial Regulation.

The blending would thus result in simplified administrative procedure for project applications, monitoring, and reporting. The simplification measures would include:

- Single application: the project promoter will be able to ask for a combined support with one single application;
- Simple, clear and transparent rules: the criteria for a combined support will be clearly and transparently communicated to potential beneficiaries and implementing partners;
- Single reporting: beneficiaries will provide single reporting including information on the EU grant and the InvestEU Fund support; and
- Single monitoring, control and audit procedures for final beneficiaries.

[69] Natural capital in this context includes Nature and Biodiversity as well as the other natural capital components related to air, water, land, and related ecosystem services.

5 DELIVERY MECHANISMS OF THE INTENDED FUNDING

5.1 Single fund

Setting up a single fund would primarily improve the impact of the EU intervention through a more efficient use of budgetary resources. Compared to financial instruments, budgetary guarantees freeze less budgetary resources due to limited provisioning compared to the level of financial engagement and the overall investment mobilised. Moreover, the risk is remunerated and fees would be limited.

A single fund would also achieve better integration and simplification of the different financial instruments and the EFSI budgetary guarantee currently available. It would also solve the increasing issue of possible overlaps and duplications between the different programmes, through better coordination, a single set of rules and clearer demarcation of interventions.

To complement these integration and simplification efforts and to focus on the final beneficiaries needs, the InvestEU Advisory accompanying the InvestEU Fund would also aim at better channelling the technical assistance needs to the policy areas covered by the InvestEU Fund.

5.2 Single budgetary guarantee

It is proposed that support from the InvestEU Fund will be underpinned by a single budgetary guarantee and will be provided through financial products that address a diversified portfolio of risks. This presents efficiency gains when compared to the option of having several ring-fenced budgetary guarantees addressing a limited range of risks, in that it requires a lower provisioning rate while providing an equivalent level of protection.

The experience in managing budgetary guarantees as demonstrated in the successful implementation of the External Lending Mandate (ELM, since 1970s) and the EFSI (since 2015) - where the financial risk exposure is not fully provisioned (provisioning rate: 35%) - as well as the inclusion of budgetary guarantees under the scope of the revised Financial Regulation (Title X), including a robust framework for the management of contingent liabilities, have paved the ground for a better alignment of provisioning rates with risk. The recourse to a budgetary guarantee presents thus significant efficiency gains compared to financial instruments, which require 100% funding.

The range of interventions envisaged under the InvestEU Fund will be implemented through different products targeting different risks that would inherently require high, medium or low provisioning rates, depending on the type of operations guaranteed. The Commission will provide guidance and monitor the usage and the risks incurred under different products, so as to ensure that the overall portfolio of interventions is compatible with the general provisioning rate referenced in the InvestEU Fund regulation.

For this reason, it is proposed to underpin such financial support within the EU by one single budgetary guarantee. A theoretical provisioning rate would be assigned to each financial product under the different policy windows, which would depend on the nature of the product (debt or equity), the granularity, the revenue generating potential and the risk sharing arrangements with implementing partners.

For example, one can assume that support from the social investment and skills window may be provided more in the form of highly provisioned products, whereas lower provisioning needs may be foreseen for the support offered through the sustainable infrastructure window, as infrastructure projects present a higher likelihood to generate revenues which would remunerate

the EU guarantee. In the same vein, the support from the SME window would be in the form of a mix of highly provisioned products (i.e. SME guarantees) and of medium provisioned ones, such as venture capital[70]. The general provisioning rate of the single budgetary guarantee would represent the weighted average of the specific rates.

Specific interventions that would require a grant component to ensure the economic viability of a project could be carried out by blending or combining the support from the budgetary guarantee with complementary EU funds in the form of a grant. In such case, the grant would be managed under sectoral programmes and appropriate synergies would be built with the intervention under the InvestEU Fund. In the cases where blending support is expected to be provided in the form the financial instruments, e.g. for high-risk targeted portfolios, such support would be provided under the InvestEU Fund.

5.3 Implementing partners

The investment support has to be delivered to eligible beneficiaries in the most effective and cost-efficient manner. The implementing partner should possess banking and investment expertise, should have adequate financial capacity, as well as an in-depth understanding of the specific market needs and beneficiaries. Moreover, its interests should be closely aligned with the InvestEU Fund policy objectives.

The EIB Group is currently the biggest implementing partner for EU financial instruments and budgetary guarantees. However, under the Financial Regulation, these can also be implemented through financial intermediaries such as multilateral developments banks (MDBs), bilateral financial institutions, or national promotional banks and institutions (NPBs) (together defined as "implementing partners"). This is currently the case for financial programmes in the external action sphere.

The main options for the InvestEU Fund are whether to keep the EIB Group as the exclusive implementing partner or open the possibility to deploy the support through other NPBs and MDBs.

The EIB Group will remain the strategic implementing partner for EU investment support instruments. This is because the EIB Group:

- Is the European Union's non-profit lending institution created by the Treaty to implement EU policy;
- The Treaty foresees that "*the bank shall facilitate the financing of investment programmes in conjunction with assistance from the structural funds and other Union Financial Instruments*" (art. 309 TFEU).
- Covers a broad spectrum of policy areas and is the only such institution with an outreach across all EU Member States;
- Has a longstanding experience and track record in supporting investment and implementing EU financial instruments and budgetary guarantees; and

[70] The provisioning rate in terms of the products targeting SME financing will need to be higher than the EFSI provisioning rate. The is because the guarantee instruments originated under EFSI SME Window have a rather low provisioning rate as a result of the credit enhancement provided by the EU financial instruments, which take the First Loss Piece (FLP) position. However, given that in the next MFF, it will no longer be possible to provide an FLP through the support from EU financial instruments, the full guarantee amounts of underlying operations will need to be provisioned under the InvestEU Fund SME window.

- Has the organisational and financial capacity necessary to deliver a broad spectrum of investment support instruments.

Having a single implementing partner on the other hand limits the Commission's flexibility to target specific suboptimal investment situations. Deployment of EU investment support through other implementing partners would in particular be useful for programmes, sectors, and regions where such institutions contribute to EU policy objectives in a more targeted manner. This would also be relevant in cases where other implementing partners can offer specific expertise and added value by extending the outreach of the InvestEU Fund.

Therefore, it is considered that the InvestEU Fund should not work exclusively with one implementing partner. The Commission should have the possibility to choose one or several partners that will most effectively achieve the given policy objective while maintaining an EU multi-country dimension. All implementing partners will however have to respect the relevant criteria in the Financial Regulation, in particular in Article 154 on indirect management.

The EU level compartment could thus be mainly implemented by the EIB Group as well as by other multilateral development banks (e.g. EBRD, Nordic Investment Bank, Council of Europe Bank), or consortia of national promotional banks and institutions that would cover at least three Member States, ensuring a diversification of pipelines and a wider coverage of the policy objectives. NPBs are likely to be the main implementing partner of the Member State compartment, although the EIB Group and other multilateral development banks will also be eligible.

The foreseen collaboration between implementing partners for the quality check of proposals and the integrated risk assessment under the Project Team could have several benefits, e.g. a closer relationship among European public financial institutions, enhanced capacity building of national and regional development banks and institutions.

The financing support provided under the InvestEU Fund will be implemented in an indirect management mode by implementing partners. In turn, the implementing partners could either finance projects directly or sign agreements with financial intermediaries in order to reach out to the targeted eligible final beneficiaries.

The advantage that the InvestEU Fund will bring will be the possibility to sign one agreement per implementing partner which relates to all instruments/initiatives across windows that will be implemented by the same partner. This will allow for improved efficiencies and economies of scale. This will also improve the Commission's coordination and negotiation capacity.

In the field of intermediated debt finance, participating intermediaries will benefit from a guarantee or a counter-guarantee from the EU in order to originate portfolios of higher risk financing whereas at the same time sharing the portfolio risk with the EU for the sake of alignment of interest. The additionality stems from the fact that the EU guarantee will enable the intermediaries to reach out to beneficiaries that otherwise would not be financed or will allow them to increase significantly their lending volumes to eligible beneficiaries at better terms (lower pricing, reduced collateral requirements, longer maturities).

The intermediated equity instruments will be delivered through national promotional institutions, funds-of-funds, private equity funds (infrastructure, SMEs), venture capital funds, business angel funds, technology transfer funds, crowd-equity platforms, social intermediaries or social sector intermediaries, special-purpose vehicles, and co-investment funds or schemes. The participation of the EU will have a catalytic role to attract other private investors.

The allocation of the InvestEU Fund guarantee should be based on the implementing entities' abilities to address and contribute to EU policy objectives covered by the InvestEU Fund. In accordance with Article 154(1) of the Financial Regulation, the selection of implementing partners "*shall be transparent, justified by the nature of the action and shall not give rise to a conflict of interests*". In the EU level compartment, the following criteria would determine the allocation of the guarantee to the investment programmes proposed by eligible implementing partners:

- Coverage of InvestEU Fund policy objectives,
- Geographical reach out,
- Own resources pledged by the implementing partner,
- Range of effective financing products and innovative risk solutions,
- Costs and pricing structures, and
- For entities other than the EIB Group, their operational and financial capacity.

A significant proportion, of the EU Guarantee should be reserved for implementing partners capable to address suboptimal investment situations in all EU Member States. The rest of the guarantee could be granted to implementing partners able to operate and address market gaps in at least three Member States. Groups of NPBs would also be able to form a consortium in order to address cross border investment needs and benefit from the EU Guarantee. This would allow for flexibility, favour cooperation between NPBs, and focus the use of the EU Guarantee on EU policy objectives.

5.4 Technical assistance (InvestEU Advisory)

Technical assistance capacity has been highlighted as a key challenge to investment in many of the policy areas expected to be covered by the InvestEU Fund, including in the recently adopted sustainable finance action plan. Many private funds are ready and willing to invest but are unable to identify attractive investment opportunities, not least because of poor enabling environments. In this sense, support is needed to transfer lessons from one member state to another, as well as to advise Member States, local authorities and private project promoters on how best to develop projects in this space.

Effective technical assistance services are one way to address this challenge. These could take the form of centrally-managed advisory support provided at EU level to develop investment projects, platforms and programmes.

The advisory support is particularly relevant for:

- Project promoters to develop and implement investment projects and covering specific steps of the project development or the entire life-cycle of a project. This also includes access to finance and grants,
- Financial and other intermediaries to develop investment project pipelines and investment platforms;
- Local authorities to develop investable projects and programmes (avoiding overlaps with the TA under operational programs).

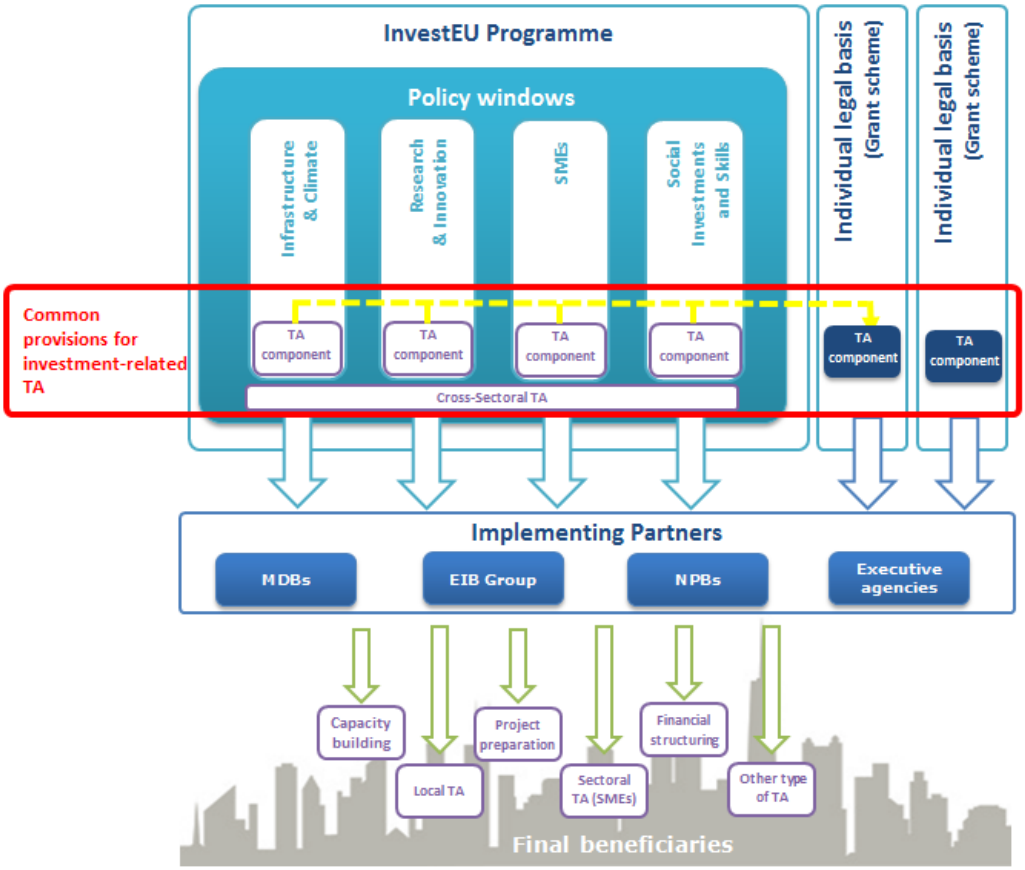
Depending on the facilities, TA can be provided directly in the form of advisory services, or through a grant which the beneficiary uses to cover its internal costs (e.g. staff) and the required external expertise (specialist consultants to be procured).

Better coordination amongst the existing EU initiatives is key to avoid duplication and not to reinvent the wheel each time a new need is identified and a TA facility is launched. Moreover, the large number of separate agreements, with different delivery modes, contractual forms, pricing etc. for often similar types of services, call for simplification and streamlining. The centrally managed TA initiatives available during the current MFF are totalling around EUR 500 million with additional more than EUR 200 million for supporting development of projects under shared management with JASPERS (see Annex 6).

The TA component under the InvestEU would contribute to the preparation and the development of an investment project pipeline in the policy areas covered by the InvestEU Fund. Given that TA is offered upfront, not all projects supported by it would be receiving financing support through the InvestEU Fund. The TA will also aim at building capacity of promoters and intermediaries to develop and implement projects in the policy areas covered by the InvestEU Fund. TA could also be used to facilitate blending opportunities with grants schemes. Each policy window under the InvestEU Fund through the Policy Board would be in charge of developing its TA offer based on specific needs identified.

A cross sectoral TA component would also be set up in order to address common/cross sectoral TA needs, emerging/strategic areas where additional priority should be given. In order to simplify the access to TA for the final beneficiaries, this cross-sectoral TA component would also provide for a single entry point for TA support request.

Figure 9 - TA component (InvestEU Advisory) under InvestEU



Source: Commission services, 2018

Mirroring the flexibility introduced by the InvestEU Fund regarding implementing entities, the InvestEU Assistance offer would be ruled by common provisions and implemented by relevant

implementing entities (i.e. geographical, sectoral type of technical support specialisations). Moreover, synergies with other TA initiatives under grant programmes would be created through the use of common provisions in the respective legal bases.

6 HOW WILL PERFORMANCE BE MONITORED AND EVALUATED?

The InvestEU Fund's aim is to better leverage and use EU funds, simplify and streamline rules, avoid duplications, and achieve better policy delivery. Therefore, focused reporting, monitoring and evaluation arrangements will be key to measure the degree of the progress.

Performance monitoring will be carried out both at overall InvestEU Fund level and at policy window level. The Commission will develop performance indicators to assess the impacts of the InvestEU Fund intervention at the general level and for the specific policy objectives.

At InvestEU Fund level, in line with the provisions of the amended Financial Regulation, the InvestEU Fund regulation will put forward several indicators based on the common policy objectives, while the measurement mechanisms for these indicators will be developed in advance of the implementation of the new regulation. Given the policy nature of this instrument, the success of this instrument would not only be measured against the overall volume of investment mobilised, as it was the case for the EFSI, but also through more targeted impact indicators identified under each policy window or of a cross-cutting nature. Several of these indicators would mirror the corresponding impact indicators being developed under the structural funds so as to be able to measure the combined effort of the EU towards important policy priorities. Sectoral information reported at NACE level 2 would also be provided.

The targets under each policy window will measure performance related to the specific policy challenges and will thus be more detailed and granular. Policy specific indicators will be developed upon the design of the financing products to be deployed under each window, and will comprise the measurement of progress towards achieving specific policy objectives, such as sustainability of infrastructure and climate investments, reduction of emissions, CO2 mitigation/ GHG reductions/ avoidance/ capture, investment in R&I, support of jobs and growth, and energy efficiency targets.

Annex 7 includes the list of core indicators that could be used under the InvestEU Fund. In addition to these core indicators, more detailed indicators will be included in the investment guidelines or guarantee agreements on the basis of the specific financial products to be deployed. Moreover, specific indicators will be developed for the InvestEU Advisory and the InvestEU Portal.

A more detailed example of performance and monitoring indicators for the SME window is included in Annex 8, as well as in Annex 9 for the Social investment and skills Window.

While Policy Boards will design specific impact measurements and indicators for each policy window, the overall performance and monitoring system will be approved by the InvestEU Fund Steering Board. Concrete and measurable targets for the support provided under the InvestEU Fund and under each policy window level will be set in the guidance of the Steering Board.

The required data will be collected from implementing partners.

Monitoring and evaluations

The Commission in cooperation with the implementing partners will monitor the performance and implementation of the InvestEU Fund. Monitoring will be undertaken in line with the requirements laid down in the Financial Regulation.

Monitoring indicators may not be sufficient to provide an adequate evaluation of the effects of the programme. For this reason, it is foreseen to plan for impact evaluations of the effects of specific projects/interventions on selected outcomes (measured on intermediate/end users), along with the relevant data collection at the appropriate level of granularity.

The Commission will perform external evaluations of the InvestEU Fund. They will thoroughly assess the InvestEU Fund's performance in terms of relevance, effectiveness, efficiency and EU added value. The first interim evaluation will be carried out in 2025 so as to assess the initial progress and to inform the decision making process on the successor instrument. The final evaluation will take place after the implementation period. These evaluations will also address causality between the intervention and the observed results.

ANNEX 1: PROCEDURAL INFORMATION

Lead DG(s), D*e*cide Planning/CWP references

The Directorate-General (DG) for Economic and Financial Affairs (ECFIN) was leading the preparation of this initiative and the work on the impact assessment in the European Commission.

Coordination and consultation with all the other relevant Commission departments was organised in the context of the existing Financial Instruments Inter-service Expert Group (FIIEG). DG ECFIN together with DG Budget chaired discussions regarding this initiative. Nine FIIEG meetings dedicated entirely to the InvestEU Programme were organised from December 2017 to March 2018[71]. The following Commission services participated in the group: Secretariat General, Legal Service, Economic and Financial Affairs, Budget Competition, Internal Market, Industry, Entrepreneurship and SMEs, Climate Action, Communications Networks, Content and Technology, Employment, Social Affairs & Inclusion, Energy, Environment, Mobility and Transport, Research and Innovation, Agriculture, Anti-fraud Office, Education and Culture, Executive Agency for SMEs, Financial Stability, Financial Services and Capital Markets Union, Health and Food Safety, International Cooperation and Development, Joint Research Centre, Maritime Affairs and Fisheries, Migration and Home Affairs, Neighbourhood and Enlargement Negotiations, Regional and Urban Policy, Taxation and Customs Union.

Organisation and timing

This Impact Assessment was prepared based on experience and past evaluation of the EFSI and other centrally managed financial instruments. The preliminary work and analysis started in second half of 2017 and intensified in 2018 through extensive consultation and exchanges with above mentioned Commission services. An external consultants led by ICF Mostra provided some additional support for this Impact Assessment.

Consultation of the RSB

An informal upstream meeting was held on 2 February 2018 with Regulatory Scrutiny Board (RSB) representatives and the participation of SG, DG BUDG, DG ECFIN, DG GROW, DG CNECT and JRC. During this discussion, Board members provided early feedback and advice on the basis of the inception impact assessment. Board members' feedback did not prejudge in any way the subsequent formal deliberations of the RSB.

The RSB scrutiny took place on 25 April 2018. The board gave a positive opinion with reservations that have all been addressed in the revised version of the impact assessment report.

The table below summarises the changes introduced to this Impact Assessment in response to the Board's main considerations:

Main RSB considerations:	**Changes made to the Impact Assessment**
The report does not sufficiently explain how InvestEU will avoid financing overlaps. These can be either internal, among its thematic windows, or external, with instruments funded	Section 3.5 was redrafted to better explain the current overlaps and how the potential overlaps will be avoided. More details are included in Annex 12. This includes

[71] One meeting was dedicated to the InvestEU Fund in general while others were dedicated to specific policy areas/Windows.

directly by the Member States under European structural and investment funds (ESIF).	two tables analysing the currently observed potential overlaps of SME products under centrally managed FIs for debt and equity products. Moreover, section 3.1 explains how InvestEU will address the identified shortcomings and lessons learnt with existing instruments.
The report does not elaborate on the choice of the envisaged complex governance structure of the Fund. It does not sufficiently explain the functioning of the new structure and to what extent this would constitute an improvement, as compared to the current situation.	Additional drafting has been provided in section 3.4 that explains in detail the reasons for the choice of the governance structure and the role of different bodies. This includes also a comparison of the governance arrangements currently in use for the EFSI and the FIs with the one proposed under the InvestEU Fund. Annex 13 includes detailed figures that represent the current governance arrangement with those proposed under the InvestEU Fund.
The report should elaborate on possible higher risk-taking by the EU budget related to the increased use of financial instruments and the lower provisioning rates implied by the recourse to a global guarantee. The report should describe how the risk assessment function would be organised within the governance structure of InvestEU. It should explain how this would effectively protect the interests of the EU budget from undue or excessive risk-taking. To assess the overall risk to the established budget guarantee, the report should clarify the issue of assessing individual provisioning rates, the ensuing overall provisioning rate for the Fund and risk sharing and its rationale between the EU budget and the implementing partners. Moreover, it should provide more details on the allocation of the budget guarantee across thematic windows and sectors.	Additional clarifications on the assumptions for the foreseen level of risk and the provisioning rates have been added to section 5.2 "Budgetary Guarantee". An overview of the indicative allocation of the budgetary guarantee has been added to section 3 "Programme Structure and Priorities". Further explanations concerning the risk assessment function within the governance structure have been added to section 3.4 "Governance".
In addition, past EFSI evaluations have also stressed the need to improve the geographical distribution in finance provisioning. Building on the experience with EFSI, the report should better explain how the Fund would deal with geographical distribution, given the overall bottom-up approach to financing projects. It should also thoroughly describe the mitigating measures that the proposal envisages to put in place.	A new section (3.6 - Geographical distribution) was introduced to the report providing details on how the design of the InvestEU Fund will ensure a balanced geographical distribution and avoid concentrations of the EU support.

Evidence, sources and quality

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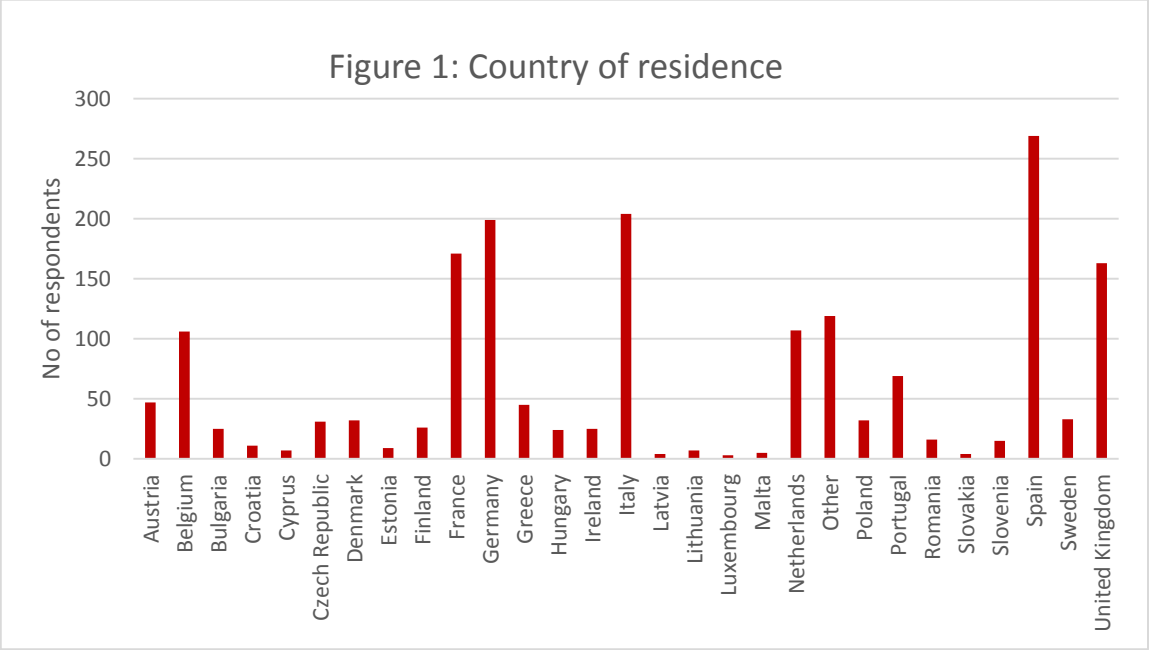
ANNEX 2: STAKEHOLDER CONSULTATION

Open Public Consultations for the post-2020 Impact Assessment were organised per group of policy areas. This impact assessment will mainly consider the results from the OPC on the EU Support for Investment[72]. Any relevant results from OPCs regarding different policy areas like Cohesion; Security, Migration and Asylum; Strategic Infrastructure; Values and Mobility will also be taken into consideration.

A. Results from the Open Public Consultation on EU funds in the area of investment, research & innovation, SMEs and single market

1. Introduction and methodology

On 10 January 2018, the European Commission launched an open public consultation (OPC) on EU funds in the area of investment, research & innovation, SMEs and single market. The survey was conducted on the Commission webpage through an online survey consisting primarily of multiple-choice questions, with some open-ended questions.

