

## **Financial Instruments and Territorial Cohesion (Revised) Inception Report**

Wishlade, Fiona; Michie, Rona; Moodie, John; Penje, Oskar; Norlen, Gustaf; Korthals Altes, Willem; Assirelli Pandolfi, Chiara; de la Fuente Abajo, Ana

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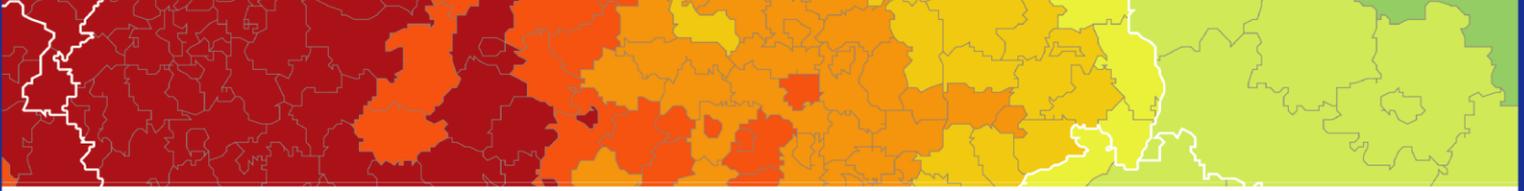
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# Financial Instruments and Territorial Cohesion

Applied Research

**(Revised) Inception Report**

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#### **Authors**

Fiona Wishlade, Rona Michie, European Policies Research Centre (UK)

John Moodie, Oskar Penje, Gustaf Norlen, Nordregio (Sweden)

Willem Korthals Altes, TU Delft (Netherlands)

Chiara Assirelli Pandolfi, Ana de la Fuente Abajo, Red2Red Consultadores (Spain)

#### **Advisory Group**

Project Support Team: Cristina Wallez Cuevas, General Commission for Territorial Equality, France; Adriana May, Lombardy Region, Italy; Romana Mynarikova, Federal Ministry of Transport and Digital Infrastructure, Germany

ESPON EGTC: Zintis Hermansons

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# Financial Instruments and Territorial Cohesion

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The final version of the report will be published as soon as approved.

## Table of