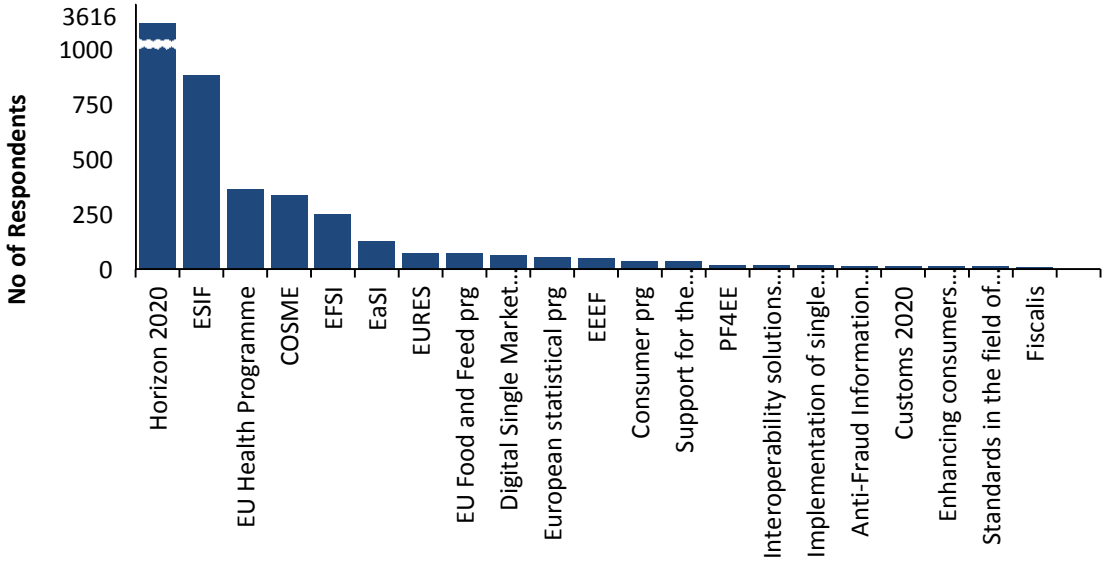


By the end of the consultation on 9 March 2018, 4052 respondents provided valuable information to the Commission. All citizens, organisations and stakeholders with an interest in issues related to investment, entrepreneurship, research, innovation and SMEs were welcome to respond to this consultation. In total, 1808 respondents answered in their personal capacity, while 2244 in their professional capacity or on behalf of an organisation. Replies from organisations were received from Think Tanks (12), Academia (526) and Research Institution (347). The respondents had to answer to a specific questionnaire and they also had a possibility to attach any relevant document. Figure 1 shows the residence of respondents[73].

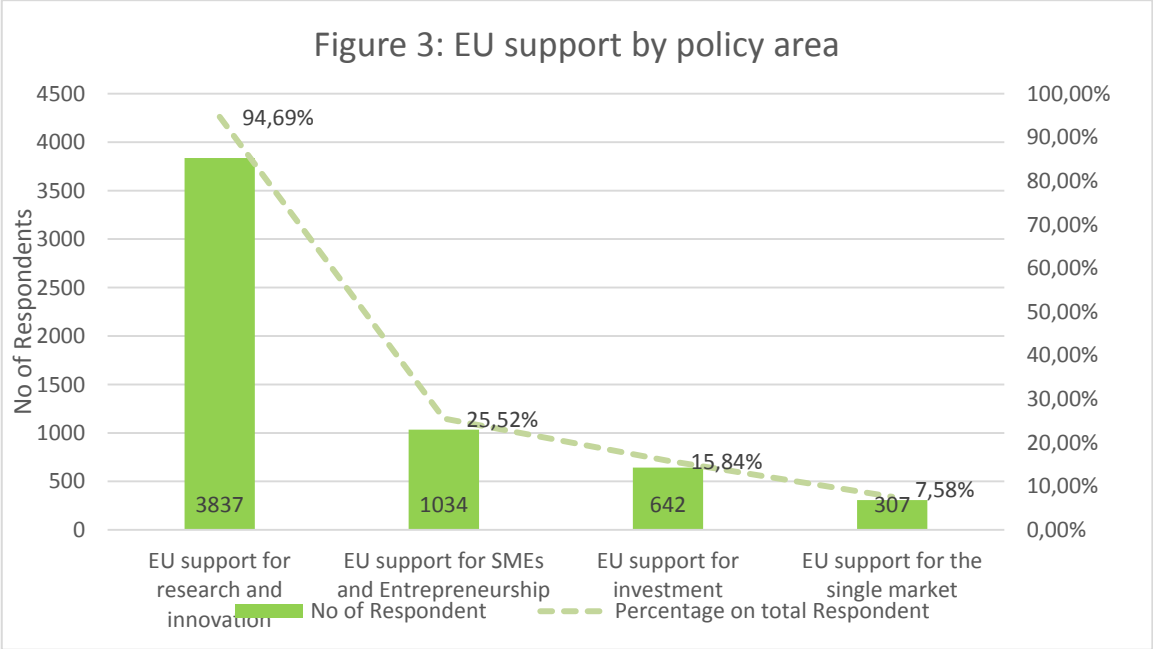
[72] This was a subpart of the OPC on Investment, research and innovation, SMEs and single market.
[73] 1808 respondents out of 4052 answered this question

Figure 2 highlights the awareness of the respondents of the European programmes in connection to the topic area to which they answer. As the figure shows, Horizon 2020 is the most known programme. In other words, almost 9 out of 10 respondents are aware of the EU R&I programme Horizon 2020, which remains by far the most known EU programme among respondents. This is followed by ESIF (21,7%), EU Health Programme (9%), COSME (8%), EFSI (6,15%) and EaSI (3,15%), which are not recognized as Horizon 2020.

Figure 2: Programme Awareness

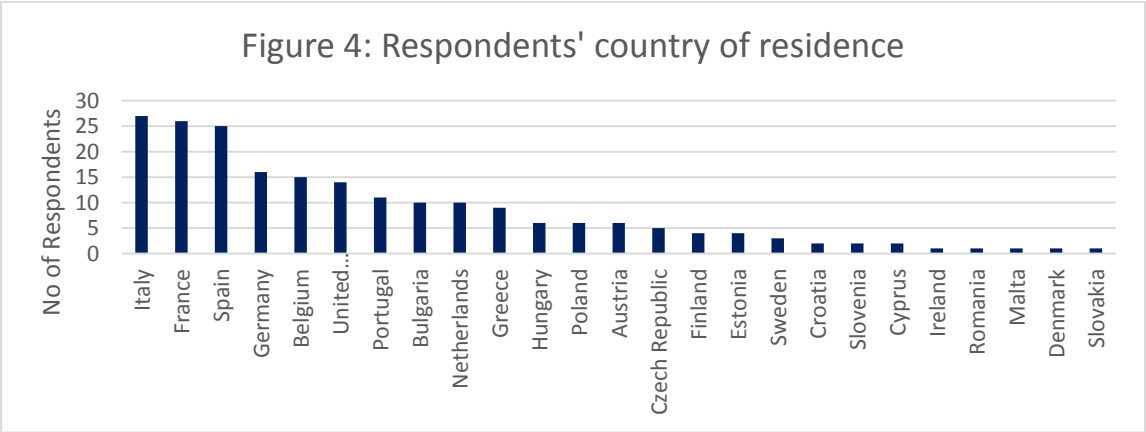


2. EU support for investment



As illustrated in Figure 3, due to the structure of this questionnaire, it was possible to extrapolate the answers of people whose replies concerned the support for investment at European level. In

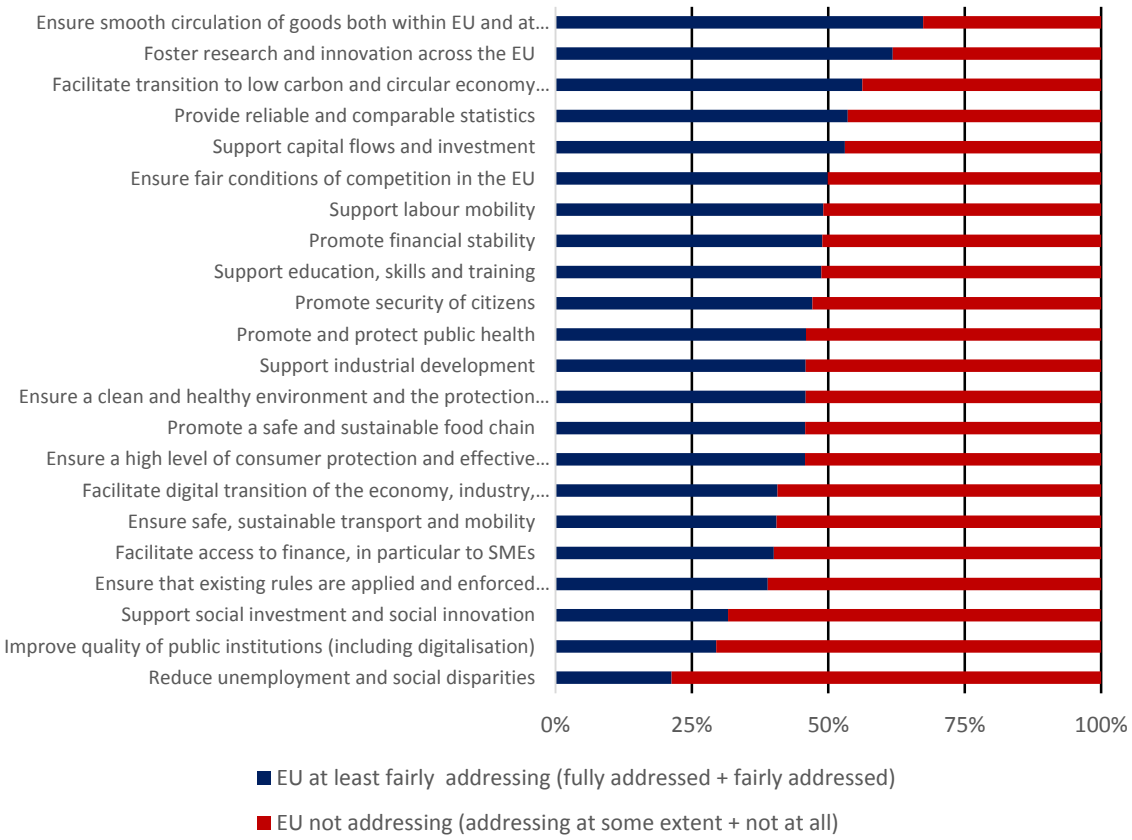
total, 642 out of 4052 replies were dedicated to this topic and, as per Figure 4, the sample covers all the countries in European Union and it only shows those respondents that provided their country of residence.



Moreover, data on the policies awareness on this specific subgroup are in line with the sample presented in Figure 2. The only exception is that more than 20% of the respondents are aware of the EFSI, compared to 6.15% in the total sample.

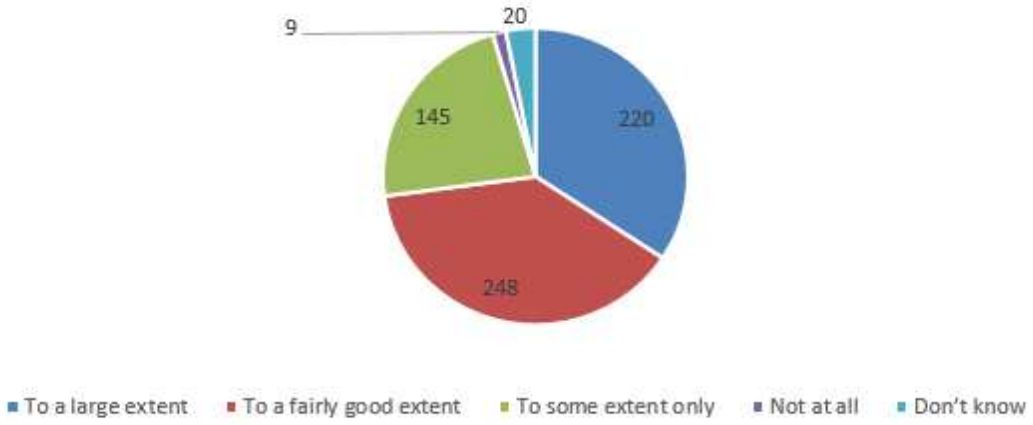
As far as the ability of the European institutions to intervene, respondents believe that there is room for improvement. According to their opinion, presented in Figure 5, the majority of the respondents believe that European institutions are not sufficiently addressing most of the challenges listed above. In particular, they stress the inability to address unemployment and social disparities, access to finance especially for SMEs and social investment and social innovation.

Figure 5: To what extent do the current policies successful adress these challenges



More interestingly, the respondents on the EU support for investments firmly believe that currents actions at European level bring added value and that this is complementary to what Member States could achieve at national, regional and/or local levels. More than 70% of the respondents affirmed that at least to a fairly good extent the EU intervention adds value.

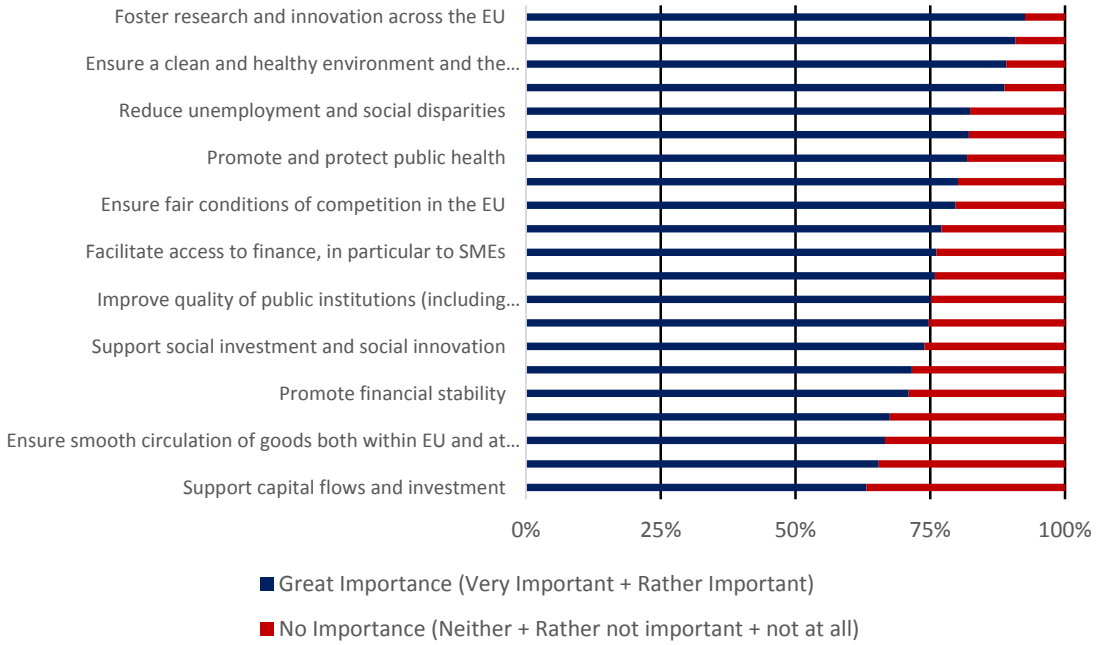
Figure 6: To what extent do the current programmes/funds add value, compared to what Member States could achieve at national, regional and/or local levels?



Furthermore, Figure 7 shows the importance that respondents give to preliminary identified policy challenges that according to the European Commission should be targeted in the future.

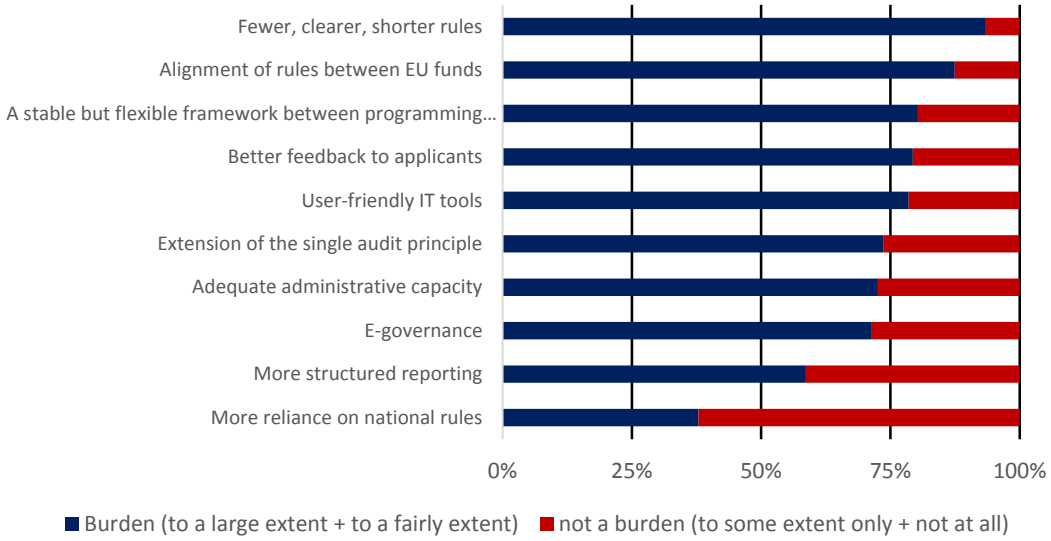
For instance, research and innovation, the facilitation of the transition to low carbon and circular economy, education, skill and training or digitalisation are priorities that new programmes should clearly address.

Figure 7 : The Commission has preliminarily identified a number of policy challenges which programmes/funds in this area of investment, research & innovation, SMEs and single market could address. How important are these policy challenges in your view



Finally, Figure 8 confirms the steps that should be undertaken in order to simplify and reduces administrative burden for beneficiaries, according to the importance given by respondents. The entirety of challenges listed by the Commission should be addressed in the future. In particular, respondents believe that simplification of rules is the most important point that could help solve the administrative burdens for beneficiaries. Respondents also stress an alignment of rules between the EU Funds and a stable but flexible framework between programming periods.

Figure 8: The Commission has preliminarily identified a number of steps that could help to further simplify and reduce administrative burdens for beneficiaries under current programmes/funds. To what extent would these steps be helpful in your view?

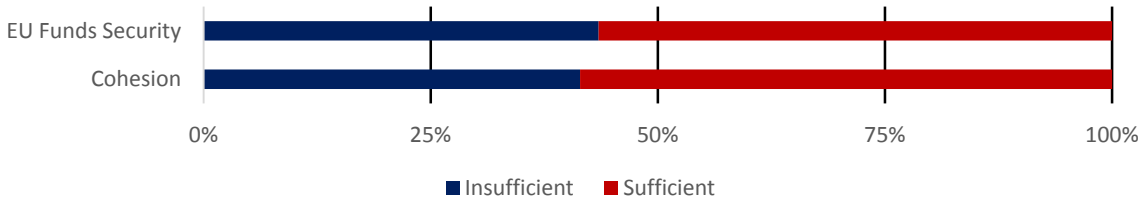


3. Other Open Public Consultations.

In parallel to this consultation, the Commission conducted different OPC covering the entire spectrum of EU policies: Cohesion; Security; Migration and Asylum; Strategic Infrastructure; Values and Mobility. Figure 9 and 10 present the results of these consultations regarding the respondents' views on importance of Financial Instruments in the relevant policy area.

For the Cohesion and Security, around 40% of the respondents believe that the insufficient use of Financial Instruments is an obstacle preventing the current programmes/funds from successfully achieving their objectives.

Figure 9: Percentage of respondents considering the insufficient use of FIs as obstacles which prevent the current programmes/funds from successfully achieving their objectives



For Strategic Infrastructure, around 60% of the respondents believe that the difficulty to access[74] to Financial Instruments is preventing the current programmes regarding infrastructures from successfully achieving their objectives.

Figure 10: Percentage of respondents considering difficulty to access to financial instruments as obstacle which prevent the current programmes/funds from successfully achieving their objectives

[74] Differently from EU Funds Security and Cohesion OPCs, where respondents were asked to judge if Financial Instruments were insufficiently used, in the Strategic Infrastructure OPC respondents were asked to manifest their opinion about the difficulty to access to Financial Instruments.

ANNEX 3: EVALUATION RESULTS

1. Introduction

Annex 3 summarises the main findings of related programmes relevant for the InvestEU Programme. This includes in particular the various EFSI evaluations and the findings on financial instruments under sectoral regulations.

2. EFSI

The European Fund for Strategic Investments (EFSI) was launched in July 2015 as a response to the global economic, financial, and sovereign debt crisis. It is currently the biggest EU investment support instrument. It aims at mobilising EUR 500 billion of additional investment in infrastructure, innovation, and SME financing by end-2020. EFSI has introduced a new approach for providing investment support, namely the use of a budgetary guarantee[75]. The EFSI's EU budgetary guarantee to the EIB Group amounts to EUR 26 billion. It allows the EIB to increase financing of projects with a higher risk-profile and to mobilise private capital.

Given the relatively recent launch of the EFSI, most signed projects supported by EFSI have not yet been completed. Therefore, the evaluations performed focused on the results achieved so far and their expected impacts.

Several EFSI evaluations have been conducted or are ongoing:

- a Commission evaluation on the use of the EU guarantee and the functioning of the EFSI guarantee fund[76] accompanied by an opinion of the Court of Auditors[77],
- an EIB evaluation on the functioning of EFSI[78], and
- an independent external evaluation on the application of the EFSI Regulation[79] published in November 2017. Main findings of these evaluations were summarised in the Commission Communication on the Investment Plan for Europe (COM (2016) 764)[80],
- an independent evaluation as required under article 18 of the EFSI Regulation. The evaluation was performed by ICF Mostra (hereafter referred to ICF evaluation and is published concurrently with the InvestEU Programme proposal), and
- an ongoing EFSI evaluation by the EIB Group (deadline for publication 30 June 2018).

Relevance

All evaluation found that the EU guarantee proved relevant and enabled the EIB to undertake riskier activities in line with expectations. The European Fund for Strategic Investments also proved a relevant tool to mobilise private capital. The volumes of investment mobilised under EFSI are deemed sufficient scale to make a significant contribution to these investment needs.

However, the evaluations have underlined some concentration in those MS with well-developed institutional capacities.

[75] A similar approach has been used under the EU's External Lending Mandate.
[76] http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52016SC0297&from=EN
[77] https://www.eca.europa.eu/Lists/News/NEWS1611_11/OP16_02_EN.pdf
[78] http://www.eib.org/infocentre/publications/all/evaluation-of-the-functioning-of-the-efsi.htm
[79] https://ec.europa.eu/commission/publications/independent-evaluation-investment-plan_en
[80] http://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/COM-2016-764-F1-EN-MAIN.PDF

The relevance of EFSI is also indicated by the introduction of new higher risk products reflecting the objective of taking on higher risk investments.

The Scoreboard was evaluated as a relevant tool that allows a consistent approach to project presentation and to summarise appraisal conclusions.

The ICF evaluation found the EU Guarantee to be highly relevant in permitting the additional financing to be deployed.

Effectiveness

These evaluations have demonstrated that the EFSI is effective in delivering concrete results and encouraging a sustainable increase in the low investment levels in Europe by increasing access to financing and mobilising private capital.

Based on reported investment mobilised to the cut-off date of the ICF evaluation (31 December 2017), EUR 207 billion has been mobilised by achieved signatures corresponding to 66 per cent of the target (and EUR 256 billion as per all approved operations corresponding to 81 per cent of the target). Extrapolating this trend a further 6 months with the completion of EFSI 1.0 in mid-2018, then mobilised investment from approved operations is expected to come very close or reach the 315 billion by mid-2018.

Under the amended EFSI Regulation[81] ('EFSI 2.0') support will continue towards financing of projects, leading to higher productivity and competitiveness with enhanced focus on sustainable investments in line with the Paris Agreement and the clean energy transition objectives.

The EFSI is a demand driven instrument and its portfolio is concentrated in few Member States. However, if the investment mobilised is considered relative to Member States' GDP this concentration is much less pronounced. Nevertheless, to improve geographical balance the EFSI 2.0 has already taken corrective action by strengthening the relevance of the IPE's second Pillar.

As of 31 December 2017, the actual multiplier effect of the EFSI is broadly in line with what had been assessed at the outset – aggregate global multiplier achieved end 2017 of 13.5 against a target of 15. EFSI has also been effective in mobilising private investments. Some 64 per cent of investment mobilised is from the private sector.

The ICF independent evaluation found that the approach to modelling the EFSI target rate appears to be broadly adequate and in line with industry standards but proposed some further developments of the model. It also concluded that the assessment of the estimation of the current target rate showed that the target rate is highly sensitive to the assumption related to the correlation of defaults between individual debt operations.

[81] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2396&from=EN

Efficiency

In terms of efficiency, the availability of the EU Guarantee proved to be an efficient tool to considerably increase the volume of riskier operations by the EIB. In particular, the EFSI budgetary guarantee freezes less budgetary resources compared to financial instruments, as it requires limited provisioning needs compared to the level of financial engagement. In other words, it assumes a contingent liability and is consequently expected to achieve economies of scale that result in higher investment mobilised per euro spent. The evidence analysed as part of the ICF evaluation also indicated that the size of the EU Guarantee under EFSI 1.0 was appropriate.

A budgetary guarantee has also proven more cost-efficient for the EU budget, as it limits the payment of management fees to the implementing partner. Such fees are limited to cases where they are strictly needed to cover part of the implementing partner's costs related to the development of an action in a specific niche, related to high risk or an unproven area. In the case of the EFSI, the EU is even remunerated for the EU guarantee provided under the Infrastructure and Innovation Window.

In addition, the ICF evaluation identified no major issues with the EFSI governance. The planned publication of the Scoreboard improves transparency. Some early issues of communication between the Secretariat and the Investment Committee have also been resolved. Better feedback to the Investment Committee members on the details of projects after final close was an identified area for improvement.

The efficiency of procedures and the time taken appear consistent with the tasks required to be undertaken.

The burden on project promotors was generally modest, especially when establishing a first contact with the EIB Group. The appraisal procedure was considered to be difficult by a quarter of promoters interviewed, but this is not considered to represent a need for any significant change in procedures.

EU added value

The 2016 independent evaluation stressed the need to better define and clarify the concept of additionality. Consequently, the EFSI 2.0 amended Regulation proposed several corrective measures to clarify the concept, the criteria and made the process more transparent.

The ECA Opinion[82] on the early proposal to extend and expand EFSI acknowledges the challenge to determine the exact amount of investment mobilised by public support. In particular, the report claims that not all sources of finance attracted by a project are the result of the EU intervention. The challenge is magnified by the difficulty to determine whether private investment was crowded-in because of the EU intervention or would a part of it have been mobilised even without the public support.

[82]ECA Opinion No2/2016 - EFSI: an early proposal to extend and expand

The ICF evaluation concluded in particular[83]:

- Compared to EIB finance for higher risk activity (Special Activities) prior to the EFSI, there has been a five-fold increase in investment and clear evidence that EFSI operations are characterised by a higher level of risk as compared to standard (non-EFSI) EIB operations.
- Additionality. There is a need to further clarify the concept of additionality and the definition of sub-optimal investment situations. In particular, the evaluation concluded that EFSI operations are characterised by a higher level of risk as compared to standard (non-EFSI) EIB operations as required by the EFSI Regulation. However, the survey and interviews indicated that under the Infrastructure and Innovation Window of EFSI some crowding out may have occurred. While there is always a risk that market-based interventions can in certain cases have a limited crowding out effect, more analysis is needed to verify whether the new measures foreseen under EFSI 2.0 have a positive effect on additionality.
- Non-financial added value – there is evidence of other added value from the EFSI in terms of attracting new investors, providing demonstrations and market testing of new products and financing models, and support and adoption of higher operational standards by financial service providers.
- Opportunity costs of provisioning EFSI – the financing of the EFSI required some reallocation of the EU budget from existing programmes i.e. CEF and H2020 which increased the resources for EFSI while leading to reduced resources in these programmes. However, because of EFSI activity being partially focused on these programme areas, the adverse policy effect has been somewhat reduced.

Coherence

The 2016 EIB evaluation found that other EU programmes and financial instruments may in some cases compete with the EFSI. In other cases, the EFSI and other EU programmes can be complementary. For example, resources from the CEF and H2020, and similarly the ESIF, could finance the first-loss piece of EFSI operations, where it is needed to take projects off the ground and maximise private sector contributions. In these cases, the EIB, with EFSI support, can finance mezzanine tranches.

The ICF independent EFSI evaluation confirmed the initial disruption by EFSI under IIW to other EU level financial instruments by offering similar financial products. The evaluation however found that the main coherence issue have since been resolved during implementation by re-focusing existing instruments towards new market segments. The evaluation also stressed some potential coherence issue with the financial instruments used under ESIF. The evaluation recommended to strengthen ex-ante assessments and ongoing analysis of market failures and needs at a sectoral level to avoid any overlaps between products and to minimise any potential crowding out effects.

[83] Source: ICF Evaluation report

3. Mid-term evaluation of Connecting Europe Facility (CEF)

The Connecting Europe Facility (CEF) programme was established in 2013 to support investment in Trans-European networks in the fields of transport, energy and telecommunications services. It was designed to exploit potential synergies among the three sectors, while supporting the better integration of their respective infrastructure across EU Member States. The CEF Debt Instrument (CEF DI), effective since July 2015 and building on the experience gained with the Loan Guarantee Instrument for Trans-European Transport (LGTT) and the pilot phase of the Project Bond Initiative (PBI), pioneered the use of financial products in the three sectors. The CEF Equity Instrument (EI) is not yet in use in any of the CEF sectors. Support from this instrument will be provided to fund the rollout of very high capacity networks in underserved areas, with an important leverage effect, through the Connecting Europe Broadband Fund (CEBF) which is expected to become operational in the first half of 2018.

In accordance with the CEF Regulation[84], the Commission, in cooperation with the Member States and the beneficiaries concerned, was required to present a report on the mid-term evaluation of the CEF to the European Parliament and the Council. This report[85] and its accompanying Commission staff working document were adopted by the Commission on 13 February 2018. The evaluation assesses the programme's overall performance in light of its general and sectoral objectives, as well as compared to what has been achieved as a result of national or EU action. The evaluation illustrates that after the first three and a half years of CEF implementation, the programme is on track, although it is much too early to measure results given that the programme implementation is still at an early stage. Moreover, the evaluation showed that in all three sectors, the deployment of CEF Financial Instruments[86] has been limited, partly due to the new financing opportunities opened by the European Fund for Strategic Investments (EFSI). Other factors relate to the weak pipeline of bankable CEF-eligible projects available in the energy sector at the time that the CEF DI became effective, or to the limited budget available for broadband projects. To date, support from the instrument has been mainly provided to projects in the transport sector, while only one broadband project and one energy project were supported under the predecessor instrument, i.e. the pilot phase of the PBI. More projects are expected however to be supported under the instrument in 2018.

The evaluation highlighted the positive experience of blending CEF grants with Financial Instruments which was carried out in 2017 in transport, whereby EUR 2.2 billion funding was requested for a call with an indicative budget of EUR 1 billion, which enabled the use of grants to maximise the leverage of private or public funds. Looking forward, the evaluation stresses that the completion of the trans-European networks will still require massive investments, part of which will depend on continued EU support. The size of the CEF programme currently makes it possible to address only partly the market failures identified in the three CEF sectors. Therefore,

[84] Article 27 of Regulation (EU) No 1316/2013 of the European Parliament and of the Council of 11 December 2013.
[85] COM(2018)65
[86] CEF Financial Instruments refer to the CEF Debt Instrument and the CEF Equity Instrument.

the evaluation recommends that unlocking further public and private investment should continue to represent a priority in the future, which can be addressed through grant financing, but also through the use of Financial Instruments whose relevance is found to vary across the CEF sectors. To this end, the evaluation concludes that CEF Financial Instruments and blending of grants with other forms of financing (notably from private sector and public banks) remain relevant financing intervention means from the EU budget, in particular for revenue generating projects.

4. European Energy Efficiency Fund (EEEF)

A significant challenge the Fund has faced is the limited number of ongoing projects and the difficulty to attract a substantial number of new ones. While identifying the exact causes of this development is an ongoing exercise, some recurring factors have been observed: 1) local governments prefer working with grants that are, from their point of view, easier to manage and more flexible (especially the case in Scandinavian countries and in Eastern Europe); 2) municipalities usually need to adhere to lengthy and slow public procurement processes, which call for a simplified, streamlined process regarding Financial Instruments to better support the projects targeted by EEEF – similar to the InvestEU Fund. Mitigating actions include fine-tuning the Fund's marketing approach to underline that its capacity to provide financing complementing grants and increasing the provision of technical assistance to ensure municipalities efficiently organise the required procurements processes.

EEEF also helped the Commission learn that the closing of projects is facilitated if technical support is tied to use of the fund.

5. Private Finance for Energy Efficiency (PF4EE)

On energy efficiency, the PF4EE instrument targets projects which support the implementation of National Energy Efficiency Action Plans or other energy efficiency programmes of EU Member States. The PPF4EE also includes an Expert Support Facility to support participating financial institutions to develop financial products for the financing of the national/regional EE schemes.

To date the EIB have signed operations in The Czech Republic, Spain, France, Belgium, Italy, Portugal, Croatia, Greece and Cyprus generating a portfolio worth of EUR 720 million of investment. The investment leverage effect would be 14.6 against an initial target of 8.

With regard to the PF4EE the Mid-term evaluation of LIFE states that 'There are issues regarding the complementarity of the instrument with other funding mechanisms supporting energy efficiency, especially in some Member States.'. Potential overlap with EBRD and ERDF loans was highlighted. The overlap with ERDF loans is also mentioned in the section on ESIF. However, although there are an increasing number of FIs active in the energy efficiency area, the size and importance of the potential market is very large. According to DG ENER it is estimated that an additional EUR 177 billion per year will be necessary over the period 2021-2030 to reach

the EU's energy and climate objectives for 2030. Therefore, the risk of these FIs crowding each other out appears minimal.

6. Natural Capital Financing Facility (NCFF)

Under the NCFF, LIFE provides 10M EUR of technical assistance, and a guarantee of 50M EUR to support EIB investments (loans and equity) of up to 125M EUR that contribute to biodiversity and/or climate change adaptation objectives.

It aims at establishing a pipeline of some 9 to 12 replicable, bankable operations that will serve as a "proof of concept" and demonstrate to private and public investors the attractiveness of such investments. This represents an innovation which, if successful, could drive the architecture of natural capital financing. Although development of the pipeline has been slow, the pace is picking up with three operations now signed, 5 additional ones in the pipeline, and 9 more currently under scrutiny by EIB.

Recommendations from the LIFE mid-term review have been implemented including increasing visibility and promotion, and operationalisation of the support facility. The implementation period had been extended until 2021 and the 2018-2020 LIFE programme foresees a new guarantee window. Experience so far with NCFF shows that there is a niche for investments in ecosystem-based natural capital investments, though it is important to develop a pipeline to share the experience and demonstrate the opportunities more widely. The LIFE mid-term evaluation also recommended to consider options for blending.

7. Marguerite Fund

On the equity side, the Marguerite Fund described also as “The 2020 European Fund for Energy, Climate Change and Infrastructure” was launched in 2009 at the initiative of and the Cassa Depositi e Prestiti, the Caisse des Dépôts Group, KfW, the Spanish Instituto de Credito Official , the Polish PKO Bank Polski (PKO), the EIB and the European Commission.

At the end of the investment period of the Marguerite Fund invested EUR 745 million in 13 Member States. Overall, it has invested, 31% in the TEN-T eligible projects (roads and airports), 55% in the energy sector including renewables and 14% in ICT. Marguerite Fund has demonstrated its ability to attract the private sector investments since private investors had the possibility to invest directly in the projects. However, it was not possible to attract private investors at Fund level.

Marguerite II (supported by EFSI) will continue focusing on both greenfield and brownfield infrastructure investments in renewables, energy, transport and digital infrastructure.

8. Financial Instruments under FP7 and Horizon 2020

The interim evaluation of Horizon 2020 finds that Horizon 2020 provides companies, and in particular SMEs, with access to risk finance to carry out their innovation projects, thereby

addressing an important market failure. Under the Access to Risk Finance programme, 5,700 organisations have been funded and EUR 13 billion of private funds have been leveraged. The total investment mobilised via debt financing amounts to EUR 29.6 billion in the first three years of its implementation, based on a budget of EUR 2.7 billion.

Horizon 2020's Interim Evaluation has identified some potential for supporting breakthrough, market-creating innovation, but concludes that such support must be considerably strengthened. Only a relatively small number of firms receiving grants under Horizon 2020 benefitted from Financial Instruments under Horizon 2020. This may hinder the scaling up of innovative firms that could become innovation leaders at EU and global scale. To address this challenge, synergies should be exploited between the grant and non-grant based instruments available to firms at different stages of the innovation cycle.

The interim evaluation concluded that:

- InnovFin represents a significant development in the provision of EU supported innovation financing that builds on the more modest and rather disparate schemes that previously existed.
- InnovFin scheme is performing well against its main objectives of improving access to finance for innovative companies and projects, and helping to address related market failures.
- InnovFin's combination of debt financing and equity-based Financial Instruments is coherent overall from a programme design perspective and generally provide high added value but with some variation between InnovFin instruments and between countries.
- There is an increased usage of innovative financing instruments in the EU budget under FP7 compared to Horizon 2020.
- Demand for InnovFin finance has been high since the launch of the facility in mid-2014: in its first phase (2014-2017), its take-up exceeded initial expectations, which required a dedicated top up of more than 80% of the initial budget from the SME window of the European Fund for Strategic Investment (EFSI).
- Efforts have already been made to increase the synergies between Horizon 2020 and other programmes, in particular the European Structural and Investment Funds and the European Fund for Strategic Investments and these can be further strengthened. The Interim Evaluation of Horizon 2020 points out that "since the set-up of EFSI in 2015, it has proved challenging to reach InnovFin's objectives, as a significant part of the products deployed overlap with EFSI in terms of both risk spectrum and eligibility." Against this background, the EIB and DG RTD have decided to re-focus InnovFin's deployment in 2017.

9. SME Programmes

The Commission has already implemented four generations of debt Financial Instruments for SMEs. These programmes have been subject to evaluations and close scrutiny by the Council and Parliament, as well as by the Court of Auditors.

In particular, the Loan Guarantee Facility for SMEs of the COSME programme has been thoroughly assessed twice. First of all, by the European Court of Auditors in the context of a performance audit, which comprised the COSME Loan Guarantee Facility as well as the InnovFin SME Guarantee Facility of Horizon 2020 (published December 2017[87]) and in the context of the COSME interim evaluation (published January 2018).

These assessments have shown that the Loan Guarantee Facility is working very successfully. It is properly designed to help SMEs, which would otherwise struggle to obtain finance, to grow more in terms of total assets, sales and employees when compared to the general SME population. The impact of the facility could be further strengthened by better targeting the beneficiaries and coordinating better with Member State activities.

In response to the assessments made, a number of recommendations are proposed for the successor programme of COSME, such as (i) further strengthen the existing cooperation with the Enterprise Europe Network; (ii) a better upstream co-ordination between Financial Instruments for SMEs established by Member States and the successor instrument in the next MFF by using the existing SME Envoys Network as an information exchange forum; (iii) reduce administrative burden for SMEs and financial intermediaries.

The COSME interim evaluation recommends that a future EU loan guarantee facility should help to ensure "*a more level playing field for SMEs [...] in those countries where, according to current studies, the needs among SMEs are highest.*" As regards the existing Equity Facility for Growth, the interim evaluation concluded that the facility is effective. Nevertheless, it has been recommended to reduce the number of financial products and to align the Equity Facility for Growth with the equity facilities established under EFSI.

Lessons learned on equity instruments for SMEs

The interim evaluation of Horizon 2020's Financial Instruments[88] assessed the 'InnovFin Equity' product, which focuses on early-stage finance, and concentrated on Venture Capital (VC). The key findings are that in a few countries, VC is readily available, reducing the need for InnovFin Equity, while in other geographies, particularly for start-ups and firms that are not yet bankable, the market gap persists, though many companies are reluctant to use equity finance because of the dilution of ownership involved. The interim evaluation of COSME's Financial Instruments[89] assessed the 'Equity Facility for Growth' (EFG) product, which provides VC finance focused on the growth and expansion stage. All surveyed SME beneficiaries report a positive impact of EFG financing on their growth perspectives. Difficulties facing cross-border operations by VC funds are persistent, however: the EU single capital market is still in its infancy, country-specific barriers for investment have not gone away, and most funds are not large enough to operate on a pan-European basis.

[87] https://www.eca.europa.eu/Lists/ECADocuments/SR17_20/SR_SMEG_EN.pdf

[88] [citation http://bit.ly/2vLFas5 – section 3.4.2. As well as the Member States, several other countries are associated to Horizon 2020 (see http://bit.ly1nvSTaf) and can benefit from the programme's Financial Instruments.

[89] [citation http://bit.ly/2rKmigg]

The Council recognised that the guarantee instruments in support of SMEs have proven their concrete results, inter alia due to their financial leverage effect, in fostering high-risk innovation, a higher wage bill and enhanced business turn-over.

Observations made by the European Court of Auditors

As highlighted already in the title of the dedicated European Court of Auditors' report[90], the COSME Loan Guarantee Facility (LGF) has achieved the positive results intended, but needs some better targeting of beneficiaries and more coordination with national schemes. In particular, the report recommended that the Commission carries out an assessment of market needs and how EU guarantee instruments can best respond to these needs alongside national/regional instruments. In this regard, the Commission has prepared an in-depth market assessment at the level of each Member State demonstrating the market gap and the rationale for an intervention at EU level.

One of the conclusions in the report was that a future facility should better target viable businesses lacking access to finance and a better coordination should occur between central EU guarantee facilities and those established at national level.

As regards the InnovFin SME guarantee facility, the report found that the loan guarantee facility has helped beneficiary companies grow more in terms of total assets, sales, wage bills and productivity. However, the InnovFin SME guarantee facility failed to focus on companies carrying out innovation activities with a high potential for excellence.

The report also contains a number of recommendations to the European Commission to better target the guarantees at viable businesses lacking access to finance and on more innovative businesses. Moreover, it emphasises the importance of cost-effectiveness since similar instruments already exist in the member states.

It is recommended that the above proposals are taken into account when designing successor programmes, with a view to ensure the reinforcement, better targeting and broader uptake in all member states of those instruments that are particularly addressed to smaller businesses.

Financing the cultural sector through Financial Instruments

The Creative and Cultural Sectors Guarantee Facility was allocated a budget of EUR 121 million for the period 2014-2020 representing 9% of the Creative Europe budget. The first top up of its budget through the EFSI was received in 2017. A further top-up may be envisaged in 2018. The top-ups of the budget would allow a quicker deployment of guarantee support, reaching more countries and sectors and enhancing the geographic and sectoral balance.

In 2017, its first full year of operation, nine guarantee agreements with six financial institutions were signed. This strong market response to its launch in 2016 shows the relevance of this

[90] https://www.eca.europa.eu/Lists/ECADocuments/SR17_20/SR_SMEG_EN.pdf

instrument to addressing the financing gap, estimated at EUR1 billion annually, in a geographically and sectoral balanced way.

The Creative Europe mid-term evaluation found that the Guarantee Facility responds directly to the needs of SMEs in the sector, which have specific difficulties accessing loans due to the nature of their business, the difficulty to evaluate intangible assets or an uncertain demand.

10. Social sector investments

Building on the milestone initiatives of the Social Business Initiative (launched in 2011) and the Social Investment Package (launched in 2013), and more recently in the context of persisting socio-economic challenges and political developments, social investments, including through support from Financial Instruments, have been recognized as strategic policy tools within the policy programmes of the European Commission[91].

In the social sector, four primary areas have made the focus of investments, mostly carried out by the EIB Group[92]: (i) education and skills– including financing of educational infrastructure; (ii) health, including infrastructure and equipment; (iii) social housing; and (iv) EaSI Microfinance and social entrepreneurship.

Under EFSI and as part of the **toolbox to support the impact investing ecosystem**, a set of innovative **pilot impact instruments** have been developed and launched, supporting investments into Social Incubator and Accelerator vehicles or linked to funds that provide incubation services, a Social Business Angels co-investment facility, both of which aim to support the provision of risk capital to early stage social enterprises, complementing the range of funding instruments developed under EU's Employment and Social Innovation programme. Last but not least, a pilot instrument was developed, with the aim to support innovative outcomes-focused Payment-by-Results schemes and the development of social outcomes contracting models on European level.

Further, the achievements and lessons learnt from the Erasmus+ Master loan scheme should be taken on board. In addition, the need for patient capital for these kinds of investments should be recognised.

Under EaSI and the EFSI, the European Investment Fund (EIF) has been mandated to manage a package of mutually reinforcing and complementary Financial Instruments, namely: the EaSI Guarantee instrument (to enhance risk-taking and improve access to finance for social enterprises, micro-enterprises and vulnerable groups), the EaSI Capacity Building Investments Window (to build up the institutional capacity of microfinance institutions and social finance providers), the EFSI equity social impact pilots (to attract public and private capital for supporting investments in social enterprises), and the future EaSI Funded instrument (to the boost the lending capacity of microfinance institutions and social finance providers).

[91] Reflection paper on the Social Dimension of Europe.
[92] EIB Group Support for the social sector: http://www.eib.org/attachments/thematic/support_for_the_social_sector_en.pdf

Besides EFSI, it is envisaged that EaSI is also complemented by EIB Group own contributions resulting in an investment pool of around EUR 1billion, which in turn is expected to mobilise nearly EUR 2.5 billion.

Financial Instrument in *EUR M*	Indicative Budgetary Contributions				Indicative mobilised volumes	Scope of intervention	Date Launched
	Total	EaSI	EFSI	EIB Group			
EaSI Guarantee (capped)	196	96	100	-	**1530**	Capped (counter-) guarantee offered to financial intermediaries to cover loan portfolios in areas of microfinance and social enterprise finance.	Jun 2015
EaSI Capacity Building	16	16	-	-	**-**	(Quasi-) Equity investments aimed at building up the institutional capacity of financial intermediaries.	Dec 2016
EFSI Equity Social Impact Pilots	150	27		-	**-**	Equity investments early-stage innovative social enterprises via **social incubation facility**, **business angel co-investment**s and **payment-by-results pilo**t.	Oct 2016
EaSI Funded	200	67	-	133	**300**	Senior and subordinated loans channelled primarily to non-bank financial intermediaries to boost their capacity to on-lend to micro- and social enterprises.	2018H1
EaSI Guarantee (uncapped)	400	20	100	280	**600**	Uncapped Guarantee providing capital relief to encourage mainstream banks to develop portfolios of loans for social enterprises.	EFSI 2.0 planned
TOTAL	**962**	**226**	**323**	**413**	**2430**		

These initial experiences in a sector characterised by a relatively small size of projects and the related small average capital invested on, has raised the awareness on how social investment is **an opportunity for portfolio diversification**, as opposed to major economic infrastructure.

The micro and social entrepreneurship sector responded well to financing opportunities, showing a **strong demand for EU funding**. Although the budget for the EaSI guarantee in support of microfinance was significantly increased in comparison with EPMF, it was fully used only in less than two years**,** necessitating additional investment capacity (doubling of the guarantee being provided under EFSI). Higher average ticket size also contributed to the **fast absorption of the facility**. By comparison, the take-up of the social entrepreneurship guarantee has been

more moderate due to the novelty of the instrument, while the deal flow of operations has grown positively and is expected to fully exhaust the initial budget earmarked. Therefore, the EaSI programme has proven the capacity of EU-level Financial Instruments to deliver the objectives envisaged by the EU Regulation for micro-finance and social entrepreneurship. Deploying the full potential shown by the results achieved in the period 2015-2017 therefore justify its continuity and need for additional firepower. For scaling up and assuring sustainability of project results, dissemination activities are essential

In the realm of social infrastructures, the **limited use of the present EFSI EU guarantee** for supporting an expanded range of social investments in the social sector, is owed to the: i) lower level of risk, and lower level of innovation and thus additionality of the EU guarantee in the context of PPP projects which are the primary method for engaging private finance for such developments, and ii) the immaturity of the overall social investment market associated with the development and design of interventions to deliver social outcomes using social or private finance.

The moderate pipeline development of the EFSI pilots signals a market segment still in development, with significant capacity building needs and long lead times to market in the absence of dedicated technical support made available alongside the Financial Instruments. At the same time the transactions approved under the EFSI social impact pilots represent the development of replicable models of access to finance for potentially excluded social ventures and future potential to scale[93].

The experience over the period of EaSI implementation (2015-2017) as demonstrated by the quick absorption of the budgetary resources, coupled with a growing deal flow and increased absorption capacity of the sector as a whole, show there is a largely untapped demand. Building up the social finance market will continue with the resources currently available until 2020[94]. However, without a consequential allocation of resources for social EU-level Financial Instruments in the period 2021-2027, supporting ESF and other funding instruments, the EU efforts for building up market structures in support of microfinance and social enterprise needs would be seriously compromised.

EaSI programme - the mid-term evaluation

This section includes the main conclusions regarding Financial Instruments from the mid-term evaluation of the EaSI programme (2017):

"*Financial Instruments under the EaSI Microfinance and Social Entrepreneurship axis have been relevant both in terms of its general objectives and the stakeholders' needs. Existing market imperfections in both the Microfinance and Social Entrepreneurship markets, along with financial gaps between supply and demand of finance in a majority of Member States, suggest the need to continuously promote financial inclusion through increasing availability and accessibility of finance for vulnerable people*."

[93] The signalling effect of the pilot PbR instrument in particular for the development of outcomes-based contracting and social innovation, including unlocking innovation in public service delivery, is of particular importance.
[94] The EaSI Financial Instruments allocations have been already absorbed; without the 2017 EFSI 2.0 top-up allocation, the EU support in this field would have already come to a halt.

"*Additionally, in some Member States, the market for lending to social enterprises remains undeveloped*".

"*In order to reach the most vulnerable social enterprises, which should be a core target group according to the EaSI regulation, a recommendation is for the EIF to widen its reach by encouraging financial intermediaries to reach the social enterprises most in need of financial support*."

"*In terms of relevance in the light of stakeholder needs, financial intermediaries benefitting from EaSI Microfinance and Social Entrepreneurship support can provide loans at better terms thanks to the instrument. The guarantees have helped to overcome previous barriers preventing final beneficiaries to access finance, suggesting it is well designed and fit for its purpose*."

"[The] *amounts allocated to the axis are insufficient to meet demand and ensure a continuation of support beyond one cycle*."

"*The EaSI Microfinance and Social Entrepreneurship axis has been efficient in increasing the availability of and access to finance as the supply of financing has increased. Clear quantitative changes are increased lending volume, number of loans and number of beneficiaries, in particular for microfinance. Moreover, these quantitative effects would not have materialised or done so at a slower pace in the absence of the EaSI Microfinance and Social Entrepreneurship axis, as financial intermediaries would not have been able to offer similar products without support from EaSI. Evidence of qualitative changes is however scarce. Moreover, financial intermediaries have not reported information of the provision of monitoring and training for more than half of the final beneficiaries at the end of 2016*".

"*In addition, the overwhelming demand for the financial guarantee under EaSI Microfinance and Social Entrepreneurship has put pressure on the budget. As 2/3 of the allocated amount was used already after one year, the EIF will run out of funds for the Microfinance and Social Entrepreneurship axis before 2020. This suggests that the allocated budget for the axis is not optimal nor sufficient for EIF's long-term goals to provide the financial guarantee for two or three cycles*".

"*With regard to Microfinance and Social Entrepreneurship, there is not always coherence between the EaSI Financial Instrument and national and regional policies, as goals and actions of the EaSI Financial Instrument are not always aligned with national and regional policies or interests. To maintain complementarity, nevertheless, the EIF undertakes efforts to ensure their achievements do not interfere with programmes already implemented and that the EIF's actions are complementary*".

"*The EaSI programme EU added value is widely acknowledged, in particular with regards to the cross border partnerships and the exchange of good practices. For example, one of the key features of PROGRESS is to be the most suitable to build EU wide networks and partnership as well as produce EU wide deliverables that are not top priority at other governance level, such as databases, studies, policy experimentations, capacity building and mutual learning activities or support for EU networks focused on social exclusion and poverty prevention*".

"*The EaSI Financial Guarantee appears to fill a clear gap in the supply of microfinance. Should EaSI be discontinued this would have repercussion on many challenges, in particular in the employment field. In such a scenario it would be unlikely that other funding schemes at e.g. national level would be able to support policy experimentations across different Member States*".

"*With regard to Microfinance and Social Entrepreneurship, the support for the social investment market would most likely slow down without funding from EaSI, leading to fewer social business across the EU and thus fewer employment opportunities in these sectors*".

Erasmus+ Student Loan Guarantee Facility - the mid-term evaluation

The Erasmus+ Student Loan Guarantee Facility [95] is an EU-supported loan scheme for transnational studies at master level. The scheme has been developed in the context of the Erasmus+ Programme to facilitate access to finance for postgraduate students (regardless of their social background) to undertake a master degree at a university (or other higher education institution) abroad.

By means of combined risk sharing at the individual level (90 % first loss guaranteed) and at the portfolio level (max. 18 % of the portfolio guaranteed), the facility limits the Commission's maximum risk exposure to 16.2 %, with a target leverage of 6.2. The individual loans are limited to EUR 12,000 for a one-year Master degree programme or EUR 18,000 for a Master degree of more than one year.

By now up to EUR 160 million is available to students in Master loans via 6 financial intermediaries established in 6 Erasmus+ Programme Countries (ES, FR, UK, TR, LU & CY), enabled through EUR 26.6 million in 7 EU guarantee agreements. The first Erasmus+-guaranteed Master loans were disbursed in June 2015. By end 2017 357 students have benefited from EUR 4.2 million in EU-guaranteed Master Loans.

The section below summarises the main conclusions regarding the Student Loan Guarantee Facility from the mid-term evaluation of the Erasmus+ programme (2017):

Relevance

"*After some delays in kicking-off the implementation and just two years of active launch of the facility, take-up rates are well below initial expectations. (…)While the facility addresses a real problem and while there is a case to use Financial Instruments to address this problem, the facility is focused on a segment which has less potential, in terms of volumes, than initially anticipated*."

"*Overall the facility has an added value / a gap to fill mostly in Southern, Central and Eastern European countries where a lot remains to be done to achieve full portability. (…) The design of the SLGF, whereby parental guarantee cannot be required by the financial intermediary is a welcome attempt to cover those from lower socio-economic background*."

"*First data from Spain tend to indicate on the contrary that the SLGF is as effective as the Erasmus programme in promoting the participation of students from non-academic backgrounds*."

[95] https://ec.europa.eu/programmes/erasmus-plus/opportunities/individuals/students/erasmus-plus-master-degree-loans_en

Coherence

"*The SLGF complements the EU toolbox by focusing on the segment of degree mobile students. Synergies with national schemes, whereby the same financial intermediary implements both the national and the EU loan, have been observed only in the case of France. Some national schemes also seem to be attracted by the EFSI for the same purposes than the SLGF – even if it has not (yet) translated itself into actual projects being financed.* "

Effectiveness

"*The scheme has so far not been especially effective at attracting financial intermediaries. Aside from the narrow focus of the facility and some national schemes already covering their market, financial intermediaries note the riskiness of the segment despite the EU guarantee (since it is capped), especially when it comes to incoming students.* "

"*In many countries, higher education institutions would not have incentives to act as financial intermediaries (…) because fee levels are low or because they have limited financial autonomy. (…) A lot remains to be done to raise awareness levels all the way throughout the supply chain (among financial intermediaries and students, but also among the multipliers – e.g. universities).*"

"*First final beneficiaries are generally satisfied with the loan, which has been instrumental in triggering their mobility. In total, 70% of the first beneficiaries (n=44) said they would not have been able to study for their Master abroad without the E+ loan.* "

EU added value

"*In countries covered and for the limited number of final beneficiaries concerned, the main EU added value is to lead to reduction in interest rates, the removal of the guarantor/ collateral / resource requirement or the opening of new product lines.* "

"*The benefits of the EU guarantee are thus adequately passed on to students when comparing to market rates, even if some beneficiaries did complain about the interest rate.*"

Efficiency

"*The option of creating a financial instrument with a leverage effect of 6.2 minimum is cost-efficient – especially compared with the alternative of directly administering the loans.*"

ANNEX 4: SCOPING PAPERS

This section includes scoping papers for all proposed policy Windows approved by the Financial Instruments Interservice Expert Group.

1. Sustainable Infrastructure Window

A. Policy Drivers, Scope and Context

Sustainable investment in infrastructure[96] will be fundamental in order to fulfil the UN Agenda 2030 and its SDG and the subsequent objectives of the Paris Agreement adopted by the EU and the rest of the world in 2015, and as such will have to be well-reflected in and supported by the EU's main centrally managed fund. These commitments link directly with the sustainability policies and targets set out in the EU, including the 2030 Climate and Energy Framework.[97] To that end, EU will have to draw on its policy framework embedded within the ETS, the Effort Sharing Regulation, the Clean Energy for All Europeans Package, the Clean Mobility package, the EU environmental acquis and the recently adopted framework on the Circular Economy, Clean Air, and Nature, as well as the EU financial framework[98].

Contributing to these objectives is targeted implementation of trans-European networks (TENs) and the Gigabit Society Strategy in the sectors of transport, energy and telecommunications, which set out EU's long-term policy objectives to connect Europe in a sustainable and innovative manner. Focus on environmentally friendly, intelligent infrastructure, modes and systems as well as alternative fuel deployment is expected to stimulate EU-wide markets and contribute decisively to facilitating the EU's transition to low-emission economy.

Sizeable investment needs in EU infrastructure will be required to meet the EU's sustainability targets. These include those embedded in the UN Agenda 2030 and its SDGs as well as the Paris Agreement and related EU targets such as the 2030 relating to energy and climate, air pollution, nature[99], and the circular economy as well as related TEN policy objectives. To reach the EU's 2030 energy and climate targets, EUR 379 billion of average annual investment will be needed between 2021 and 2030, mostly in energy efficiency, renewable energy sources, and infrastructure – excluding transport infrastructure and recharging infrastructure. Circa EUR 500 billion will be necessitated to complete TEN-T core network[100] over 2021-30 and up to EUR 1.5

[96] Infrastructure in this context is broadly defined. It is more than large, cross border, network infrastructure (a concept used in trans-European network regulations) it refers broadly to basic infrastructure necessary for socio-economic development.

[97] Key targets for the year 2030, a binding target to reduce greenhouse gas emissions in the EU by at least 40 % by 2030 (compared to 1990), a binding target at EU-level to increase the share of renewables to at least 27 % and a target of 30% energy savings

[98] The financing and investment gap related to achieving the policy objectives is very big – much beyond the size of the available public funding, let alone the EU budget. Hence an important prioritization will be required with sustainability as an important if not overriding criteria

[99] Financing needs to implement the Natura 2000 network have been estimated at EUR 5.8 billion per year. Financial costs to implement the target of restoring 15% of degraded ecosystems have been estimated to be between EUR 0.5 to 11 billion per year. However not all these costs are investment costs eligible under NCFF. The 2013 ex ante assessment for NCFF estimated the projected market size for 2020 to be between EUR 73 million to EUR 288 million, depending on the market growth rate assumption, based on case study data on the number total cost of projects between 1994 and 2010.

[100] TEN-T Work Plans: https://ec.europa.eu/transport/themes/infrastructure_en. The contribution of the TEN-T to decarbonisation goes beyond the simple project by project outcome, and has as systemic impact. The TEN-T network, which includes all modes and multi-modal connections, establishes the basis for efficient and sustainable transport chains for passengers and freight across the modes. An efficient TEN-T, modal shift to sustainable mode of transport and the equipment of TEN-T with intelligent transport systems within and between all modes or with alternative fuel infrastructure, helps further

trillion if TEN-T comprehensive network and other transport investments are included. In the field of telecommunications, an investment gap is in the order of EUR 70 billion in the areas of cross-border networks, but also rural, middle and low income isolated areas across the EU.[101] These include investments that can enable important reductions CO2 as well as other priority air pollutants[102], and/or provide alternatives for infrastructure with large impacts on natural capital. Approximately EUR 22 billion investment are required to achieve the objectives stated in the EU Urban Waste Water Directive according to the information gathered under the last article 17 Report from EU Member States forecasts. Forecasts include an approximate distribution of the investment needs as reported by the Member States. Investments are forecasted also increasingly relate to the renewal, improvement and extension of the existing infrastructure. The total EU yearly investments in waste water infrastructure (in general) are expected to reach EUR 25 billion per year between 2015 and 2018.

The European space industry is facing tougher global competition. Space activities are increasingly open to private investment in the areas of satellite communications, earth observation and even launchers. Space is now part of a global value chain that increasingly attracts new companies and entrepreneurs, so-called 'New Space', which are pushing the traditional boundaries in the space sector. This opens up new opportunities to develop innovative products, services and processes which can benefit industry in all Member States, creating new capacities and adding value in and outside the space sector. In this context, Europe needs to act now to maintain and further strengthen its world-class capacity in space value chain and to optimise the benefits that space brings to society and the wider EU economy.

Low infrastructure investment rates in the EU during the financial crisis undermined the EU's ability to boost sustainable growth and competitiveness[103]. This was also caused by a reduction in investment by the governments[104]. Differences with regard to infrastructure investment across Member States further undermine European cohesion; a problem partially addressed by ESI Funds. Additional complicating factors affect investment from environmental, maritime and climate policy perspectives, related inter alia to the failure to reflect environmental costs or value in market prices, thus making sustainable investment less attractive notably in terms of risk vs short-term gains, market fragmentation for environmental (public) goods and related commodities, risk avoidance and/or lack of knowledge of investors in certain areas such as the blue economy, poor or no access to adequate combined environmental and financial structuring expertise and/or SPVs that can enhance the attractiveness of sustainable infrastructure pipeline and make it more suitable for commercial investors' uptake[105].

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boosting decarbonisation. Further ensuring and improving the sustainability of TEN-T nodes is important in making the transition to smart and low-emission mobility

[101] The figures included in the paragraph cannot be aggregated due to their different calculation methodologies and should not be considered exhaustive of all investment needs.

[102] Such as PM, NOx, and SOx

[103] At about 20% below the investment rates of pre-financial crisis

[104] In addition, information submitted by national governments of large EU economies in the context of the 2017 European Semester does not indicate plans to significantly increase public investment over the medium term, while public investment is expected to translate into higher infrastructure spending in some of the other EU economies

[105] Noting also that these aspects, combined with volume related targets (which may be warranted to counter severe crises), have a tendency to reinforce market failures and other barriers and thus multiple the competitive disadvantage. Strict fiscal policy

Against this backdrop, the InvestEU Fund must fully reflect the policy priorities to reach the EU's targets. Thus, investments should comply with the Paris Agreement and complementary to EU objectives and deliver high EU-added value rather than solely a high investment volume. The investment focus should also allow a certain degree of flexibility to react to new investment needs that are today not yet visible.

B. Rationale for an EU level investment instrument; is subsidiarity respected?

Challenges and drivers justifying EU level support (including financial instruments) in EU infrastructure can vary significantly depending on the sectors or areas under consideration. Common challenges and drivers in light of subsidiarity are:

- policy targets (particularly in the case of the energy sector) are defined in a collective manner on European scale instead of national binding targets;
- costs occur at national/local level while benefits are realised transboundary / EU scale;
- costs and benefits of projects involving several Member States are asymmetrically distributed among them, coordination failures;
- network infrastructures serve as a 'public good' for the entire energy and transport system and are a key enabler for e.g. higher levels of renewables, efficiency and demand response, and e-mobility.
- benefits are dependent on other investments in the supply / value chain or network and/or entail a high first mover risk;
- environmental and socio-economic costs and benefits are not (sufficiently) internalised due for example to pricing related market failures and/or poorly designed or conflicting policy frameworks (for instance simultaneously subsidizing green and grey or brown activities, contribution to modal shift, air quality improvements, long term biodiversity benefits, GHG emissions reductions[106]);
- lack of interoperability in cross-border services and similar obstacles preventing enhanced cross-border co-operation to solve transboundary (environmental) problems;
- incomplete internal markets where differing national regulatory regimes and regulatory risk still create barriers to market-based funding, market entry, weaken enforcement of environmental standards leading to free riding, etc.
- market size: individual countries may lack sufficient scale to be attractive to private operators, and others are so large that regional fragmentation becomes an issue;
- sub-optimal technical assistance and project development capacity preventing investment in sustainable infrastructure: "Sustainability infrastructure is a new development area and

relating to government debt v. GDP ratios (to be kept in principle under 60%) combined with the longevity of infrastructure financing (up to 30 years or more) further adds to the unfavourable conditions for greening the EU infrastructure. These barriers could be overcome by emphasising advanced sustainability of the window and making that its unique selling proposition. Also current positive economic cycle in the EU should be used to strongly focus on the most sustainable infrastructure segments (avoid the higher crowding out risks that will come with traditional infrastructure).

[106] Examples of insufficiently internalized pricing includes vehicle and fuel taxes based primarily on CO2 and ignoring carcinogenic air pollutants such as NO2. Other examples are agriculture-related rules focusing mainly on soil and water pollution whilst ignoring methane emissions contributing to climate change and PM –related air pollution over long distances, or some ecosystem services not priced on the market (e.g. flood control, water filtration, recreation, pollination..)

support is needed to transfer lessons from one member state to another, as well as to advise member states and local authorities on how best to develop projects in this space"[107]

- the value of some services is proportional to the number of users, thus it is necessary to achieve a critical mass before having the possibility to attract private operators

Articulation between EU programmes and EIB overall support

The *overall* lending by the EIB, including EFSI, 2013-2017, has been stable at around EUR 70 billion per year[108]. However infrastructure and environment EIB lending was less than half this (EUR 30billion in 2015) and has been declining.[109] In the same period, a substantial contribution in the form of grants from EU programmes, including in the frameworks of the CEF, ESIF, and LIFE[110], will contribute to increase the level of investment in infrastructure in the current MFF albeit the share of environmentally sustainable spending remains (very) low here too.[111] In a span of 4 years under direct management the CEF[112] has committed around EUR 24 billion to mobilise over EUR 50 billion of investment out of which over 10% through blending, in sustainable infrastructure and core trans-European networks (TENs).

EU support mechanism

For infrastructure projects that have positive expected environmental and socio-economic values in support of EU policy objectives, there exists a full spectrum of financing needs (in terms of the financial viability of the investment): from financially viable projects based on the income stream generated by users and concession fees in regulated sectors, to projects not generating revenues to cover investment and therefore being highly dependent on public sector/government support, typically in the so called "public goods" sector.

Therefore a full range of support mechanisms continue to be appropriate for infrastructure including a continuation of EU-backed budgetary guarantees and financial instruments, delivered through the InvestEU Fund, to complement the bulk of EU support to the sector delivered

[107] Final Report of the HLEG on Sustainable Finance, p.35
[108] http://www.eib.org/infocentre/publications/all/operational-plan-2014-2016.htm
[109] http://www.eib.org/infocentre/publications/all/operational-plan-2018
[110] Although LIFE does not provide direct grant financing for large infrastructure, LIFE Integrated Projects mobilise complementary finance for major investments including in green infrastructure.
[111] The Life programme on climate and environment amounts to ca. 0.3%
[112] CEF-Transport budget is allocated 75% in rail sector and the rest on, inland navigation, deployment of alternative fuels (e-charging points), and multimodalities and traffic management systems. CEF-Energy also played an important role in implementing critical missing electricity and gas projects (PCIs) to enhance the security of supply and enhance the functioning of the internal energy market. As a result, the EU should have achieved a well-interconnected and shock-resilient gas grid by the early 2020's and CEF will have capacity to take the strengthening of networks a step forward. Focus must thus be put on the reinforcement of the electricity transmission and distribution grids, digitalisation and smartening of the grids and deployment of new infrastructure solutions, particularly in the electricity storage area (including power to gas), and hydrogen

through calls for grants and blending, by the CEF, LIFE and ESIF programmes[113], and by the EIB standard lending.

Environment and (socio)economic benefits	**Financial viability**	**Approach**
Market		
+/-	+++	Private finance exclusively, commercial banks
Public and promotional banks		
+	+	EIB, NPBs, etc. standard lending
InvestEU Fund		
+	+/-	EU-backed (including through budgetary guarantees) financial instruments plus private finance
CEF, LIFE and ESIF grants		
+	+/--	"Blending" : EU grants plus private finance from EIB (including EU-backed FIs), NPBs, or private investors
+	-	EU grants plus public sector finance

The above table illustrates an already available structured approach to assess the appropriate use of EU instruments or complementary combinations of instruments, to support investment appropriate at the EU level. Full flexibility should be maintained to allow for establishing bundling and blending instruments throughout the next MFF following evolving needs and maturities. There may be case in terms of economy of scale for establishing larger blending facilities within or connected to the Single Investment Fund for small instruments such as LIFE.

Lessons learned from previous "financial instruments" programmes

A variety of EU-backed financial instruments to support investments in infrastructure have been developed, notably the CEF Debt Instrument, PF4EE, EEEF, NCFF, and on equity side, the Global Energy Efficiency and Renewable Energy Fund[114], Broadband Fund as well as the Marguerite Fund. Each of the instruments helped address specific market failures in their respective infrastructure areas (see Annex I). Use of such targeted instruments was reduced by the creation of EFSI in 2015 (demonstrating the need for and virtues of a horizontal, market driven financial instrument). However, their use continues to demonstrate the need for a broad and flexible *range* of instruments specifically tailored to (very different) market sub segments, particularly when there is an EU policy objective related to sustainability and/or public goods for

[113] ESIF in the period 2014-2020 provides EUR 63.8 billion in support of the Shift towards a low-carbon economy, substantial envelopes are also allocated in support to Promoting sustainable transport and improving network infrastructures, Preserving and protecting the environment and promoting resource efficiency, and in Promoting climate change adaptation, risk prevention and management

[114] Operated by EIF; albeit focusing in investments in high-risk areas outside the EU, GEEREF experience and lessons learned at the time of its establishing remain highly relevant for promoting sustainable investment solutions in the EU.

which investment levels beyond those delivered through normal commercially viable projects or with purely national public support.

In general, the take up of the EFSI and CEF DI in the TENs is a delicate operation. Strong public good issues (e.g. for railways), complex cross border arrangements, differing national regulatory regimes, complex national planning and impact assessment processes, and technology uncertainties can all raise project risks and thus cost of capital. The recent use of EFSI, as well as existing pilot instruments show that there are instances where project risk or complexity (and consequent non-viability) may warrant support beyond financial instruments including advanced technical assistance available over a long period from pre-investment onwards and grant financing in various modalities (e.g. including "blending"). The latter components are critical to step up the ESG credentials of EU supported investments in line with the EU and international commitments, notably the 2015 UN Agenda and Paris Agreements.

EU-backed financial instruments and EFSI still in some regards differ. For example, the fact that the CEF DI is delivered via products, some of which were tested under the previous instruments (LGTT and PBI) has meant that the CEF DI support took the form of subordinated products in the case of a high proportion of projects, or targeted instruments to address specific market failures (e.g. the Green Shipping Guarantee)[115].

These complementary elements: targeted instruments and general support to investments are both important and should be maintained in the InvestEU fund.

C. InvestEU Fund support: Type of final beneficiaries and target groups (large corporates, small beneficiaries, public or private sector entities, SPVs)

The type of final beneficiaries and target groups relating to sustainable infrastructure window of the future InvestEU fund will vary significant depending on the sector under consideration, is dependent on a number of factors including their creditworthiness and project financing structure, in addition to the European level net benefits (e.g. market integration, industrial scaling, environmental/GHG benefits).

In the utility sectors, notably in the energy sector, project promoters would mostly come from a mix of public (cities, municipalities), semi-public and private sector, such as transmission and distribution system network operators, electricity suppliers and retailers, energy, water and waste service companies (potentially including IT companies), generation companies, energy communities, large property owners etc. These entities may be public sector by tradition operating on commercial or non-commercial basis, privatised with or without public service objective, or recently created public entities in nascent markets (e.g. for energy services). The InvestEU Fund is well placed to realise cross-sectoral synergies, e.g. between energy, transport and digitalisation.

[115] For example, In line with the findings of the evaluation of the Europe 2020 Project Bond Initiative, it should be noted that the LGTT and PBI were specific tools designed in particular for use following the financial crisis. As the financial markets have improved, their applicability today is to an extent diminished. However, this does not mean that they have lost their utility. Were there to be another tightening of credit or other stresses on private finance, such tools would again be more relevant and would likely be in significant demand.

Likewise in transport and mobility sector, promoters range from public and semi-public corporates operating on rail infrastructures to SMEs providing infrastructure and mobility services for instance in the areas of alternative fuels and inland navigation. Large and medium private or public entities or SPVs also operate under concession or PPP such as in ports, airports and motorways projects, and as well to deliver water and waste water services. Large, midcap companies and SMEs operate mobile assets in all modes of transport, notably in shipping and rail freight operations.

In the sector of telecommunications, project promoters can be private and public and vary significantly in size. It is of particular importance that smaller promoters have adequate access to such instruments. On the other hand, strict eligibility criteria should be imposed in relation to the projects deployed (contribution to EU's connectivity targets/increasing coverage, state of the art technology, innovative business model, etc.).

In the sector of telecommunications, project promoters can be private and public and vary significantly in size. It is of particular importance that smaller promoters have adequate access to such instruments. On the other hand, strict eligibility criteria should be imposed in relation to the projects deployed (contribution to EU's connectivity targets/increasing coverage, state of the art technology, innovative business model, etc.).

In the blue economy, project promotors cover the whole value chain, ranging from public, to semi-public and private entities varying from multinational, medium size maritime businesses to SMEs.

The major public stakeholders to be involved include national space agencies, the European Space Agency (ESA) and public authorities involved in the implementation of European space programmes, space manufacturing and services industry trade associations at European and national level, and intergovernmental organisations active in climate monitoring (EUMETSAT, ECMWF).

Innovative approaches driven by EU policies or new and emerging market trends are likely to lead to the involvement of new categories of beneficiaries[116], lacking in same case track records in these new business, which affects access to finance. Therefore flexible arrangements will be needed in terms of blending and bundling of different means of support. This will allow building EU experience and best practice with effective and efficient cost-sharing.

[116] Examples include cost-effective nature-based solutions/green infrastructure, for example where instead of building dams and other infrastructure to combat flooding, solutions involve mechanisms allowing to flood land upstream rivers or canals to manage water levels whilst simultaneously providing recreational and other co-benefits whilst possibly saving investment and operating costs compared with traditional solutions. Other examples include investments in green urban areas (a.k.a. Urban Green Infrastructure) where restored ecosystems and new green areas help tackle environmental problems including climate change and deliver wider socio-economic benefits; sustainable urban infrastructure relating to low emissions and/or noise levels, e-charging networks etc.

D. Sectors to be targeted by the support provided under this window

For transport and energy, relevant large infrastructure projects are typically single transactions supported through debt. However for small(er) projects and category of promoters, the use of intermediation is appropriate. EFSI and the CEF DI have developed a number of investment platforms [117]. Other models successfully used Fund of Fund Approaches with specialized investment teams capable of structuring and bundling smaller and/or complex or riskier pipeline.

InvestEU Fund should build on these initiatives and contribute to investing in developing such and similar platforms more widely across the different markets whilst focusing more on quality-related instead of volume based additionality. In particular, there is widespread successful practice amongst NPBs and several IFIs. There is thus a clear benefit to draw on greater range of experience and expertise than available in the EIB.

While maturing renewable technologies would require less support (provided currently mainly at national level), the changing EU regulatory environment may need to be complemented by financial incentives to ensure that the 2030 RES target is met. Energy efficiency will remain among key challenges, where investment needs are highest while significant barriers to investments persist.

The Fund should also cover all environmental investment sectors (waste, water, air, circular economy), including innovative sectors such as green infrastructure and other natural-capital related projects.[118]

Furthermore, new priorities for investment are emerging in areas such as urban mobility, energy storage, electrification, digital service/broadband infrastructures. Achieving such priorities requires efficient allocation and an adequate level of resources.

The Fund and different instruments could be directly available to all eligible financial institutions, as self-selection would lead each to concentrate on their areas of sectoral or financial expertise.

E. Financial intermediaries and private sector stakeholders to be involved and their role

For transport and energy, relevant large infrastructure projects are typically single transactions supported through debt. However for small projects and category of promoters, the use of intermediation is appropriate. EFSI and the CEF DI have developed a number of investment platforms. InvestEU Fund should build on these initiatives and contribute to investing in developing such and similar platforms more widely across the different markets. In particular,

[117] http://www.eib.org/projects/pipelines/pipeline/20150334 ; http://www.eib.org/projects/pipelines/pipeline/20150115

[118] Note in this context also the increasing interest from the EU legislator to track finance and investments flows from the EU budget aimed at promoting sustainable development goals. This is illustrated again in the Directive (EU) 2016/2284 on the reduction of national emissions of certain atmospheric pollutants, where the legislator included two articles that relate to tracking EU funds for improving air quality (i.e. *Article 7 on* Financial support and *Article 11on* Reports by the Commission to the European Parliament and the Council on the progress made in the implementation of this Directive, including […] the uptake of Union funds to support the measures taken with a view to comply with the objectives of this Directive […].

there is widespread successful practice amongst NPBs and several IFIs. There is thus a clear benefit to draw on greater range of experience and expertise than available in the EIB. The Fund and different instruments could be directly available to all eligible financial institutions, as self-selection would lead each to concentrate on their areas of sectoral or financial expertise.

Given the strategic dimension of space, there will always be a need for a strong engagement of the public sector. However, private investment is expected to drive entrepreneurship in some areas. Therefore, the role of the financial intermediaries would be to invest in equity or blended finance with terms and conditions adequate to the space sector (e.g. high risk, long infrastructure cycles); and to accompany the paradigm change in the European space sector.

Good articulation with support provided under the "SMEs window" and "RDI window" is also needed, for instance to support SMEs, and projects aiming at deployment of new and mature technologies (e-charging), which should typically be supported by the "Sustainable Infrastructure " window. As for the space sector, improved access to finance for small-scale equity investments to get the ideas off the ground (e.g. Euro 0.5-5 million) and for adequate equity investments for scaling up (e.g. EUR 5-25 million); some venture capital funds also argued that injecting EUR 1 billion in equity would mark a big difference for the European space industry. This action can be also addressed within the "SMEs window" and "RDI window".

As with the initial determination of the FI/grant/instruments election eligibility, a structured project assessment approach based on project risk assessment and EU net socio-economic benefits will need to be developed.

In the sector of digital infrastructures, current analyses indicate that there is a greater need for equity and hybrid products for such deployments, and that smaller players continue to have more difficult access to capital markets. In this respect, guarantees for "mainstream" broadband investments under the Single Instrument would be needed to steer, de-risk and accelerate investments in the newest technologies. Another category of support involve niche financial products (SPVs), with a higher risk profile and more intensive capital use, where a direct participation is foreseen, together with private capital to ensure leverage, in order to cover specific areas where mild market failures exist (e.g. equity investment fund, project bonds, etc.).

Annex I

Lessons learned from EU-backed financial instruments in the current programme:

- From 2015 to 2017, the EIB group approved EUR 51.3bn under EFSI, 20% in energy [119] (11% in digital, 9% in transport[120] and 4% on environment and resource efficiency infrastructure. A substantial volume of finance is to be delivered through funds.

[119] transmission and distribution infrastructure, RES, EE and smart grids
[120] PPP road and rolling stock project absorbing the bulk of financing, and as well maritime ports and airport projects and other projects in areas of urban development and alternative fuels

- CEF Debt Instrument (CEF DI) to date manages a portfolio exceeding EUR 14 billion and 12 projects in the transport sector, ranging from PPP in the road and rail infrastructure sectors to maritime and inland ports and green shipping. The up-take of the CEF DI in the energy and broad band sectors has so far been more limited.

  CEF DI[121] and EFSI have mobilised a comparable volume of investment so far, but have to some extent addressed different market failures. The fact that the CEF DI is delivered via products, some of which were tested under the previous instruments (LGTT and PBI) has meant that the CEF DI support took the form of subordinated products in the case of a high proportion of projects, or targeted instruments to address specific market failures (e.g. the Green Shipping Guarantee)[122].

  In general, the take up of the EFSI and CEF DI in the TEN-T rail infrastructure and cross-border infrastructure is still below expectations, mainly because the projects in the rail infrastructure struggle to show bankable business cases and the promoters are in general semi-public entities, and due to the complexities of projects to be implemented in cross-border jurisdictions.

  There has been some level of substitution effect by EFSI of projects that would have been suitable for the CEF DI. EFSI has a wider scope than CEF DIs (and arguably less emphasis on projects of highest EU added value) as it does not specifically focus on the TEN networks or on infrastructure (for instance several operations relate to the purchase of aircraft, trains, buses which cannot be supported by the CEF DIs).

  However, most operations eligible under the CEF DI are also eligible under EFSI and several important transport projects initially envisaged for the CEF DI were eventually financed through EFSI123. The approach taken for EFSI, whereby EU budget is used to provide a guarantee to the EIB or other financial institutions financing is the same approach as was taken by the CEF legacy financial instruments (i.e. PBI and LGTT) and the CEF FIs.

  The use of the CEF financial instruments is expected to take up during the second half of the programme when complementarity between the CEF specific financial instruments and EFSI have been ensured by the agreement in July 2016 on a policy note refocusing the sole of the CEF DI on clean transport, with an expected pipeline of 2.4bn. CEF DI will be focused on piloting thematic products and platforms such as green shipping[124] to

[121] In accordance with the CEF Regulation, the Commission, in cooperation with the Member States and the beneficiaries concerned, was required to present a report on the mid-term evaluation of the CEF to the European Parliament and the Council. This report COM(2018) 66 final and its accompanying Commission staff working document was adopted by the Commission on 14 February 2018

[122] For example, In line with the findings of the evaluation of the Europe 2020 Project Bond Initiative, it should be noted that the LGTT and PBI were specific tools designed in particular for use following the financial crisis. As the financial markets have improved, their applicability today is to an extent diminished. However, this does not mean that they have lost their utility. Were there to be another tightening of credit or other stresses on private finance, such tools would again be more relevant and would likely be in significant demand.

[123] Grand Contournement Ouest de Strasbourg (A355), A6 Wiesloch in transport and the Transgaz "BRUA" Gas Interconnection Project, Italian-France electricity interconnector in energy.

[124] In this respect the successful cooperation between the EIB and the Commission to design instruments addressing specific market failures is illustrated for example in the case of the Green Shipping Guarantee (GSG) Programme in transport

be scaled up by EFSI, within the scope of the Cleaner Transport facility[125], and on transaction involving third countries, notably in the energy sector.

In 2017 the CEF DI capacity to support the rolling out of renewable technologies in the transport sector have been reinforced by the Commission Decision (C(2017) 7656 final) to allow the use of up to 450M of NER300 funds thought the CEF DI and InnovFin EDP.

- On energy efficiency, the PF4EE instrument targets projects which support the implementation of National Energy Efficiency Action Plans or other energy efficiency programmes of EU Member States. To date the EIB have signed operations in The Czech Republic, Spain, France, Belgium, Italy, Portugal, Croatia, Greece and Cyprus, generating a portfolio worth of EUR 713M of investment. The final recipient leverage effect would be 14.5 against an initial target of 8. EEEF with EUR 130.3 million in 12 projects, in 7 Member states has worked with municipalities, as it is setup to finance EER and RES projects for public entities at local government level. The Fund has faced is the limited number of ongoing projects and the difficulty to attract a substantial number of new ones. EEEF also helped the Commission learn that the closing of projects is facilitated if technical support is tied to use of the fund.

Under the NCFF, LIFE provides 10M EUR of technical assistance, and a guarantee of 50M EUR to support EIB investments (loans and equity) of up to 125M EUR that contribute to biodiversity and/or climate change adaptation objectives.

It aims at establishing a pipeline of some 9 to 12 replicable, bankable operations that will serve as a "proof of concept" and demonstrate to private and public investors the attractiveness of such investments. This represents an innovation which, if successful, could drive the architecture of natural capital financing. Although development of the pipeline has been slow, the pace is picking up with three operations now signed, 5 additional ones in the pipeline, and 9 more currently under scrutiny by EIB.

Recommendations from the LIFE mid-term review have been implemented including increasing visibility and promotion, and operationalisation of the support facility. The implementation period had been extended until 2021 and the 2018-2020 LIFE programme foresees a new guarantee window. Experience so far with NCFF shows that there is a niche for investments in ecosystem-based natural capital investments, though it is important to develop a pipeline to share the experience and demonstrate the opportunities more widely. The LIFE mid-term evaluation also recommended to consider options for blending.

- On the equity side, the Marguerite Fund has invested 31% to the TEN-T eligible projects, in the areas of road PPP and airport, 55% in the energy sector including renewable 14% in ICT. Marguerite II will continue focusing on both new ("greenfield") and expansion to existing ("brownfield") infrastructure investments in renewables, energy, transport and

[125] A new thematic product is under consideration in support of projects or innovative companies pursuing projects fostering the decarbonisation of transport and technological innovation in the transport sector and the deployment of alternative fuels infrastructure along the Trans-European Networks-transport (TEN-T) corridors, such as electric charging infrastructure. High risk debt helping these pre-bankable project promoters to overcome the high uncertainty faced during the ramp-up phase for the demand in electric charging may be needed.

digital infrastructure. At the end of the investment period of the Marguerite Fund, the Fund invested EUR 745m in 13 Member States.

- The Connecting Europe Broadband Fund is expected to set a good precedent as regards the governance structure - where the lack of control by public shareholders over individual investment decisions is set off against strict eligibility criteria. On the other hand, the layered structure of the Fund, while maximising leverage, generated protracted negotiations and a relatively unattractive remuneration for private investors. In general, the experience of the current MFF shows that we need to be able to adjust the instruments, throughout a programming period, to the overall economic environment and, if possible, to market fluctuations.

Annex II

Whilst progress has been made in supporting sustainable infrastructures, including for example low carbon network related investments in the framework of the CEF, EU support is expected to be scaled up if significantly in line with its commitments under the Un Agenda 2030 and the Paris Agreement as the related EU objectives embedded in the environmental acquis such as the energy and climate objectives for 2030 are to be fulfilled.

In this regard, and whilst mainstreaming environmental and climate objectives are expected to remain a standing of not reinforced requirement, the following areas are identified:

- Transmission infrastructure, including interconnectors and distribution networks
- Smart grids (with close links to digitalisation and cybersecurity)
- Renewable energy (eg all forms of offshore energy, regionally important)
- Energy efficiency projects (developing embryonic markets and integrating the sector into the mainstream capital market)
- Storage technologies (including power-to-gas,)
- Hydrogen infrastructure (with ,links to alternative fuels)
- CCS/U infrastructure

In transport specifically, the following areas are identified inter alia:

- Mobile assets for the land, inland navigation, and maritime sector (e.g. scale up current projects and schemes in the scope of Cleaner Transport Facility and green shipping including zero emission for ships, e-navigation) and the rail sector (e.g. rolling stocks)
- Deployment of alternative fuels infrastructures (e.g. e-charging, with close links to need for reinforced and smart grid infrastructure)
- New and upgrading of TEN-T infrastructure, including in rail, inland navigation and maritime, and urban nodes, and traffic management systems (e.g. ERTMS, SESAR, ITS), notably for investments that make use of private financing in their financial structure.

In specific "environment" sectors eligible investment should include support to investments that are compatible with the circular economy such as:

- Water infrastructure, including flood management
- Waste, including recycling and re-use businesses
- Construction (new circular economy business models also based on extended producer responsibility, full re-use design and zero waste, non-toxic material)
- Environmentally sustainable investment solution related to agriculture, forestry, and fisheries.
- New emerging assets: nature and nature-based solutions, and/or other than project financing[126]
- Projects in the area of natural capital tend to have a largely public benefit dimension, delivering public goods In this respect, offering a broad range of 'patient capital' instruments at EU level can help. "Fund of Fund" type solutions may also be considered[127]

In blue economy specifically, the following areas are identified inter alia:

- Multiple use infrastructure - e.g. newly build port infrastructure need to be climate proof,
- Maritime equipment and technologies: smart infrastructure maintenance – e.g. UAV
- Coastal protection & resilience, coastal and maritime engineering - e.g. building with nature
- Measures to tackle invasive species including related port facilities
- Coastal and maritime tourism – e.g. sustainable and eco- tourism infrastructure, sustainable cruise ships

In telecommunications specifically, the following areas are identified:

- Deployment of very high capacity networks in areas with milder market failures (e.g. low income urban areas, middle income peri-urban and rural areas)
- Full coverage with 5G networks along major terrestrial transport paths.

In the Space sector:

[126] Including corporate finance of new business models related to circular economy such as leasing and lending based models, models based on extended producer liability that may (initially) come with less familiar risk profiles

[127] Risk sharing platforms and vehicles for testing new business models: sustainable investment and innovation leadership role requiring EU to make the first move with a view to scaling up also through replicating at Member States or sector level as market matures; addressing barriers related to limited or lacking track record (e.g. for nature based solutions) for investments with a status that went beyond technological proof of concept; long time lag between investment and impact (cf SPV related solutions addressing shortcomings of grants, etc.).

- regarding the infrastructure the target sector would be the upstream part of the space value chain (e.g. equipment/component supply, large-scale integration of satellite/launchers).
- regarding climate, the target sector would be the end-to-end system that is under preparation in the context of the evolution of the Copernicus programme for the monitoring of anthropogenic greenhouse gas emissions.

2. Research, Innovation and Digitalisation Window

A. Rationale for investment instrument at EU level in your policy area(s); is subsidiarity respected?

A decades-long shortfall of public investment – sharpened by the recent financial crisis – has hampered investment in research and innovation in the EU, be it in variable ways across Member-States. This continuous underinvestment from the public and the private sector has had negative consequences on the leveraging of investment in research and innovation, weighing in turn on productivity growth and the variable standards of living across the EU[128].

Whereas the level of overall investment is now picking up, investment in higher-risk activities such as Research and Innovation (R&I) remains below par; in spite of the EU's target to devote 3 % of the gross domestic product (GDP) to R&I activities – as stated in the Europe2020 strategy (2010) – gross domestic expenditure on R&I in the EU is stagnating around 2%, while the United States, Japan and South Korea invest 2.8 %, 3.3 % and 4.2 % respectively. China, at 2.1 %, has also recently overtaken the EU. Moreover, EU venture capital investments are only at one-fifth of those in the United States and remain fragmented into relatively small-sized funds.[129] Business R&I intensity in the EU stands at 1.3 % compared to almost 2 % for the United States and nearly triple that for South Korea, at almost 3.5 %[130].

The resulting underinvestment in R&I is damaging to the industrial and economic competitiveness of Europe and the quality of life of its citizens. Our societies face multiple, complex and urgent challenges that affect the quality of life of our citizens: from energy efficiency to security, climate change to ageing populations. R&I continues to play a crucial role in anticipating on and responding to these needs, while underpinning broader EU policy objectives[131]. Therefore public investments in R&I, through financial instruments that leverage private capital, are to remain a key driver of productivity, competitiveness and economic growth, in particular given that:

- Two-thirds of economic growth in Europe from 1995 to 2007 derived from R&I.
- R&I accounted for 15 % of all productivity gains in Europe between 2000 and 2013.
- An increase in R&I investment of 0.2 % of GDP would result in an increase of 1.1 % of GDP, i.e. an increase five times bigger in absolute terms.[132]

Although ample evidence exists that economies achieve large and significant returns on R&I investments, and that the latter create new and better jobs in an economy that is ever more knowledge-based and intangible asset-intensive, R&I investments from the business enterprise sector are considerably lower in the EU than in major competing economies[133].

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[128] See https://ec.europa.eu/info/sites/info/files/srip-report-full_2018_en.pdf, page 37 .
[129] See http://ec.europa.eu/eurostat/statistics-explained/index.php/R_%26_D_expenditure .
[130] See https://ec.europa.eu/info/sites/info/files/srip-report-full_2018_en.pdf
[131] European Commission (2017), The Economic Rationale for Public R&I Funding and Its Impact, page 3.
[132] Ibidem.
[133] See http://ec.europa.eu/eurostat/statistics-explained/index.php/R_%26_D_expenditure.

In the current economic context, the barriers of increased global competition to the creation and diffusion of R&I – including difficulties to access finance on reasonable terms – affect the whole research and innovation cycle, ranging from fundamental research to commercialisation. As a result, the role of public R&I investments delivered via financial instruments seems more important than ever before, including the support of breakthrough innovations to transform complicated or costly products, services, models or processes so radically that they create a new market; this is an area where Europe is particularly lagging behind.[134]

While the conditions for access to finance have on average recovered[135], in part as a result of EU initiatives on finance (InnovFin-EU Finance for Innovators and EFSI's Infrastructure and Innovation Window), there remain considerable cross-country differences. Specifically, financial markets in Member States have different degrees of development, in terms of diversity of financial institutions, product offerings and risk appetite to support R&I. As a result, a continued focus on the design of appropriate support mechanisms which balance high risk and potentially disruptive innovation with moderate or incremental innovation is necessary.

The fragmentation of European capital markets, regulatory issues (e.g. fiscal, insolvency, Solvency II), deal flow quality and fund managers performance, alongside weak research and innovation eco-systems in many Member States, hamper the overall potential of the EU economy to systematically produce products, services, business models and companies that can reshape existing and create entirely new markets. Although mitigation of these geographical disparities – as documented as well in the "Interim Evaluation of Horizon 2020's Financial Instruments"[136] – is already partly underway with the help of capacity-building actions and the introduction of a debt finance product tailored to "Modest and Moderate Innovators"[137], significant scope remains for intensifying and widening efforts to ensure more coherent levels of investment across the EU, including possibly through better signposting and more decentralised advisory structures[138].

Finance providers remain rather averse towards providing financial support for R&I activities, which results in low credit scores and high interest charges or sub-optimal repayment terms to compensate for the risks perceived in the innovative technologies or ventures. In many instances, private sector financiers and investors do not finance uncollateralised projects with unsecure return prospects due to the early stage of their development, the capital intensiveness and the long time to market. This is particularly relevant in the case of R&I activities with medium and long-term innovation cycles such as deep tech[139], including for instance in the health, new advanced materials or low-carbon technologies in energy or industry sectors or in the space technology sector. R&I-intensive companies that have outgrown the SME status and are not

[134] European Commission (2017), The Economic Rationale for Public R&I Funding and Its Impact, page 5.
[135] Survey on the Access to Finance of Enterprises in the euro area April to September 2017, section 3.1: https://www.ecb.europa.eu/pub/pdf/other/ecb.accesstofinancesmallmediumsizedenterprises201711.en.pdf?beb1832df4af9efa945a5a1f7b99eeb7
[136] https://ec.europa.eu/research/evaluations/pdf/archive/other_reports_studies_and_documents/interim_evaluation_of_horizon_2020's_financial_instruments.pdf.
[137] See http://www.eib.org/products/blending/innovfin/products/emerging-innovators.htm.
[138] As suggested in the "Interim Evaluation of Horizon 2020's Financial Instruments".
[139] "Deep tech" refers to companies of any sector that are "founded on a scientific discovery or meaningful engineering innovation".

catered for by measures at national/regional level or Structural Funds (under ESIF) would be the relevant targets for finance for R&I support, in line with the EU's ambition to provide a finance escalator from the very early-stage of company development over the scale-up, expansion, renewal and consolidation stages to the extent that clear market failures are present.

The EU-added value of the financial instruments to be set-up under the R&I window of the Single Investment Fund are therefore set to:

- support high-risk investments in R&I, *i.a.* in thematic areas and first-of-a-kind demonstration (e.g. the current InnovFin EDP) for which private investor interest is low; crucial for these investments is their anticipated high level of relevance in support of specific EU policy objectives, such as the deep decarbonisation of the energy system and energy intensive industries; over-fragmentation or compartmentalisation of support due to the creation of a plethora of thematic instruments should be avoided.
- Leverage private investments through thematic investment platforms and other innovative financial instruments (with due consideration of economies of scale);
- address market gaps not addressed at regional or national level at all or not adequately in terms of volumes or risk appetite;
- de-risk investments in innovative technologies and transfer established solutions to new markets;
- address investment gaps through supporting new financial instruments and innovative financing solutions such as crowd-lending or hybrid instruments[140] and cross-border financing options;
- foster the transfer of best practices between financial intermediaries with a view to encourage the emergence of a broad product offering supporting R&I activities and R&I-intensive entities;
- provide economies of scale (i.e. Member States may be reluctant to create support schemes on their own because of cost efficiency considerations);
- gather EU-wide data on the R&I financing gap and make it publicly available; and
- provide technical assistance to and improve bankability of R&I-projects across different sectors.

EU investment in R&I pulls additional investment by the public/private sectors and leverages and complements national and regional-level investments in R&I. Horizon 2020 leveraged EUR 13bn of private funds and mobilised via its debt financing solutions EUR 29.6bn in the first three years of its implementation[141], based on a budget for access to risk finance under Horizon 2020 of EUR 2.7bn.

The R&I window will support the Commission's policy priorities by complementing the funding provided under the 9th Framework Programme for Research & Innovation and other EU and national programmes and funds, such as the Innovation Fund established under the Emission

[140] These can be forms of convertible debt, mezzanine debt, quasi equity, or other innovative financing options.
[141] European Commission (2017), Interim Evaluation of Horizon 2020, book, p. 141.

Trading System (ETS). Final investments may be combined with debt/equity finance and EU grants.

Therefore, given the overall importance of research and innovation for the European Union objectives and policies, appropriate financing instruments are needed to cover different stages in the innovation cycle and the wide range of stakeholders, in particular to upscale and deploy solutions at a commercial scale in Europe and for those to be competitive on world markets.

B. Policy drivers and public sector stakeholders to be involved and their role

The objective of the instruments is to support the Commission's policy priorities, addressing key EU objectives to boost competitiveness, thereby creating jobs, boosting growth and investments.

The instrument is also expected to contribute to:

- Sustainable Development Goals, address global challenges linked to health, energy, security, climate change mitigation and adaptation, decarbonisation of the economy, low-carbon mobility and transport, water and food crisis, environmental disasters, migration, digitalisation, oceans, and biodiversity loss.
- The EU's overall industrial and economic competitiveness, including by fostering more and new technologies, able to stand out in the global marketplace142.
- The EU's scientific excellence.
- Facilitation, broadening and simplified access to finance of R&I projects/companies exposed to an important level of risk.
- Sustainable supply of raw materials.
- The circular economy.

Public sector stakeholders:

- Multilateral development banks, such as the EIB Group and the EBRD; international organisations such as OECD, IMF, WB, and the UN.
- National Governments and Regional authorities.
- National promotional banks, national promotional institutions and investment agencies.
- Public research organisations and innovation agencies.
- Asset Management Companies funded by state budget resources.
- Executive agencies of the European Commission.
- Public networks supported by the European Commission.

Their roles might include the following:

[142] For example the Space Strategy for Europe has a strategic objective on fostering entrepreneurship and new business opportunities, and it is also in line with the recently adopted EU industrial policy objectives.

- Providing inputs on the design of the R&I window.
- Taking part in the governance of the R&I window.
- Implementing the R&I window.
- Matching and co-investing with the EU/MS-level equity/debt instrument in funds or final beneficiaries
- Provision of technical assistance.

C. Financial intermediaries to be involved and their role

Financial intermediaries must be public and private entities that aim to provide finance and technical assistance.

Such entities may include national promotional banks and other national promotional institutions, public authorities, commercial banks, counter-guarantee associations, private equity funds, VC funds, Corporate Ventures, philanthropic institutions, investment firms, Special-Purpose-Vehicles (SPVs), co-investment schemes and other alternative suppliers of finance.

The role of the financial intermediaries will be to:

- Provide debt, equity and hybrid finance to final beneficiaries.
- Take on (part of) the risk and co-invest in the products.
- Report on the effects (jobs, growth data, and success stories).
- Providing inputs on the design of specific products.

Ultimately, diversification in the range of possible financial intermediaries and financing products is important to deliver the financing to target audiences depressed by a financing gap that cannot be addressed by the market alone. It is important, however, that these intermediaries are established in the EU-EEA or in countries associated to EU programmes, to ensure cohesion, cost efficiency and minimise red tape.

D. Private-sector stakeholder organisations, associations or business groups to be involved and their role

Any pan-EU private stakeholder in the field of equity or representing final beneficiaries will be involved, including:

- The European Federation of Financial Advisers and Financial Intermediaries (FECIF)
- Association for Financial Markets in Europe (AFME)
- European Federation of Ethical and Alternative Banks (FEBEA)
- The European Association of Public Banks (EAPB)
- European Banking Federation (EBA)
- European Association of Co-operative Banks (EACB)
- AECM - European Association of Guarantee Institutions
- InvestEurope (private equity and VC)
- European Crowdfunding Network (ECN) and European Equity Crowdfunding Association (EECA)

- ASTP-Proton (knowledge and technology transfer offices and professionals) and FICPI (International Federation of Intellectual Property Attorneys)
- EBN (incubators, accelerators, innovation centres)
- EARTO (research and technology organisations)
- EUROTECH and LERU (research-performing universities)
- Sectoral Associations.

Their roles might include:

- Providing market input and knowledge on the R&I window;
- Taking part in the governance of the R&I window under specific platforms.
- Provision of technical assistance.

Consultations will be undertaken in the context of setting up the legal base, in the context of evaluations and in the context of market testing instruments.

E. Final beneficiaries and target groups

The R&I window will facilitate access to finance to R&I promoters or implementers such as European Innovation Council beneficiaries[143], European Research Council grantees, Marie Skłodowska-Curie beneficiaries, middle market companies, large companies, stand-alone projects, SPVs, Universities, Research Centres, Research and Innovation Infrastructures, Innovation Agencies, and other R&I driven promoters such as research funding foundations. SMEs and – where duly justified – small midcaps will be provided for under the SME window.

Market segmentation and identifications of target groups will be done on a sectoral basis (linked to the fields in which the policy priorities will be implemented) and project/company life-cycle basis (on the basis of funding gap analyses).

[143] EIC is expected to cover the financing gap for breakthrough innovations (valley of death) between traditional grant financing and stage where InvestEU could intervene. According to the Expert Group assessing the investment potential of SMEs emerging from the SME instrument 70% of the Phase 1 beneficiaries are not investor ready.

3. SME Window

A. Rationale for investment instrument at EU level in your policy area(s); is subsidiarity respected?

SMEs are the engine of the European economy. There are 23.8 million enterprises in the EU. Without SMEs the EU economy would consist of only 45 000 firms. The EU´s SMEs employed 93 million people in 2016, accounted for 67% of total private-sector employment and generated 57% of value added in the EU-28 non-financial business sector[144]. About 85% of newly created jobs in the EU are accounted for by SMEs. However, obtaining financing in the form of debt or equity is a major hurdle for company creation and growth, to benefit from new markets and opportunities outside the EU and fully exploit opportunities of Free Trade Agreements with third countries. European SMEs rely heavily on debt finance in the form of bank overdrafts, bank loans or leasing. Market-based instruments (e.g. equity) are only considered relevant by 12% of SMEs[145] although in many cases equity (risk-capital) is more suitable, as small companies often lack collateral or have irregular cash-flows (equity does not impose specific repayment schedule, and hence can be less of a burden during times of economic stress).

Providing more diversified sources of funding is necessary for increasing the ability of SMEs to withstand economic downturns and for making the financial system more resilient during economic shocks. This is the key objectives pursuit under the Capital Markets Union flagship priority.

SME debt finance market:

Following the financial crisis, higher capital requirements [as exemplified in the Capital Requirements Directives (CRD)] and the need for banks' deleveraging, negatively impacted bank's willingness and ability to lend and to accept risk.

This had a major negative effect on available SME bank finance across the EU. Credit standards tightened considerably and SMEs as a consequence experienced a credit crunch. The ECB's monetary policy has significantly improved the liquidity situation and positive economic developments have helped as well.

To alleviate the negative impacts of stricter capital rules by the Capital Requirements Regulation (CRR) and CRD IV on the SME lending market, and in the context of credit tightening after the financial crisis, a capital reduction factor for loans to SMEs - the so-called SME Supporting Factor (SF) - was introduced by the CRR to allow credit institutions to counterbalance the rise in capital requirements resulting from the Countercyclical Capital Buffer (CCB), and to provide an adequate flow of credit to this particular group of companies. The SME SF was implemented as early as 2014, thus reducing the capital requirements for exposures to SMEs in comparison with the pre-CRR/CRD IV framework").

[144] Annual Report on European SMEs 2016/2017, European Commission November 2017.

[2] Survey on the Access to Finance of Enterprises in the euro area April to September 2017, section 3.1: https://www.ecb.europa.eu/pub/pdf/other/ecb.accesstofinancesmallmediumsizedenterprises201711.en.pdf?beb1832df4af9efa945a5a1f7b99eeb7

All of these activities have led to an improvement in the conditions for access to finance, and they have on average recovered[2], but the euro area aggregate masks considerable cross-country differences. Moreover, financial markets in the Member States show different degrees of development, in terms of diversity of financial institutions, product offerings and risk appetite. SMEs have no means to overcome these national differences because they rely on local/national providers of finance; SME financing is predominantly provided within national boundaries due to regulatory constraints. Cross border lending is only at a nascent stage, predominantly fuelled by the emergence of Fintech companies.

The financing problem is acute for firms that are undertaking activities with significant financial, technological, organisational or business-model risk and those wanting to finance growth projects which do not necessarily result in the acquisition of fixed assets which could be collateralised (e.g. in the area of culture and creativity, digitisation, internationalisation[146], etc.). Furthermore, undertaking innovative and other high-risk activities which are poorly understood by finance providers result in low credit scores and lead to high interest charges to compensate for the perceived risk.

What is more, especially younger and smaller companies (including start-ups and spin-offs) or those requiring rather small financing amounts are faced with a structural financing gap due to information asymmetries, lack of financial track records and disproportionate dossier costs, which is independent of the economic cycle or the country they are located in. If financing is offered at all, it is offered at unreasonable conditions in terms of interest rates applied, maturities, repayment terms and collateral required. This also applies to SMEs wishing to internationalise.

These market failures – prevalent cross the EU – hinder the start-up and growth of companies. Companies do not always have the internal funds they need, and consequently seek external financing.

This market environment results in an access to finance gap for SMEs which have a higher risk profile or insufficient collateral, and such access to finance gap differs from country to country.

Member States, either at national or at regional level, are trying to address the market gaps within their boundaries to differing degrees, either through national budgets or through ESIF funding through a mix of loans and guarantees.

The EU-added value of debt financial instruments to be set-up under the SME window of the Single Investment Fund will be to:

- address market gaps not addressed or not adequately addressed (in terms of volumes, coverage or risk appetite) at regional or national level;
- address market gaps through supporting cross-border financing solutions;
- address market gaps in clearly defined underserved economic sectors and in those contributing to the achievement of EU policy priorities;

[146] The financing problem is still perceived as the n°1 barrier for the internationalisation of SMEs outside the EU. See: Flash Eurobarometer 421, European Commission, October 2015.

- foster the transfer of best practices between financial intermediaries with a view to encourage the emergence of a broad product offering for higher risk SMEs suitable for their specific financing needs;
- provide economies of scale (i.e. Member States may be reluctant to create support schemes on their own because of cost efficiency considerations – hence a EU response is essential to avoid even bigger market fragmentation and disparities).

The debt financial instruments to be set-up may be accompanied by technical assistance or capacity building projects where such activities are crucial to achieve a smooth implementation of the financial instruments.

Equity financing market:

Despite the fact that only 12% of SMEs currently consider equity financing relevant for their business, it is an important financing component, specifically for high-risk start-ups and high growth companies that require significant long-term investments which do not produce immediate free cash-flows which would allow servicing debt payments nor do require the need for a collateral.

Alternative sources of finance, complementary to bank-financing - including public equity markets – private equity and venture capital - are more widely used in other parts of the world, and should play a bigger role in providing financing to companies that struggle to get funding especially SMEs. Having more diversified sources of financing is not only good for investment but is essential for making the EU financial system more resilient in the economic cycle.

But Europe's capital markets are still very fragmented and underdeveloped (EU SMEs receive five times less funding from the capital markets compared to US) while capital markets can provide large amounts of funding to corporates (including SMEs).

For high-risk start-ups and high growth of companies obtaining equity finance on reasonable terms is difficult for different reasons: one is the asymmetry between the information held by the firm and that known to the investor; and conflicts of interest between a firm's managers and its shareholders (the principal-agent conflict).

Asymmetry of information happens because the company knows more about their activities and the likelihood of their success than potential investors do. Such investors find it more difficult to work out which investments are likely to give them an adequate rate of return, and so must make funds available on more onerous terms to compensate for the risk of a poor outcome or failure.

The principal-agent conflict arises when managers are risk-averse and so avoid starting or continuing activities that, in their eyes, put the firm in jeopardy. On the other hand, an entrepreneur may wish to start or continue a project that shareholders would like to stifle or terminate. Together, these situations can lead to the perception by investors of higher risk and hence high costs of external finance.

While private capital for pre-IPOs and IPOs is in principle available, it is not sufficiently made available for this particular asset class of risk capital investments. Investors consider the risk/return profile for venture and growth capital investments inappropriate and the cost of undertaking research too high. Moreover, investors find it inefficient to invest because the funds

are very often too small. These framework conditions create a market gap for equity risk capital finance.

Furthermore, the EU's fragmented internal market is a major obstacle to companies' growth. Different rules, taxes and standards across the Member States hamper businesses seeking to scale up across borders. Member States and the EIF/EIB have stepped in and provide a significant part of the equity funding support for high-risk SMEs – mostly for the different stages of development until the IPOs stages. Many Member States have expressed the need to help SMEs scaling up beyond the private equity markets, notably when going public – on a SME multi-lateral trading facilities (MTF) (which is not the regulated market). Well-developed and vibrant equity markets are key for the functioning of the entire funding escalator. Indeed, when well-developed, IPO markets stimulate private equity and venture capital activity by providing fast and profitable exit opportunities or venues for further rounds of capital raising. Deep junior markets (SME dedicated MTFs) can also act as a stepping stone for promising companies which may graduate one day to the main regulated markets.

On the supply side, the types of public policy instruments deployed include public VC funds investing directly into companies, and public funds-of-funds investing into private VC and other risk-capital funds; public funds investing in private VC and other risk-capital funds; government loans to private financial intermediaries to finance VC investments; government guarantees for such investments; and tax incentives.

Demand-side interventions include human capital development, notably training for entrepreneurs and investors, and social capital development, in particular facilitating links between entrepreneurs and investors. Regulatory interventions have focused on exit markets, bankruptcy regulations and other framework conditions.

However, there are several challenges across the funding escalator best tackled at EU level:

- Private investors are reluctant to invest into the VC market because of lack of adequate returns and because of a lack of exit opportunities;
- VC funds are not large enough, therefore are forced to exit portfolio companies before these companies have developed their full potential (lack of capital to scale-up these companies);
- Many firms are unaware of the benefits of using equity finance;
- Business angel capacity is underdeveloped, and exit opportunities insufficient;
- Many firms are unaware of the benefits of venture debt finance;
- Cooperation between start-ups and corporates (including use of corporate VC) is suboptimal;
- Start-up and scale-up markets are fragmented;
- Equity crowdfunding capacity is underdeveloped, and exit opportunities insufficient;
- Guidance on the use of Initial Coin Offerings and their relevance for the escalator is unknown;

- IPOs on a SMEs dedicated MTFs have become less and less accessible to smaller firms and the prospect of Europe's largest financial centre leaving the EU makes the task of reviving public markets even more challenging (IPOs on a SME MTFs are predominantly concentrated on AIM – the London Stock Exchange's junior market)
- The environment for firms accessing public markets is inhospitable.

The financial instruments to be set-up may be accompanied by technical assistance or capacity building projects where such activities are crucial to achieve a smooth implementation of the financial instruments.

The European added value of an EU-level equity instrument (with appropriate accompanying measures) has five main components which will lead to higher absolute investment amounts and an acceleration of private investment:

- Helping achieve EU policy objectives (see section 2);
- Facilitating the financing of more cross-border fund investments which helps to diversify risk and attract and crowd-in private capital;
- Economies of scale by setting up EU-wide harmonised schemes which consequently lower transactions costs, such as fees for entrusted entities, but also for investors and potentially investees;
- Demonstration and catalytic effects for new interventions not undertaken by Member States;
- Market building and development and sharing best practices across the EU.

The EU-level equity instrument will complement national and regional programmes supporting equity investors and investees.

B. Policy drivers and public sector stakeholders to be involved and their role

The objective of the instruments is to support the Commission's policy priorities of creating jobs and boosting growth and to support the Capital Markets Union flagship priority, as well as supporting the overall competitiveness of the European economy. Indirectly, the instruments are also expected to contribute to

- Easing the transition to a circular economy
- Promoting EU economic diplomacy, the internationalisation of European businesses and the maximum implementation of FTAs
- Fostering a stronger digital single market
- Strengthening the financial capacity of the cultural and creative sectors
- Supporting farm investments for restructuration and modernisation, as well as rural entrepreneurship
- Improving energy efficiency
- Decarbonising the economy
- Supporting breakthroughs in low-carbon and clean energy technologies
- Space technology development

and to support any new policy priorities which may emerge in the future.

Public sector stakeholders, such as

- National/regional promotional banks and other national promotional institutions.
- National/regional innovation and environmental (sustainable investments) agencies

are expected to play a role in the implementation of regional and national financial instruments as well as financial instruments established under EU polices delivered through ESIF[147], and as such they may be consulted when EU-level financial instruments are being set up.

European and International development banks such as EIB and EBRD may take the role of an implementing partner for the implementation of the financial instruments and Executive Agencies of the European Commission and other public sector institutions (e.g. Council of Europe Bank), public and private financial intermediaries and other third party service providers may play a role in the implementation of accompanying actions.

C. Financial intermediaries to be involved and their role

For SME debt financing:

In principle any type of financial intermediary which in full compliance with applicable national and EU-legislation and is able to generate new portfolios of higher risk SME financing transactions and is able to comply with the applicable requirements of the Financial Regulation.

However, National Promotional Institutes and other publicly owned intermediaries may play a prominent role in the implementation of the EU instruments because of the natural alignment of interest to support public policy objectives.[148]

For equity finance:

Established financial intermediaries, or entities to be incorporated, that undertake risk-capital investments by providing investments in equity, quasi-equity, hybrid debt-equity and other forms of mezzanine finance to projects, start-ups and established companies.

They shall demonstrate the capacity and experience to undertake equity/quasi-equity investments, the ability to fundraise and attract private capital, and the capability to produce returns which would attract more private investments into this asset class. Such intermediaries must also be able to comply with the applicable requirements of the Financial Regulation.

For debt and equity finance:

Financial intermediaries may include national promotional banks and other national promotional institutions, guarantee societies, leasing companies, funds-of-funds, private equity funds, VC funds, business angel funds, technology transfer funds, crowd-equity platforms, social

[147] Cohesion policy and the other EU policies contributing to regional development (i.e. rural development and fisheries and maritime policy) under shared management between the EU and the Member States

[148] Communication from the Commission: Working together for jobs and growth: The role of National Promotional Banks (NPBs) in supporting the Investment Plan for Europe (http://europa.eu/rapid/press-release_IP-15-5420_en.htm)

intermediaries or social sector intermediaries, special-purpose vehicles, co-investment funds or schemes, and tokenised funds.

Entities targeting buy-out or replacement capital intended for asset-stripping are excluded.

The potential public financial intermediaries referred to above may also play a role in combining central EU financial instruments with funding under cohesion policy.

D. Private sector stakeholder organisations, associations or business groups to be involved and their role

For debt financial instruments any pan-EU private stakeholder organisation which has an interest in the support of SME finance such as

- AECM
- NEFI
- EAPB
- UEAPME
- COPA-COGECA (agriculture)

and for equity instruments, any pan-EU private stakeholder in the field of equity or representing final beneficiaries will be consulted, including:

- InvestEurope (private equity and VC)
- Business Angels Europe (BAE) and European Business Angels Network (EBAN)
- European Crowdfunding Network (ECN) and European Equity Crowdfunding Association (EECA)
- ASTP-Proton (knowledge and technology transfer offices and professionals) and FICPI (International Federation of Intellectual Property Attorneys)
- EBN (incubators, accelerators, innovation centres)
- UEAPME (SMEs)
- EARTO (research and technology organisations)
- EUROTECH and LERU (research-performing universities)
- PensionEurope
- FESE, EuropeanIssuers, InsuranceEurope, InvestEurope for VC and PE,
- Organisations representing institutional investors (e.g. ILPA)

Consultations will be undertaken in the context of setting up the legal base, in the context of evaluations and in the context of market testing instruments.

E. Final beneficiaries and target groups

The EU-level debt instruments will focus on SMEs according to applicable EU definition, more specifically those which would not receive support from the market due to the perceived higher risk or the lack of collateral. Where justified, more dedicated support may be provided for SMEs or organisations, or were justified to small mid-caps, for a specific sector or a specific policy orientation.

The EU-level equity instruments will focus investments in SMEs according to applicable EU definitions (including the definition of SME according to MiFID II) more specifically those which activities would help achieve the EU policy priorities referred to in section 2. Where duly justified, investments may also be made into small midcaps.

Targeting will be done on a sectoral basis (linked to the fields in which the policy priorities will be implemented) and a company life-cycle basis (on the basis of funding gap analyses).

Equity investments may be combined (blended) with debt finance and grant funding.

4. Social Investment and Skills Window

A. Rationale for EU action; is subsidiarity respected?

Social investments for a fairer and more inclusive society

Building a more inclusive and fairer Union is a key priority for this European Commission. The reflection paper on the social dimension of Europe[149], published alongside the package on the European Pillar of Social Rights[150], focuses on the profound transformations European societies and the labour market will undergo in the coming decade. It sets out a number of options on how the Union and its Member States can collectively respond, by building a Europe that protects, empowers and defends its citizens. The Rome Declaration adopted by EU leaders on 25 March 2017 outlined the importance of a social Europe. The Social Summit for Fair Jobs and Growth, held in Gothenburg on 17 November 2017, further reinforced this message and introduced a social scoreboard to measure how fair and well-functioning labour markets and welfare systems are in the Member States[151].

In line with these developments a specific Social, Skills & Human Capital window is being set up within the InvestEU Fund to support investments in tangibles and intangibles assets to foster inclusive growth, well-being and fairer income distribution in the EU. Social cohesion and social capital are important assets for an inclusive society that protects and empowers. Citizens' willingness to invest in society and 'the common good' finds its expression in many forms, including philanthropy[152]. The role of the Social, Skills & Human Capital window under InvestEU will therefore be complementary to the actions undertaken under other EU programmes such as the European Structural and Investment Funds that cover this policy area.

In macroeconomic terms, despite the ongoing economic recovery in the EU, poverty and inequality indicators are not showing strong signs of improvement, especially in the periphery[153][154], in a context of an ageing population and accelerating transformative technology. During the recent economic and financial crisis, policy making put less emphasis on inequality and social inclusion policies. Some Member States reduced their 'smart' future-oriented investments in areas such as education, training and lifelong learning. While income inequality

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[149] https://ec.europa.eu/commission/publications/reflection-paper-social-dimension-europe_en

[150] The Communication COM (2017) 250 states that "*In spite of recent improvements in economic and social conditions across Europe, the legacy of the crisis of the last decade is still far-reaching, from long-term unemployment and youth unemployment to risks of poverty in many parts of Europe. At the same time, every Member State is facing the rapid changes taking place in our societies and the world of work.*"
The 20 principles and right of the pillar are available here:
https://ec.europa.eu/commission/sites/beta-political/files/social-summit-european-pillar-social-rights-factsheet_en.pdf
https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights_en
http://data.consilium.europa.eu/doc/document/ST-8637-2017-INIT/en/pdf

[151] See: https://ec.europa.eu/commission/sites/beta-political/files/social-summit-social-scoreboard_en.pdf

[152] Philanthropy is a heterogeneous sector of actors, ranging from large family offices linked to prominent enterprises, to historic donations that established universities or hospitals, to foundations established from privatisation of public companies and new 'citizens foundations' acting locally.

[153] See for instance: EU-wide income inequality in the era of the Great Recession (2018) http://publications.jrc.ec.europa.eu/repository/bitstream/JRC109805/bp-csgzs-hp_euinequality_jrc_wp.pdf

[154] See for instance: "In It Together: Why Less Inequality Benefits All", OECD report on inequalities (2015) http://www.tarki.hu/download/OECD2015-In-It-Together-Chapter1-Overview-Inequality.pdf

has a measurable monetary dimension, inequality of opportunities is non-monetary and often determined by one's social background: education and health are areas which are particularly affected by this[155]. The conception of the present policy window will take into account the benefits that society as a whole may obtain from those two concepts of inequality.

Social considerations are increasingly concurring to shape today's political agenda of the European Commission and EU Member States. Investment in the social inclusion, skills and human capital related economy can enhance economic opportunities, building a bridge between the present and the future, especially if coordinated at EU level. The social dimension within the InvestEU Fund has to be understood in a broad sense, with intangible investments in people, ideas and services being as important as tangible investments in assets or capital goods that characterise the typical projects financed under the European Fund for Strategic Investments (EFSI). Investment in this area will facilitate citizens' well-being, labour market participation and thus social cohesion. Financial products as the ones triggered by the InvestEU guarantee are repayable instruments that can complement the established role that grants at the European level have playing for years and help mobilise private capital.

A Social, Skills & Human Capital window under InvestEU can therefore serve as a crucial foundation of pan-European social innovation and productivity growth for the EU economy. It can also support EU actions contributing to the Sustainable Development Goals (SDGs), noting that contributing to the SDGs helps the EU fulfil its social agenda.[156] Action at the EU level adds value for the development of inclusive and social financial markets. This action provides enhanced access to both non-financial support and finance to micro-enterprises, including vulnerable groups, social enterprises, social economy organisations, social innovators, public authorities and social impact investors as well as it creates a space for the Social, Skills & Human Capital –related economy to flourish in the EU internal market. It also fosters interlinkages between relevant stakeholders through the creation of European networks – between social economy enterprises, investors and institutions. This can, in turn, make accessible a range of enhanced social services to citizens - for instance, in healthcare, long-term care and education - in an inclusive and equitable way.

The establishment of a distinct Social, Skills & Human Capital window under the InvestEU Fund sends an important and visible political signal that "social issues" continue to matter to the European Commission in the next MFF. This is especially important against the backdrop of the recently adopted European Pillar of Social Rights, for which the InvestEU Fund should serve as one of the delivery mechanisms. EU-level action in the social enterprise and social economy will have to be multifaceted in order to cover the heterogeneous range of activities and types of investment that characterise the sector, but can be grouped into common policy drivers and common financial products. In this context, the several sub-sectors forming the wider Social, Skills & Human Capital economy can be interlinked by a common intervention rationale and tend to complement each other.

[155] See JRC report: What makes a fair society? Insights and evidence (2017). Available at: http://publications.jrc.ec.europa.eu/repository/bitstream/JRC106087/kj0716182enn.pdf
[156] COM(2016)739 final

Well-designed support from the Social, Skills & Human Capital window should be an opportunity to complement existing EU support by providing beneficiaries and target groups with the right financial products to start up, grow and develop activities in a truly pan-European dimension, where the size of the home market does not constrain the beneficiaries' development and access to capital paths. It will also provide more opportunities for stakeholders that have a social mission and that select investments in a logic that goes beyond the traditional financial rate of return. The design of instruments should take account of the needs of civil society organisations or foundations to access funding for innovative approaches related to social work and youth work and, more in general to provide support to disadvantaged groups.

Social investment as a pillar for the knowledge society and economic growth

Social, Skills & Human Capital investments contribute substantially to the competitiveness and growth of the European economy in several ways. They help to develop a better skills, well-being and competence base of its citizens, who need to be better equipped in meeting new challenges in a context of transitional labour markets impacted by digitalisation, regional industrial transition and a changing technological landscape[157]. These are also the cornerstones for the later investments in research, innovation, digitalisation and SMEs under other windows of the InvestEU initiative.

The substantial returns on investment from this type of financing (short-term as well as long-term) are yielded on the *private* level (*individual* & *institutional*) as well as on the *public* level[158]. Such shared public-private benefits should also provide a sound basis for public-private investment. For instance, to date public investments are made primarily for primary and secondary education, with private contributions (mostly at individual level - financial or in kind) for early childcare or for higher & more specialised education representing the largest share. Generally, actions should take account of the flagship initiative of the New Skills Agenda[159] There is broad societal agreement of their relevance, but few private actors willing to invest in this area without public intervention. The return from these investments will also support public authorities to deliver better services in a complementary manner and not to divest from social services.

Subsidiarity and value added from EU-level action

Investments in social infrastructure and social enterprises producing goods ('tangibles') as well as social services, ideas and people ('intangibles') are crucially lacking in the EU, yet these are critical for the EU and its Member States to develop into a fair, inclusive and knowledge-based society. An InvestEU Fund that is built on a guarantee covering losses under a specific Social, Skills & Human Capital window and provides debt and equity products can offer an opportunity

[157] The link between digitalisation and labour market is explored by the recent JRC report: What makes a fair society? Insights and evidence (2017). Available at:
http://publications.jrc.ec.europa.eu/repository/bitstream/JRC106087/kj0716182enn.pdf

[158] ***private*** benefits (*individual* – more employment opportunities, higher wages, faster promotion, healthier lives & better job satisfaction - as well as ***institutional*** benefits - better service delivery; innovation of infrastructure & content; governance autonomy) as well as ***public*** benefits (higher fiscal revenues, better health status & lower social security costs, later retirement age, etc.).

[159] Blueprint for Sectoral Cooperation of Skills, which is a very good example of public support measure involving private industrial stakeholders.

for the public and private sectors to come together. The fund will finance large long-term investments in social infrastructure and services (health, housing, education, innovation) that cannot be covered by resources from government/regional/local budgets, as well as smaller investments in smart, responsible, and environmentally sustainable cities.

The InvestEU Fund would aim at creating a supportive European ecosystem in which social enterprises and social innovation may flourish and deliver. It can also help Social, Skills & Human Capital economy actors such as social start-ups and social enterprises as well as skills investment markets to contribute to enhancing the social dimension of the Internal Market and trigger a signalling effect, aligning and complementing Member States' efforts in these different fields and allow new business models to develop and tackle societal concerns. The demonstration effect can be a powerful means of achieving a pan-European market in the areas covered by this window. Overall, the social investment and skills window will seek to ensure sufficient supply of working capital to social enterprises, social innovators and other stakeholders including SMEs and micro-enterprises.

According to the report of the "High-Level Task-Force on Investing in Social Infrastructure in Europe" [160], public investment in social infrastructure, including for education, health and housing, has been and remains low over the past decade, despite EIB/EFSI support. The EU-level intervention should in particular help to achieve to fill this market gap and crowd in financial intermediaries and/or project promoters for investments, thus multiplying the actual value of the public funding by leveraging more real investment in social infrastructure and services. The EU value-added will be achieved through the creation of a more level playing field for social finance and investment markets in the EU, contributing to a more performing Capital Markets Union (vehicles addressing social enterprises investment needs) and supporting EU policy objectives in terms of job creation and inclusive growth. Therefore, these enterprises must make the best use of the internal market via (capacity building support, cross boarder cooperation and finance access points). Finally, the InvestEU will strive to develop synergies with the Digital Agenda given the documented successes of Digital Social Innovation. Hence, the Fund will help tackling market failures that exist at the European level and that can be addressed at varying degrees at the national level.

The InvestEU Fund would complement the social cohesion and integration action of European Structural and Investment Funds and of their managing authorities willing to contribute to the InvestEU Fund on a voluntary basis. The window's EU-level compartment would help develop a pan-European market in a systemic way, capitalizing on the pooled expertise of intermediaries such as the EIB group. Depending solely on the cohesion compartment to achieve the EU goals of boosting access to finance for microfinance recipients and social enterprises, however, would be counter-productive. It would entail a risk of losing the impetus and benefits gained from centrally-managed financial products, including the greater geographical agility to support intermediaries in locations where they are really needed. For example, certain cities with high

[160] The report of the "High-Level Task-Force on Investing in Social Infrastructure in Europe" (commissioned by ELTI and chaired by former European Commission President Romano Prodi) estimated the minimal investment gap for Education, health & long-term care, and affordable housing at EUR 100-150 bn annually.
See: http://ec.europa.eu/info/publications/economy-finance/boosting-investment-social-infrastructure-europe_en

unemployment in non-Cohesion Member States do not necessarily benefit from sufficient Structural Funds support. In the medium term, this type of support will contribute to generate a true EU social investment market, where global capital would flow into the European market irrespective of the location of the final beneficiaries and of the maturity/capacity of their local capital markets.

A single fund for a heterogeneous sector with a common purpose

The InvestEU support can be used in multiple sectors under the scope of this window. While all the projects will have to be ultimately economically viable and generate a revenues for the investors, the financial products in use, their investment guidelines, pricing and return conditions will change according to the specific policy sector, the market gap to be addressed and the specific project structure. In the area of education, training and non-formal learning for young and adults to improve educational attainment and skills, provide easier access to labour market and minimize the risk of poverty/social exclusion. For education and training providers, projects in this field help to upgrade their infrastructure and develop and deploy innovative business models, teaching methods and engaging technologies. Supporting investment projects in this field will result in more vibrant education and training systems and markets, enabling easier professional transitions for people and being responsive to the lifelong need for upskilling and reskilling. It may complement and enhance the investment opportunities for SMEs [161] and organisations from cultural and creative sectors: while the access to debt finance (guarantees) remains the main objective, there is a potential for strengthening EU Investment on micro-financing or other financial products orientated towards social enterprises involved in the Culture and Creative sectors.

For knowledge-intensive institutions (such as universities, research & innovation centres) the combined support under several of the InvestEU windows may provide a welcome boost towards a knowledge-intensive society. Support can be extended also to the area of (social) innovation to develop community-based solutions to social problems. For several of the areas mentioned above the financial support by the window will be complemented by the offer of technical assistance and capacity building to "grow" the respective market players, including social innovators, social entrepreneurs, social impact investors, and philanthropists and create a pan-European network of social impact and social innovation relay and coaching centres. See the section below on capacity building for more details. In order to maximize its impact, the InvestEU fund may also be complemented by other measures such as, e.g. exploring the possibility to create markets for social outcomes. The establishment of an EU Outcome Payments Fund to pay out on outcomes achieved by schemes such as Social Impact Bonds (SIB), while taking in account experience and evidence to leverage capital from markets into underserved areas by offering a tranche of junior capital to social impact investors or setting up mechanisms to ensure sufficient supply of working capital to social enterprises including socially innovative SMEs.

While the use of EU-level financial intervention is not totally new in some of the areas covered by this InvestEU window, a dedicated Social, Skills & Human Capital window supported by targeted project-related technical assistance could help build scale and integration of existing

[161] Also covered under the SME window of the InvestEU Fund

markets while creating new markets in adjacent sectors. As an example, around EUR 1.2 bn of EFSI financing was channelled to health and life-science projects between mid-2015 and 2017, but this support has mostly covered hospital infrastructure and medical/life science technologies (such as medicines, imaging and diagnostic technologies and medical devices). However today's health systems are embarking on reforms to adapt to the challenges they face: an increasing demand for healthcare due to population ageing and the rising burden of chronic conditions, and an environment of constrained public resources for health.[162] Up-front investments are required to set-up the new care models, followed by sustained investments over a period of time to facilitate the complete implementation of the reforms[163]. Return on investment may only come in the medium-long term; and consequently, investments in reformed care models are of high risk.

Moreover, InvestEU in the post-2020 MFF would also pursue efforts made under the financial instruments of the EaSI programme. It would bridge financing gaps through the provision of a complementary toolbox of financial products (guarantees, debt and equity) tailored for microfinance and social enterprise and innovation finance and support new systemic developments in an emerging social investment ecosystem which takes time to develop. This specific window would also support the development of all kind of business models which have the primacy of the individual and the social objective over capital (cooperatives, mutual societies or associations), while ensuring the viability of the underlying investments.

An EU-level investment fund with a Social, Skills & Human Capital window would further contribute to develop and share best practices in terms of financial structuring for these sectors where there is less experience or scale in using financial products. As an example, in the area of education and training a substantial track record of financial products being used is available[164]. Furthermore, a recent study has identified the potential for new avenues using (i) payment-by-results projects in which the service provider receives payments only if the education and training service achieves pre-agreed outputs/outcomes, paid by a commissioner (usually, government), (ii) loan funds to students and adult learners to increase participation and skill level or (iii) public-private partnerships (PPP) to leverage investment into the supply and refurbishment of education buildings or fixed assets.[165] Another advantage stemming from EU-level action is that it would stimulate the pan-European recognition of different business models, for instance supporting the financial community to boost financial products dedicated to them.[166]

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[162] These health reforms require significant investments on various fronts, such as: (i) new primary care and community care centres; (ii) IT systems to support back-end organisation, implementation of integrated care pathways and decision support systems; (iii) new service models and new tools, e.g. eHealth and mHealth, to facilitate remote management of chronically ill people at their homes; (iv) new organisational models, education of the health workforce in new roles and skills.

[163] See also: The case for investing in Public Health, World Health Organization, Regional Office for Europe (2015) http://www.euro.who.int/__data/assets/pdf_file/0009/278073/Case-Investing-Public-Health.pdf

[164] As an example, the EIB had a 2.5 billion project pipeline in Education and Training in 2017 http://www.eib.org/projects/sectors/education-and-training/index.htm

165 Study on the feasibility of an education and training investment platform (2017) ICF study contracted by DG EAC - Executive summary: https://publications.europa.eu/en/publication-detail/-/publication/2b3f33c9-b21c-11e7-837e-01aa75ed71a1/language-en

[166] As an example (it could help create pan-European co-operative capital funds that are socially responsible investment fund that invests in cooperative businesses in the form of "patient capital," or equity-like financing. Such funds could assist the cooperative industry to grow and flourish by providing capital that acts like equity without requiring co-ops to give up control over their own management and destiny, as traditional venture capital might).

Finally, a dedicated Social, Skills & Human Capital window may be relevant to cover new and emerging policy challenges where action at Member State level is difficult to achieve. As an example, significant support is also needed in the area of migration. Reception of asylum seekers and integration of refugees and other regular migrants require considerable investments in the short and long-term perspectives. A wide range of interventions foreseen in the scope of InvestEU can be envisaged in this respect. As examples, social infrastructure and financing schemes to upskilling actions or qualifying training for migrants[167] could be replicated, bundled and upscale in the framework of the Fund, in synergies with investments under other EU frameworks.

Capacity building and monitoring

For a successful implementation of the InvestEU Fund in the policy areas covered by this window, a strong grant-based capacity building programme will be indispensable given the varying degrees of market maturity in the social sector. The capacity building programme will need to take into account the different needs of financial intermediaries and procuring authorities in accordance with their investment portfolio and the long-term needs of market development as well as the geographical coverage of financial intermediaries throughout the EU. Access to these measures may be extended beyond a specific project and being bundled into a portfolio. Technical assistance supporting the preparation of Social, Skills & Human Capital investment shall ensure full support for sustainability proofing of investment projects from the grant or pre-investment stage onwards, and can also be based on self-assessment diagnostic methods supported by advisory services helping beneficiaries in structuring their project and tailoring it to the target group in question. Also a solid monitoring framework, based on output, outcome and impact indicators will be needed to track the project and programme progress and to report to the investors that will join InvestEU sponsored projects and platforms. The framework may be based, among others, on the Pillar's social scoreboard[168] for the social dimension of the window, and on the monitoring system of current programmes in cultural and creative sector[169] or under the ESF[170].

B. Policy drivers and public sector stakeholders to be involved and their role

The important change in the economic and social landscape across the Union since the late 2000s has been the main driver for major policy redirection as regards labour market, social inclusion and education policies at both the EU and Member State levels. Policy focus has shifted from labour security aspects and flexibility to limiting social disparities and social exclusion. Looking ahead, a number of factors will most likely limit the capacity of Member States to increase their social expenditures, such as large fiscal consolidation plans under way in most Member States,

[167] For example, the UK or Sweden offers humanitarian migrants' loan programmes for vocational training and for work-based learning leading to a qualification. EU financial or organisational support for such schemes is not available today.
[168] https://composite-indicators.jrc.ec.europa.eu/social-scoreboard/#
[169] https://composite-indicators.jrc.ec.europa.eu/cultural-creative-cities-monitor/about
[170] Annex 1 "Common output and result indicators for ESF investments":
https://ec.europa.eu/digital-single-market/en/news/regulation-eu-no-13042013-european-parliament-and-council

strong deleveraging needs in highly-indebted Member States and increasing population ageing-related expenditures. It is more important than ever to co-create social (integration, individual skills etc.) and societal impact (a healthy environment; knowledge creation etc.) within one project. The EU can play an important role in ensuring a coordinating approach to support the requisite reforms at Member State level.

A distinctive feature of the social window is the support to investment projects that, although socially and economically viable, do not generate the level of returns that an investor looking after profit maximization would accept. The window should act as a catalyst for investors willing to finance well-structured projects with measurable, positive impacts, considered as of high added-value for their contribution to the Social Dimension of the EU. The logic of the window is to support nascent social economy market structures in addition to addressing market failures.

The support provided under the Social, Skills & Human Capital window of the InvestEU Fund shall address the multi-focal needs of social policy stakeholders and multiple cross-sector issues covering the domain of health, ageing, education, culture, employment, innovation etc., while maintaining a certain degree of flexibility necessary to respond to new investment needs that may emerge in time.

The following areas have been identified as the focus of intervention for the Fund support:

- Skills, integration and education: investment in all levels of education, including digital skills, necessary for building a knowledge-based society, support to increase vocational training and lifelong learning, including non-formal learning investment in human capital (inter alia focused on improving the integration of young people in society, of refugees and asylum seekers who are undertaking upskilling actions or qualifying training);
- Supporting social economy and social enterprises and microfinance recipients: support to promote inclusive entrepreneurship, improve access to employment (including self-employment), job creation, labour market integration, social inclusion by increasing the availability of and access to micro-finance [171], and access to finance for social enterprises. It also includes support for the upscale or development of new business models focusing on social return on investment.
- Social infrastructure and services: investments in the construction, expansion or refurbishment of buildings and in the provision of related services for
    - Education and training (i.e. educational facilities and digital equipment)
    - Social housing
    - Healthcare (i.e. clinics, hospitals, primary care centres, health promotion programmes, integrated care services, etc.)
    - The circular economy and nature protection where certain activities of high public interest are not yet commercially viable but offer opportunities for job market integration and education.

[171] With specific regard to vulnerable groups including refugees micro-enterprises and young adults.

Support to physical infrastructure developments could be complemented with funding for social economy and social service provision, including through outcomes-based projects, in an integrated way.

- Social innovation, creation of markets for social outcomes, expertise and capacity building: tools may be developed to help national/regional/local authorities develop skills for configuring investment strategies, blending financing and bundling projects; to grow social innovators, social entrepreneurs, social impact investors and philanthropists; to facilitate agreement on operational definitions, etc. Capacity building also include promoting innovation by and for the European society, in particular, targeting new products, services and organizational models that meet social needs, foster new social relationships or collaborations, and empower citizens.

With regard to the public sector stakeholders, the involvement of national and regional level authorities, municipalities, associations of public education and training providers will be needed to establish a permanent dialogue between different levels of government and thus bring the priorities of the Union closer to the citizens. Regional and local authorities have different competences across the Member States; local health units or regional educational authorities often act as contracting bodies and work in close contact with financial intermediaries.

C. Financial intermediaries to be involved and their role

The EIB Group

The EIB Group (i.e. EIB and EIF) currently acts as the main implementing partner for the EU budgetary funds in the current MFF. The EIB group has a remarkable experience in the social sector; it has financed health care, healthy ageing, affordable housing and higher education infrastructure projects, while the EIF has been involved in microfinance and social entrepreneurship under the EaSI programme and the EFSI SMEW. The EIB institute has been active in the field of social innovation projects. The EIB group also provides access to financing through its financial intermediaries which are often the first port of call for smaller organisations.

It is therefore likely that the EIB Group would continue to be one of the main Implementing Partners in the Social, Skills & Human Capital window, but the Commission should also keep its options open whereby access to the EU guarantee should also be envisaged for other financial institutions. In addition, the social sector may see an offspring of ad-hoc investment platforms, where the EIB group joins forces with other NPBs, MDBs and local financial intermediaries.

The National Promotional Banks (NPBs)

NPBs may play a dual role under the InvestEU Fund insofar as the social sector is concerned. On the one hand, they can be a direct beneficiary of the budgetary guarantee (also jointly with the EIB for areas where the risk exposure is higher such as financing social enterprises and social economy), improving the conditions of their financing in terms of cost and maturity. On the other hand the NPB could also play a bridging role with Member States in blending grants to support projects with high socio-economic benefits, the costs of which are higher than their potential financial revenues. Any such contribution would represent additional resources for the Fund, creating specific Member State-focused (or even region-specific) guarantees with an

increased impact. This could be helpful for tackling country-specific social problems and exploit the local knowledge and presence of the NPBs to the largest possible extent. Such complementarity of InvestEU with national investments could also help increase leverage and justify EU added value.

Other potential implementing partners

The Council of Europe Development Bank (CEB) and the European Bank for Reconstruction and Development (EBRD) could also be included as one of the InvestEU Fund implementing partners for the Social, Skills & Human Capital window. CEB's investments already contribute to delivering affordable and sustainable essential services and social infrastructure. Furthermore, the Bank responds to emergency situations (such as refugee/migrant crises and natural/ecological disaster events) and helps improve the living conditions of the most vulnerable. The EBRD is already active in the field of microfinance through thematic bond issues.

Last, but not least, dedicated investment platforms, which may be financed by the EIB Group, NPBs and other investors, including foundations and donors, could be also an option for implementing partners of the Social, Skills & Human Capital window. These implementing partners may potentially play double role in the window: as both the entrusted entities and the intermediaries. Their potential role as an implementing partner will however need to be reviewed in consideration of the decision on the implementation strategy defined for the overall InvestEU structure.

Other intermediaries

Other intermediaries which will be playing an important role in the Social, Skills & Human Capital window are:

- private banks including those operating in the social economy and social enterprise sector (such as ethical or alternative banks, cooperative banks);
- non-banking financial institutions including loan funds, patient capital providers such as a cooperatives, microfinance institutions, credit unions, guarantee institutions, insurance companies, pension funds, Private Equity/Business Angel funds, funds-of-funds and co-investment funds or schemes;
- social investment market enablers including investment readiness and capacity-building intermediaries active in the micro-finance and social enterprise finance sectors;
- FinTech companies[172];
- Universities, research centres and Knowledge and Innovation Communities;
- foundations;
- equity crowdfunding platforms; and
- various groups of investors including corporate investors, social impact investors, (social) business angels, educational entrepreneurs (e.g. MOOCs), venture philanthropists and philanthropists.

[172] See the EC consultation on the potential role of FinTech companies.
https://ec.europa.eu/info/sites/info/files/2017-fintech-consultation-document_en_0.pdf

In order to ensure a successful implementation of the Window, every effort should be made to ensure complete EU coverage by financial intermediaries, including by securing cross-border cooperation in the absence of competent, local, national financial intermediaries. The degree of maturity of financial intermediaries varies across Europe, creating sometimes a bottleneck to the take-up of financial instruments at the local level. Capacity building programmes have addressed this problem, but the costs have proven significant.

Private sector stakeholder organisations, associations or business groups to be involved and their role

Pan-EU private stakeholder organisations which are active in the social sector have basically an interest in the support and use of financial products. A large number of specialised organisations are active in different sectors; for instance:

- **Education**: representatives of education and training providers, Student Unions (e.g. ESU); Teachers Unions (e.g. ETUCE); non-profit (e.g. Education International) & international organisations (e.g. UNICEF);
- **Health**: Stakeholder collaboration networks and NGOs (e.g. EIT Health, European Innovation Partnership on Active and Healthy Ageing, AEIP (European Association of Paritarian Institutions), GIRP (European Healthcare Distribution Association), EPHA (European Public Health Alliance), EHMA (European Health Management Association), HOPE (European Hospital and Healthcare Federation), UEPH (European Union of Private Hospitals), EPF (European Patients' Forum), EUROCARERS, etc.
- **Affordable and social housing**: Housing Europe (dealing with the setup of inclusive communities, fostering urban regeneration, reviving rural communities) as well as private associations or cooperatives at national level and other stakeholders whose mission is to build inclusive communities such as NGOs or public administrations.
- **Cross sector**: networks of social enterprises and/or joint social projects undertakings with a European dimension, active in cross-border fund-raising, innovation and implementing activities, etc. Also European level organisations with a cross-sector approach like EASPD (representing service providers for people with disabilities) or ENSI (European network of social integration enterprises) are topical. Also given recent technological developments with impact on the social sector (e.g. e-learning, e-health and the need for more energy efficient buildings) also organisations from these fields can be relevant.

Regarding financing, organisations dealing with specific financial areas are relevant. Among them are:

- for the loan and guarantees segment, AECM, NEFI, EAPB, UEAPME, FEBEA and EMN/MFC (microfinance),
- for equity instruments, organisations like InvestEurope (private equity and VC), the European Venture Philanthropy Association (EVPA), Business Angels Europe (BAE) and European Business Angels Network (EBAN), FEBEA.

Also institutional investors (as insurance companies) including umbrella organisations like ILPA or LTIIA could play an important role in financing of social projects. It is also considered to reach out to non-European potential investors, e.g. those from Asia.

Project promoters that already gained experience in the social field might bring forward their expertise also regarding feasible financing solutions.

Further, foundations and philanthropic organisations could play a catalytic role in capacity building and market development in the social sector to achieve the critical mass needed to justify action at the EU level, further they could also act as investors in the social field. They are represented by organisations like DAFNE (European Network of Foundations' and Donors' Associations) and the European Foundation Centre (EFC) or EVPA.

In addition, crowdfunding might become more important to provide financing in the social field; topical organisations are the European Crowdfunding Network (ECN) and European Equity Crowdfunding Association.

Summary of role of stakeholders: Consultations can be undertaken in the context of idea development, data collection and financial product development including market testing, in terms of impact assessment, evaluations and setting up the legal base, for raising awareness and – importantly -as investors in projects and funds. They could also help in establishing of dedicated investment vehicles, capacity building and technical assistance.

D. Final beneficiaries and target groups

As the Social, Skills & Human Capital window will encompass interventions in various sectors, a wide range of beneficiaries will be targeted. Firstly, the success of the EaSI instruments has demonstrated a strong need to continue supporting its target group:

- Disadvantaged and vulnerable persons e.g. unemployed, youth, elderly, homeless, migrants;
- Micro-enterprises, in particular those employing disadvantaged and vulnerable persons;
- Social enterprises,
- Associations, foundations, mutual and cooperatives.

In this way, continuity will be provided and the Commission will build on the achievements of Progress Microfinance and EaSI. In order to implement the EU policy objectives in the social field, an extension to the scope of targeted beneficiaries beyond the EaSI groups, such as innovators, can be explored for the InvestEU legal base. For example, education and development of skills should be targeted since investment in education and training over the life course is crucial to ensure Europeans have the skills they need to find and maintain their place in the job market and society as a whole and to deliver essential social services (as is the case of healthcare workforce). The achievements and lessons learnt from the Erasmus+ Master loan scheme should be taken on board. In addition, the need for patient capital for these kinds of investments should be recognised.

Given the integrated functioning of skills development and labour markets, the support via financial products (potentially complemented by grants or other types of support) could be

provided for three main target groups: (i) companies; (ii) learners; (iii) the providers of education and training, with a role also for regional and national authorities in case where specific framework conditions would be required to effectively deploy education support or in cases where public authorities stand to benefit directly from a workforce with the right skill-mix. Therefore, it is proposed that a sufficiently integrated/coordinated approach is taken in designing the measures.

This could be achieved through improved access to up-to-date educational and training offer (i.e. labour-market oriented education and training programmes) for students, apprentices, young and adult learners; through the support for education and training providers to upgrade their training offer and facilities as well as through the support for companies to provide training and apprenticeships placements as well as improve skills utilisation.

In addition to the areas listed above, the Social, Skills & Human Capital window will also encompass EU support in the different branches of the education sector where the potential targeted beneficiaries would be children, parents, teachers and school administrators as well as such as schools and childcare facilities.

Investments in health will also be supported. The targeted beneficiaries will typically be: health authorities, health service providers, technology providers, healthcare professionals, patients, citizens. In the field of social infrastructure, the targeted beneficiaries could be project promoters, operators of buildings/facility managers, affordable housing providers, public-private partnerships.

As a crosscutting issue an advantage from EU-level action would be to stimulate the pan-European recognition of different business models by providing access to funding and proper capacity building with respect for their variety and characteristics. Consequently, InvestEU should be in a good position to connect existing social innovation and social economy networks and initiatives such as the social innovation platform and competition. This allows the InvestEU fund to create and channel its own access and enlarge its reach.

ANNEX 5: LIST OF FINANCIAL INSTRUMENTS AND EFSI UNDER THE CURRENT MFF

Investment focus	Programme	Budgetary Guarantee/Financial instrument	DG in charge	Manager	Overall budget envelope (EUR m)	Total commitments (as of end 2016) (EUR m)*	Target Investment to be mobilised in EUR m)*
Infrastructure and Innovation & SME - demand driven support	**EFSI 2.0**	Infrastructure and Innovation Window	ECFIN	EIB	6.825	6.113,00	375.000
		SME Window		EIF	2.275		125.000
Competitiveness, innovation, and, support for SMEs	**COSME**	Equity facility for Growth under COSME-EFG	GROW	EIF	490,00	172,90	2.450
		Loan Guarantee Facility under COSME	GROW	EIF	970,00	375,50	24.250
	Horizon 2020	InnovFin Equity - risk finance for investing R&I	RTD	EIF	495,00	256,10	2.970
		InnovFin Equity - leadership in ICT					
		InnovFin Equity - microfinance and social entrepreneurship					
		InnovFin SME and Small Mid-caps R&I Loans service (InnovFin SME guarantee)	RTD	EIF	1.060,00	534,50	9.540
		InnovFin Loan Services for R&I Facility	RTD	EIB	1.060,00	796,00	13.250
	SME Initiative	Contributions from Horizon2020 and COSME	NA	EIF	175,00	23.3	875

Investment focus	Programme	Budgetary Guarantee/Financial instrument	DG in charge	Manager	Overall budget envelope (EUR m)	Total commitments (as of end 2016) (EUR m)*	Target Investment to be mobilised in EUR m)*
Infrastructure, energy, and climate action	**Connecting Europe Facility (CEF)**	CEF Equity instrument	CNECT	Direct Management	500	100,00	750,00
		CEF Risk Sharing Debt Instrument	MOVE, ENER, CNECT	EIB		400	4.200
	Environment and Climate Action (LIFE)	PF4EE	CLIMA	EIB	155,00	70,00	1.240
		NCFF	ENV	EIB	60,00	50,00	180
Employment and social innovation	**Employment and Social Innovation ("EaSI")**	EaSI Capacity Building Investments	EMPL	EIF	16,00	12,70	32
		EaSI Microfinance and Social Enterprise Guarantees	EMPL	EIF	96,00	68,80	528
Education and culture	**Erasmus+: education, training, youth and sport**	Student Loan Guarantee Facility	EAC	EIF	221,00	115,70	1.260
	Creative Europe Programme	Cultural and creative sectors Guarantee Facility CCSG	CNECT, EAC	EIF	123,00	14,80	701
				Total	**14.521**	**9.080**	**562.226**

* Total commitments are based on Article 140.8 Report as of 31 December 2016. Investment mobilised for Financial Instruments is calculated based on the target multiplier indicated in Article 140.8 Report.

ANNEX 6: TECHNICAL ASSISTANCE

Existing TA initiatives: Commonalities and differences

Most EU advisory services focused on investment are currently delivered through the EIB and cover a wide range of EU policy objectives. In some cases, the Commission builds synergies in order to optimise the use of existing TA services for different policy objectives. For example, ELENA expanded from energy efficiency to cover also innovative urban mobility. Likewise, JASPERS was used not only to cover the preparation of projects under ESIF but also to support the preparation of CEF transport projects. Most of the Technical Assistance is targeting final beneficiaries in all Member States, in particular but not exclusively supporting public project developers.

Initiatives for Investment support available at EU level differs in terms of size, coverage, provider of the assistance, delivery mode, application of the FAFA provisions and the pricing to final beneficiaries. The size of the initiatives ranges from very small initiatives (pilots) to well established ones. Some of the TA available has been put in place to underpin the deployment of innovative financing instruments and test the market's response. Some other TA services are already at a mature stage and clearly known by the beneficiaries. Some TA services provided are very specific (e.g. PF4EE, NCFF), based on targeted needs while others are providing broader services (e.g. EIAH, JASPERS). In general, these specific TA actions are in place to reinforce a regional or sector coverage. A better coordination between those two types of TA has to be developed.

TA providers:

- EIB is the main provider of centrally-managed TA. In some cases, the EIB is the TA provider (e.g. JASPERS), whereas in other cases, the EIB is indirectly managing a TA facility on behalf of the European Commission (e.g. ELENA).
- Executive agencies have a specialised role in some sectors such as the SMEs or TA provided to support medium-size energy efficiency projects (e.g. H2020 EE11 PDA, EASME)
- Other IFIs have developed specific initiatives/ sector knowledge (e.g. EBRD Small Business Support)
- The Commission services can also provide, upon request from the Member States, legal assistance on the public procurement aspects, through the voluntary ex ante assessment mechanism for large infrastructure projects.
- There are currently no initiatives undertaken through NPBs/NPIs (in the past, KfW provided EU-supported TA; in the future, cooperation with NPBs is sought under the EIAH).

TA delivery mechanism:

- The initiatives currently implemented are using several delivery mechanisms: executive agencies, the EIB and other implementing partners which are directly (own staff or external consultants under service contracts) providing the advisory services to the beneficiaries or providing grant support for the beneficiary's technical assistance needs. Moreover, the EIB is also using indirect delivery mechanisms through other implementing partners.
- The pricing for beneficiaries is also different from one initiative to the other. A significant part of the EU supported TA is free of charge for the final beneficiaries (especially if these

are public project promoters). Experience shows that beneficiaries who cover at least part of the costs of the services obtained, as for example for ELENA technical assistance, often demonstrate a greater sense of ownership, leading to clearer roles and responsibilities, increased involvement/ enhanced collaboration and better focus on tangible results.

- The request for TA can be triggered (at individual project level) on a different basis: for specific policy priorities (e.g. PF4EE, ELENA, H2020 PDA) or demand driven (e.g. EIAH, JASPERS).

Table: Technical Assistance Costs across the Different Existing and Upcoming Initiatives in the current MFF

TA costs	Delivery mode	TA manager	TA provider(s)	Fee basis	Cost sharing EU/EIB		Cost coverage by beneficiary	EU budget (EUR)	Period of implementation
					EU coverage	EIB			
JASPERS	FPA/ SGAs	EIB	EIB	cost coverage (FAFA rates)	80%	20%	0	233,650,000	2014-2020
EIAH	FPA/SGAs	EIB	EIB/other financial institutions (EBRD/NPBs)/ External consultants	cost coverage (FAFA rates)	75%	25%	only private; of which SMEs up to 33%	110,000,000	2015-2020
ELENA	DA	EIB	External consultants	6% of the TA provided	100%	0	10% of the TA provided	279,000,000	2014-2020
InnovFin Advisory	FPA/SGA	EIB	EIB	cost coverage (FAFA rates)	100%	0	0	28,000,000	2014-2020
EEEF European Commission Technical Assistance	EEEF Issue Document	EIB sub-delegation agreement with EEEF Fund manager (DB)	External consultants	6.5% of the TA provided	100%	0	10% of the allocated TA	20,000,000	2012-2017
EEEF Technical Assistance Facility	DA	EEEF Fund manager	External consultants hired by EEEF	20% of the TA disbursed	-	-	0	subject on availability of funds (EEEF income waterfall)	2017+

TA costs	Delivery mode	TA manager	TA provider(s)	Fee basis	Cost sharing EU/EIB		Cost coverage by beneficiary	EU budget (EUR)	Period of implementation
					EU coverage	EIB			
CEF	FPA/SGA	EIB	EIB / External consultants	cost coverage (FAFA rates)	90%	10%	0	1,262,170	2015-2017
CEF - MSs	Grant agreement	Rail infra manager/ Ministries	External consultants	real costs	100%	0	0	11,644,862	2014-2020
H2020 (EE11 PDA)	Agency	EASME	External consultants	-	-	-	0	H2020 grants	2011-2020
NCFF	DA	EIB	External consultants	5% of the EU contribution committed	100%	0	0 (Beneficiary may be asked for a financial contribution on case by case basis)	10,000,000	2015-2019 + (extension under consideration)
PF4EE	DA	EIB	EIB/ Financial intermediaries	6% of the EU contribution committed	100%	0	0	3,200,000	2014-2019
Smart Specialisation Platform for industrial modernisation	Service contract	GROW	External consultants		100%	n/a		1,500,000	2018-2020
City Facility	Grants	ENER/EASME	Executive Agency		n/a			11,000,000	2018-2020
Islands Facility	Grants	ENER	External		n/a			10,000,000	2018-2020

TA costs	Delivery mode	TA manager	TA provider(s)	Fee basis	Cost sharing EU/EIB		Cost coverage by beneficiary	EU budget (EUR)	Period of implementation
					EU coverage	EIB			
			consultants						
Internal Market - Voluntary ex ante mechanism	Commission services	GROW	Commission staff	-	n/a		0	-	2017- onward
EaSI	Service contract	EMPL	External consultants					13,000,000	
TOTAL								**731,257,032**	

ANNEX 7: LIST OF POTENTIAL INDICATORS FOR THE INVESTEU FUND

1. **Volume of InvestEU financing (broken down by policy window)**

1.1 Volume of operations signed

1.2 Investment mobilised

1.3 Amount of private finance mobilised

1.4 Leverage and multiplier effect achieved

2. **Geographical coverage of InvestEU financing (broken down by policy window)**

2.1 Number of countries covered by projects

3. **Impact of InvestEU financing**

3.1 Number of jobs created or supported

3.2 Investment supporting climate objectives

3.3 Investment supporting digitalisation

4. **Sustainable Infrastructure**

4.1 Energy: Additional renewable energy generation capacity installed (MW)

4.2 Energy: Number of households with improved energy consumption classification

4.3 Digital: Additional households with broadband access of at least 100 Mbps upgradable to Gigabit speed

4.4 Transport: Investment mobilised in TEN-T of which: TEN-T core

4.5 Environment: Additional population served by improved water supply and/or improved wastewater treatment

5. **Research, Innovation and Digitisation**

5.1 Contribution to the objective of 3% of the Union's GDP invested in research, development and innovation.

5.2 Number of enterprises supported carrying out research and innovation projects

6. **Reinforcement of SME (broken down by micro, small, medium sized and small mid-caps and stage)**

6.1 Number of enterprises supported

6.2 Number of enterprises supported by stage of supported enterprises (early, growth/expansion)

7. **Social Investment and Skills**

7.1 Social infrastructure: Capacity of supported social infrastructure by sector: housing, education, health, other

7.2 Microfinance and social enterprise finance: Number of social economy enterprises supported

7.5 Skills: Number of individuals acquiring new skills: formal education and training qualification

ANNEX 8: EXAMPLES OF INDICATORS FOR THE SME WINDOW

	Initial two years of the programme	Medium-term	Long-term
1. Signature of agreement with implementing partner (As the SME guarantee facility will be implemented through the **SME Window of the Single Fund**, the agreement for the single fund will have been singed and the respective product annex covering the SME guarantee facility will have been included)	**Target: within first year of the programme** How is this monitored: Annual operational report from implementing partner	N/A	N/A
2. Launch of calls for expression of interest[173] How is this monitored: • Annual operational report from implementing partner	**Target: within first year of the programme**	N/A	N/A
3. Signature of agreements with financial intermediaries How is this monitored: • Annual operational report from implementing partner reports on transactions signed • DG GROW to track financing gap for SMEs per Member States on a regular basis (at least once per year) through continuously integrating latest available data[174]	**Target: first agreement signed within first year of the programme**	**Target: within the first three years guarantee agreements signed in at least half of the countries identified to have a significant financing gap which is not covered through national/regional interventions (measured in % of GDP)**	**Target: by the end of the programme period guarantee agreements signed in all of the countries identified to have a significant financing gap which is not covered through national/regional interventions (measured in % of GDP)**
4. Additionality of transactions / no crowding-out of existing national/regional support schemes How is this monitored: • Annual operational report	**Target: no complaints about clearly identifiable crowding-out effects from national/regional support schemes**	**Target: no complaints about clearly identifiable crowding-out effects from national/regional**	**Target: no complaints about clearly identifiable crowding-out effects from**

[173] In accordance with Article 208 (4) of Financial Regulation 2018
[174] In accordance with Article 209 (2) (h) of Financial Regulation 2018

	Initial two years of the programme	Medium-term	Long-term
from implementing partner (implementing partner to report how existing support schemes have been taken into consideration when deciding on the scope of the guarantee agreements signed) COM to monitor official complaints received by any of the Commission services[175]		**support schemes**	**national/regional support schemes**
5. Additionality of transactions / no support of activities which financial intermediaries would have undertaken also in the absence of the guarantee support according to its business practices[176] How is this monitored: • COM to establish mechanism which allows monitoring of portfolio criteria established in the agreements with the implementing partner, compliance to be verified before signature takes place • Regular monitoring visits to financial intermediaries (COM may accompany implementing partner)	**Target: No guarantee agreements identified which would allow financial intermediaries to finance activities within its normal business practices**	**Target: No guarantee agreements identified which would allow financial intermediaries to finance activities within its normal business practices**	**Target: No guarantee agreements identified which would allow financial intermediaries to finance activities within its normal business practices**
6. Additionality of transaction at the level of the final recipients (would the final recipient have received the financing for the same amount and under the same conditions in the absence of the guarantee?)		**Target: Identified deadweight not more than 35%**	**Target: Identified deadweight not more than 35%**

[175] In accordance with Article 209 (2) (b) of Financial Regulation 2018
[176] In accordance with Article 209 (2) (b) of Financial Regulation 2018

	Initial two years of the programme	Medium-term	Long-term
How is this monitored: • On a survey/sample basis as part of the mid-term and ex-post evaluation *Please note that an ex-post monitoring or a detailed ex-ante assessment for each individual transaction or for a very significant number of transactions is unrealistic and would create significant administrative burden for financial intermediaries, final recipients and the Commission services involved.*			
7. Number of SMEs supported How is this monitored: • Through regular operational reports from the implementing partner	**Target: to be set in function of the available budget**	**Target: to be set in function of the available budget**	**Target: to be set in function of the available budget**
8. Financing made available to SMEs supported How is this monitored: • Through regular operational reports from the implementing partner (Assumptions made: target range 1:10 – 1:20 Average size of financing transaction: EUR 100,000)	**Target: to be set in function of the available budget** (Formula to be used: Available budget * target range * average size of financing transactions)	**Target: to be set in function of the available budget** (Formula to be used: Available budget * target range * average size of financing transactions)	**Target: to be set in function of the available budget** (Formula to be used: Available budget * target range * average size of financing transactions)
9. Jobs maintained/employment created in supported SMEs How is this monitored: • Annual **employment**/growth reports from the implementing partner. Report to be submitted for	N/A	**Target: Employment growth in supported SMEs to exceed employment growth of the overall SME population**	**Target: Employment growth in supported SMEs to exceed employment growth of the overall SME population**

	Initial two years of the programme	Medium-term	Long-term
the first time in the fourth year of the programme with data as per end of the third year of the programme. • COM to monitor the general employment growth in the overall SME population (currently Commission established the annual report on European SMEs) • As part of the **ex-post evaluation**: econometric study to determine how employment has grown in supported SMEs compared to non-supported SMEs.			
10. **Turnover growth in supported SMEs** How is this monitored: • Annual employment/**growth** reports from the implementing partner. Report to be submitted for the first time in the fourth year of the programme with data as per end of the third year of the programme. • COM to compare turnover growth in supported SMEs to general GDP growth • As part of the **ex-post evaluation**: econometric study to determine how turnover has grown in supported SMEs compared to non-supported SMEs.	N/A	**Target: Turnover growth in supported SMEs to exceed overall GDP growth**	**Target: Turnover growth in supported SMEs to exceed overall GDP growth**

ANNEX 9: EXAMPLES OF INDICATORS FOR SOCIAL INVESTMENT AND SKILLS WINDOW

The table below illustrates an example of monitoring indicators developed for the Student Loan Guarantee, one of the products currently in place in the field of education. Specific indicators will be developed at the product level under the Social Investment and Skills Window.

What	Where does it stem from	How collected	When	Detail	Target
Number of students supported	**Legal base indicator (headline)**	**Financial Intermediary**	**Quarterly**	Annex II (3) (a) *the number of students in receipt of loans backed by the Facility , including data on their completion rates* *- number of students with loan* *- number of students finishing their programme*	**200,000**
Volume of lending	**Legal base indicator (headline)**	**Financial Intermediary**	**Quarterly**	Annex II (3) (b) *the volume of lending contracted by financial intermediaries*	**EUR 3.2 bn**
Leverage		EIF calculate		calculated from the volume of lending committed and EU contribution	x6.17
Average size of loan		EIF calculate		calculated from the volume and number of students	
Geographic coverage	Legal base	EIF		Number of financial intermediaries, from which countries Article 20 legal base *EIF shall endeavour to select a financial intermediary from each Programme country, in order to ensure that students from all Programme countries have access to the Student Loan Guarantee Facility in a consistent and non-discriminatory manner* + Annex II (1) (c) + Annex II	35

What	Where does it stem from	How collected	When	Detail	Target
				(3) (h) *Access to finance by all residents of Programme countries as referred to in Article 24(1)*	
Amount of guarantee drawn down	Financial indicator	EIF calculate			
Level of interest rates	**Legal base indicator**	Financial Intermediary	Quarterly	Annex II (3) (c) *the level of interest rates* Ave interest rate for their portfolio by financial intermediary The call for expression of interests to include a requirement for banks to demonstrate how they intend to pass on the benefit of the EU guarantee in terms of a reduction on the interest rate. Banks should monitor and report on how they are doing this – the actual level of interest that they are offering and the % reduction it represents on the interest rate they would otherwise charge	
Outstanding debt and default	Legal base	Financial Intermediary	Quarterly	Annex II (3) (d) *Outstanding debt and default levels, including any measures taken by financial intermediaries against those who default on their loans*	
Fraud prevention measures	Legal base	Financial Intermediary	Business Plan (+ quarterly update if appropriate)	Annex II (3) (e) *fraud prevention measures taken by financial intermediaries*	

What	Where does it stem from	How collected	When	Detail	Target
Student sex	Legal base *Annex II (3) (f)*	Financial Intermediary	Quarterly	Information to be collected once at loan application stage by student Question: male/female	
Student age	Legal base *Annex II (3) (f)*	Financial Intermediary	Quarterly	Information to be collected once at loan application stage by student Question: date of birth	
Student origin 1	Legal base *Annex II (3) (f)* + Eligibility criterion	Financial Intermediary	Quarterly	Information to be collected once at loan application stage by student Question: What is your home country or country of normal residence?	
Student origin 2	Legal base *Annex II (3) (f)* + Eligibility criterion	Financial Intermediary	Quarterly	Information to be collected once at loan application stage by student Question: In which country did you obtain your Bachelor degree (or the equivalent qualification) which qualifies you to apply to the masters programme that you want to follow?	
Student destination	Legal base *Annex II (3) (f)* + Eligibility criterion	Financial Intermediary	Quarterly	Information to be collected once at loan application stage by student Question: In which country is the Master programme (or equivalent) which you wish to follow	
Study field	Legal base *Annex II (3) (f)*	Financial Intermediary	Quarterly	Information to be collected once at loan application stage by student Which of the following study fields corresponds most closely to your chosen programme: 1. Education	

What	Where does it stem from	How collected	When	Detail	Target
				2. Arts and Humanities 3. Social Sciences, Journalism and information 4. Business, Administration and Law 5. Natural sciences, Mathematics and statistics 6. Information and Communication Technologies 7. Engineering, Manufacturing, Construction 8. Agriculture, Forestry, Fisheries and Veterinary 9. Health and Welfare 10. Other To have no influence on the loan decision	
Student contact details		Financial Intermediary	Quarterly	Information to be collected once at loan application stage by student Address, contact phone number, email Needed by banks Statement: By signing this application you confirm that you are content with your contact details being passed on to an independent research body contracted by the European do conduct an evaluation of the loan facility.	
Socio-economic background	Legal base *Annex II (3) (f)*	Financial Intermediary	Quarterly	Question: Does either of your parents have a higher education qualification (yes/no/don't know or prefer not to say)	

What	Where does it stem from	How collected	When	Detail	Target
Geographical balance of uptake	Legal base *Annex II (3) (g)*	EIF	Calculated	Legal Base Annex II (3) (f) – this is to be drawn from the student origin and destination data	

ANNEX 10: DEFINING AND ASSESSING ADDITIONALITY

Additionality is a key principle underpinning EU support whether provided as grants or in the form of financial instruments. The general principle of additionality as set out in the EU Financial Regulation[177], stipulates that EU financial instruments should not crowd-out or substitute existing sources of funding (whether EU, national or private). In other words, if a project or investment can be financed with own means, private sources of finance or by means of another public intervention (whether EU or national) at affordable conditions, the support from EU financial instrument is not additional, but a substitution. Additionality therefore represents the extent to which a project or investment can be carried out in reasonable terms as a result of support from the EU financial instrument in consideration. A similar concept is expected to be laid out in the amended Financial Regulation.

Empirical evidence on additionality of existing EU central financial instruments and EFSI is mostly based on small sample sizes of beneficiaries and/or opinions of stakeholders. Gathering data evidence for the purpose of assessing the additionality of EU support ex-ante has proven difficult. Therefore when designing new financial interventions, it is critical that attention is paid to the ex-ante assessment of potential substitution or cannibalising effect of the new instrument on existing financing initiatives. Furthermore, evidence and analysis of additionality should be systematically collected and reviewed ex-post, for the operations under support.

Although additionality cannot be 'proven' or 'exactly measured', it is possible to enhance its assessments in practical ways, with the aim to enable the relevant EU programme to improve its effectiveness.

Suggested additionality criteria for the InvestEU Fund

General principles of additionality have been adopted by all key multilateral and bilateral agencies working in the area of private sector development. In line with their collective agreements on common concepts guiding their work with the private sector, and building upon the lessons learned from past experience in implementing EU financial instruments and EFSI, one can distinguish between financial and non-financial additionality. The particular terms and structuring of a financing operation (including not only pricing but also other key aspects such as tenor, grace period, repayment schedule), together with the risk mitigation and mobilisation of private resources constitute the financial aspects of additionality. Non-financial additionality is represented by all other features that the InvestEU Fund support brings into the project, including economic additionality (i.e. whether the envisaged support addresses market failures or sub-optimal investment situations), specialist advice or expertise, etc.

Given the above, the following non-exhaustive list of criteria can be drawn up potentially for the assessment of the additionality of the InvestEU Fund support both at portfolio, and at

[177] 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

project level. These criteria and the underlying indicators could then be considered as positive factors when assessing additionality. In all circumstances, however, the implementing partner should demonstrate that the proposed operation tackles a market failure or suboptimal investment situation.

The main criteria could be the following:

- Identified market failures (for example information asymmetry or difficult access to market or resources) which constrain the availability of finance or the terms on which finance is available for projects;
- The project or investment is expected to deliver a significant societal return, but the financial return is not in line with the expectations of the market;
- Underdeveloped capital markets restricting the volume and/ or type of finance available;
- High levels of perceived or actual risk in certain sectors or countries, beyond levels that private financial actors are able or willing to accept;
- Support from the InvestEU Fund is provided through a subordinated position within the funding structure or for long tenors, which allows for a high risk absorption capacity;
- Regulatory constraints;
- Public/private support will be made available as a result of the financing support provided under the InvestEU Fund
- EU intervention can significantly enhance the environmental benefit or will have a positive impact on social integration
- Cross-border projects or related services.

These criteria are further elaborated in the table below. Moreover, the table below also sets out a series of proxy indicators which could be used to assess additionality of the activity undertaken by the implementing entity receiving EU support. At a very basic level, EU support should enable the implementing entity to take higher risks to address the above conditions (for example, by creating new, riskier products or adjusting pricing levels of existing products) and/ or create higher volumes of activity.

Table1 : Indicative additionality criteria for support to be provided under the InvestEU Fund

Type of additionality	Additionality criteria	Explanation	Suggested indicators for verifying additionality of InvestEU Fund support
Financial	Market failures – information failures	Although the project / business is viable, it encounters difficulties to obtain financing from the market for the requested volume on reasonable terms due to information asymmetries e.g. in the case of SMEs, specific transaction characteristics (e.g. first time borrower, first time VC team)	▪ Development of riskier financing products to cover under-served market segments ▪ Share of operations representing first time counterparts ▪ Share of investment going to first time VC teams
	Market failures - gap between private and social returns (public goods, externalities)	The project or investment is expected to deliver a significant societal return, but the financial return is not in line with the expectations of the market The benefits expected from the positive externalities of the projects (such as emissions reductions, enhancing biological diversity, research and development and deployment of innovative technologies, or affordable provision of basic infrastructure services) may not be fully monetized by investors immediately. This could make the private financial internal rate of return lower than the true economic rate of return for society.	▪ Increase in volume of financing provided to sectors with high positive externalities e.g. – Microfinance – Climate change – Environment – Research and innovation
	Market imperfections – under-developed markets	Financial players or products or certain features of products (e.g. long tenors, loan amount) not being available in certain countries	**<u>Applies to implementing partner only</u>** ▪ Increase in volume of financing to countries with under-developed capital markets ▪ Development of specific products (possibly with

Table1 : Indicative additionality criteria for support to be provided under the InvestEU Fund

Type of additionality	Additionality criteria	Explanation	Suggested indicators for verifying additionality of InvestEU Fund support
			higher levels of subordination) for under-developed financial markets
	High sector or country risk	The project / activity would not be otherwise undertaken because of their relative novelty, high perceived risk, or high initial cost of an undemonstrated market behaviour, currently adverse or as of yet still untested regulatory framework, or untested technology Although the project is considered viable, the political risks in the country deter private investors.	▪ Increase in volume of financing to specific high risk sectors ▪ Increase in volume of financing to high risk countries ▪ Development of specific products / product features for high risk sectors ▪ Development of specific products / product features for high risk countries
	Capacity to attract further financing	The financing provided with support from the InvestEU Fund allows to attract resources from long term investors through its subordinated features	• Deployment of subordinated products
	Regulatory constraints	Regulatory constraints limiting FIs' capacity to lend to certain sectors / segments (e.g. exposure limits or capital requirements imposed by banking regulations) or undertake certain types of investment (e.g. cross-border investment)	**Applies to implementing partner only** ▪ Increase in volume of financing to sectors / segments affected by regulatory constraints ▪ Increase in certain types of activity e.g. SME securitisation, cross-border VC activity

Table1 : Indicative additionality criteria for support to be provided under the InvestEU Fund

Type of additionality	Additionality criteria	Explanation	Suggested indicators for verifying additionality of InvestEU Fund support
Non-financial	Social or environmental impact additionality	EU financing helps enhance the social or environmental impact of the project beyond what was originally envisaged, for example by fostering higher environmental or energy efficiency considerations in the design and implementation of supported projects or supporting the adoption of latest and more expensive technology	Incremental societal or environmental impacts expected in return
	Cross border dimension	The project / investment is of a strategic cross-border nature e.g. energy or transport infrastructure connecting several Member States	Increase in financing of cross border projects

Table 2: Relevance of additionality criteria per policy window

		Policy window			
Type of additionality	**Additionality criteria**	**SME**	**Research & Innovation**	**Social, skills & human capital**	**Sustainable infrastructure**
Financial	Market failures – information failures	√	√	(partly, e.g. Microfinance)	
	Market imperfections – missing or under-developed markets	√	√	√	√
	Market failures - gap between private and social returns		√	√	√
	Capacity to attract/mobilise further financing	√	√	√	√
	Sector or country risk too high	√	√		√
	Regulatory constraints	√	√	√	√
Non-financial	Social or environmental impact			(partly e.g. Social Housing)	√
	Cross border dimension		√		√

ANNEX 11: ACCESS OF NON-EU MEMBER STATES TO EU FINANCIAL INSTRUMENTS

Category	Country	COSME	Creative Europe	EaSI	Erasmus +	Horizon 2020	LIFE
Candidates, potential candidates and acceding countries to the Union	Albania	x	x	x	x	x	x
EU Neighbourhood	Algeria	x	x	x	x	x	x
EU Neighbourhood	Armenia	x	x	x	x	x	x
EU Neighbourhood	Azerbaijan	x	x	x	x	x	x
EU Neighbourhood	Belarus	x	x	x	x	x	x
Candidates, potential candidates and acceding countries to the Union	Bosnia and Herzegovina	x	x	x	x	x	x
EU Neighbourhood	Egypt	x	x	x	x	x	x
EU Neighbourhood	Georgia	x	x	x	x	x	x
EFTA which are part of EEA, European Environmental Agency	Iceland	x	x	x	x	x	x
EU Neighbourhood	Israel	x	x		x	x	x
EU Neighbourhood	Jordan	x	x		x	x	x
Candidates, potential candidates and acceding countries to the Union	Kosovo	x	x		x	x	x
EU Neighbourhood	Lebanon	x	x		x	x	x
EU Neighbourhood	Libya	x	x		x	x	x
EFTA which are part of EEA, European Environmental Agency	Liechtenstein	x	x		x	x	x
EU Neighbourhood	Moldova	x	x		x	x	x
Candidates, potential candidates and acceding countries to the Union	Montenegro	x	x		x	x	x
EU Neighbourhood	Morocco	x	x		x	x	x
EFTA which are part of EEA, European	Norway	x	x		x	x	x

Category	Country	COSME	Creative Europe	EaSI	Erasmus +	Horizon 2020	LIFE
Environmental Agency							
EU Neighbourhood	Palestine	x	x		x	x	x
Candidates, potential candidates and acceding countries to the Union	Serbia	x	x		x	x	x
Swiss Confederation, EFTA	Switzerland		x		x	x	x
EU Neighbourhood	Syria	x	x		x	x	x
Candidates, potential candidates and acceding countries to the Union	FYR Macedonia	x				x	x
EU Neighbourhood	Tunisia	x				x	x
Candidates, potential candidates and acceding countries to the Union, European Environmental Agency	Turkey	x				x	x
EU Neighbourhood	Ukraine	x				x	x
		26	23	9	23	27	27

ANNEX 12: ASSESSMENT OF DUPLICATION, SYNERGIES AND OVERLAPS

Avoiding overlaps among programmes and exploring synergies requires careful attention and coordination among a number of Commission DGs under the current MFF.

For example, in the area of SME financing, the current MFF has at least 14 different instruments focusing on SMEs under internal, centrally managed EU financial instruments and the EFSI, see the tables on potential overlaps below. They are implemented by 4 different Commission DGs and two implementing partners. Coordination taking place through the FIIEG (Financial Instruments Independent Expert Group) and Steering Committees for each of the instruments as well as Joint Steering Committees for equity and guarantee instruments. Such setup is not perfect and there is indeed evidence of partial overlap, e.g. between COSME Loan Guarantees and EaSI Guarantees.

Overlaps exist also in other areas, in particular having arisen following the establishment of the EFSI, as recognised by the external EFSI evaluation and the EIB evaluation carried out in 2016. For instance the target group of EFSI support to innovation financing by the EIB could also be partially served by the InnovFin financial instruments under Horizon 2020. In the areas of infrastructure, projects potentially eligible under the Connecting Europe Facility Debt Instrument could also be targeted by the EFSI.

While coordination among Commission DGs (through the FIIEG), inter-service consultations and Steering Committees, as well as informal coordination among DGs, can help avoiding overlaps and make instruments work in synergy, there are still however partial overlaps among programmes. In addition, the coordination requires significant effort.

The InvestEU Fund with its centralised approach, a single fund, a single Steering Board, a single approval process of the operations by the Investment Committees, a single agreement with each implementing partner and participative involvement of all relevant policy DGs in the Policy Boards and the Inter-Service Coordination Committee would ensure that EU financing is channelled in a coordinated and harmonised manner, without overlaps.

Potential overlaps - DEBT PRODUCTS SUPPORTING LENDING TO SMEs, 2014-2020

Product name	Budget (EUR mln)	DGs in charge	Manager	Target	Specific focus	Comment	Potential overlap[178]
COSME LGF (Loan Guarantee Facility)	840	GROW	EIF	SMEs	SMEs with a high-risk profile	Contributing to SMEI	Joint governance and loan size differentiation. Possible overlap with the SMEI
InnovFin SMEG (SME Guarantee)	1.060	RTD	EIF	SMEs and Small Mid-Caps	Innovative and research-intensive SMEs and Small Mid-Caps	Contributing to SMEI	
EaSI Guarantee Instrument	96	EMPL	EIF	Social enterprises, micro-enterprises and vulnerable groups	Implemented through microcredit providers and social enterprise investors	Guarantee	EASI Sub-fund Possibly with COSME LGF
CCS (Cultural and Creative Sectors) Guarantee Facility	121	CNECT	EIF	SMEs	Cultural and creative sectors	-	COSME LGF InnovFin SMEG
SME Initiative	1.137	REGIO GROW RTD	EIF	SMEs	Developed as an anti-crisis measure. No specific target groups, but focus on participating Countries.	Operational in BG, FI, MT, RO, IT and ES. InnovFin and COSME resources form part of SMEI resources.	InnovFin SMEG COSME LGF
EASI Sub-fund *(under development)*	67 EASI + 133 from EIB/EIF	EMPL	EIF	Social enterprises, micro-enterprises and vulnerable groups	Implemented through microcredit providers and social enterprise investors	Funded product	EaSI Guarantee Instrument
EFSI COSME LGF Frontloading *Top-up*	550	ECFIN			Cfr. COSME LGF		
EFSI InnovFin SMEG	880	ECFIN			Cfr. InnovFin SMEG		

[178] In terms of targeted final beneficiaries and expected policy achievements.

	Frontloading *Top-up*							
	EaSI Guarantee Frontloading *Top-up*	100	ECFIN			Cfr. EaSI Guarantee		
	CCS Guarantee *Top-up*	60	ECFIN			Cfr. CCS Guarantee		
	Securitisation instrument *(under development)*	100 + 100 from EIB/EIF	ECFIN	EIF	SMEs and Mid-Caps (to be finalised)	Development of the securitisation market	-	COSME LGF securitisation

Potential overlaps - EQUITY PRODUCTS TO SUPPORT CAPITAL INVESTMENT IN SMEs, 2014-2020

Product name	Budget (EUR mln)	DGs in charge	Manager	Target	Specific focus	Comment	Potential overlap[179]
COSME EFG (Equity Facility for Growth)	490 (including fees)	GROW	EIF	SMEs	Companies in expansion stage	Contributes to Pan-EU VC FoF	SMEW Eq. Instr. Pan-EU VC FoF ESCALAR RCR
EaSI Capacity Building Investments Window	16 (including fees)	EMPL	EIF	Micro-credit and social finance providers	Build up of the institutional capacity of financial intermediaries	In exceptional cases providing also loans	
ESCALAR *(under development)*	tbd	GROW ECFIN	tbd	SMEs and mid-caps (to be further specified)	Expansion & growth phase, pre IPO	Innovative support to VC funds through guaranteed loans	COSME EFG SMEW Eq. Instr. Pan-EU VC FoF EIB-EIF MFF RCR
RCR	9.500 (of which 2.500 from EFSI)	-	EIB (mandate to EIF)	SMEs and mid-caps	Companies from pre-seed to expansion.	-	Potentially any other product.
IFE (InnovFin Equity)	495 (including	RTD	EIF	SMEs and Small	Companies in their pre-	No longer stand alone,	(see SMEW Equity

[179] In terms of targeted final beneficiaries and expected policy achievements.

		fees)			Mid-Caps	seed, seed, and start-up phases in H2020 sectors	being fully integrated with SMEW Eq. Instr. (see below)	Instr.)
EFSI	SMEW Equity Instrument	1.270 (including fees) + 458 from IFE + 290 from EIF	ECFIN RTD	EIF	SMEs and Small Mid-Caps	Companies from pre-seed to expansion. Specific envelopes foreseen for: tech-transfer, business angels, social investment	EFSI resources are combined with IFE and EIF resources into a single product	Potentially any other product.
	Pan-European Venture Capital Fund of Funds	Up to 300 from SMEW Equity Instr. + up to 100 from COSME	ECFIN RTD GROW	EIF	SMEs and Small Mid-Caps	Companies from pre-seed to expansion	Falling under the SMEW Equity Instrument, it combines COSME resources	COSME EFG ESCALAR RCR
	EIB-EIF SME FIF (Funds Investment Facility) (under EFSI IIW)	500	-	EIB (mandate to EIF)	SMEs	Companies from pre-seed to expansion	Co-investment in funds where EIF is already present with non-EFSI resources	COSME EFG SMEW Eq. Instr. RCR
	EIB-EIF MFF (Midcap Funds Facility) (under EFSI IIW)	500	-	EIB (mandate to EIF)	Mid-caps	Expansion & growth phase	-	COSME EFG SMEW Eq. Instr. ESCALAR RCR
	EIB-EIF CIF (Co-investment Facility under IIW)	100 + 100 EIB	-	EIB (mandate to EIF)	SMEs and Mid-Caps	Companies from pre-seed to expansion	Co-investment alongside funds where EIF is already present	COSME EFG SMEW Eq. Instr. ESCALAR RCR

ANNEX 13: INVESTEU FUND – GOVERNANCE

Figure: Visual representation of the current governance arrangements for EFSI and centrally managed FIs

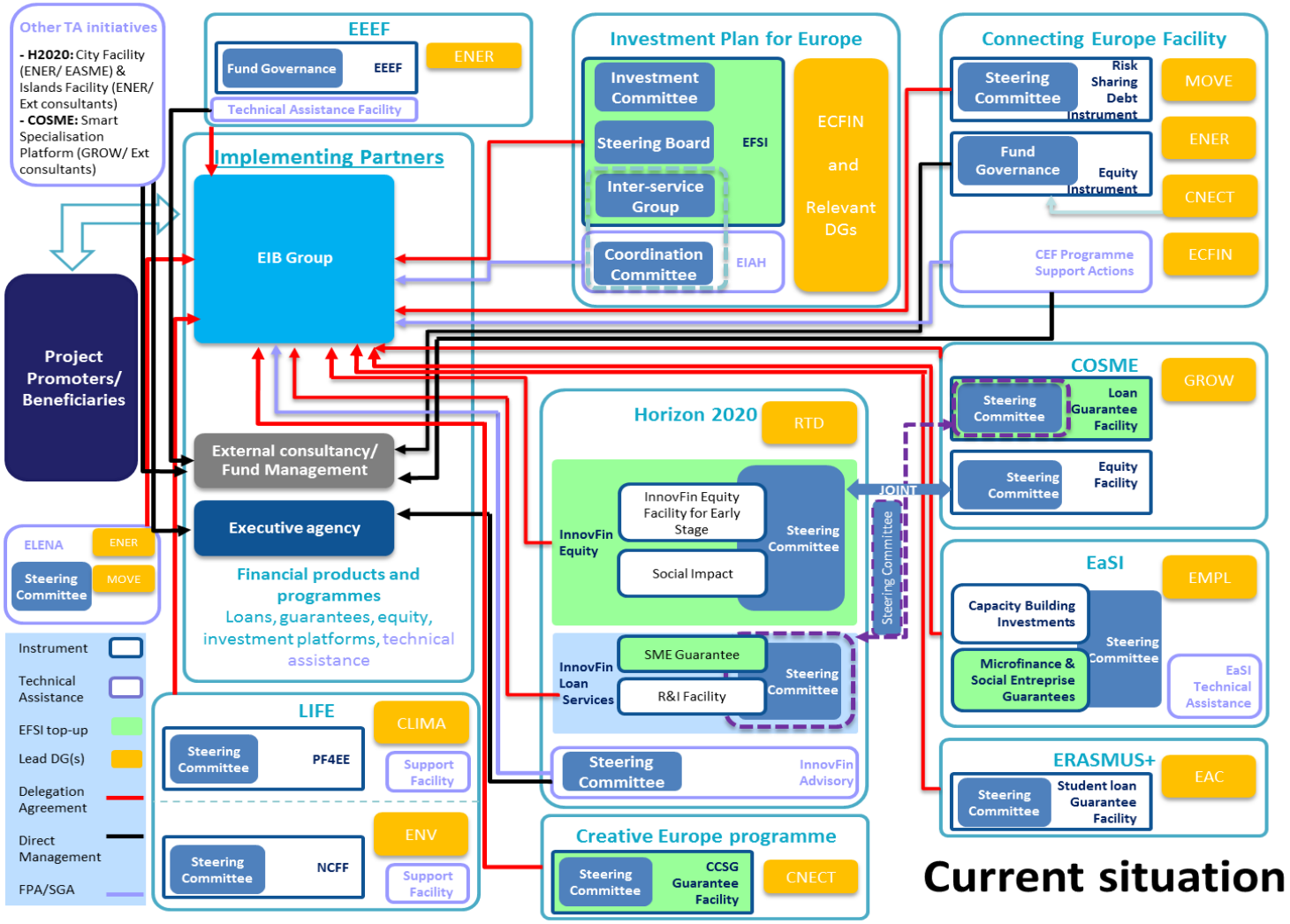

Figure: Proposed InvestEU Programme Governance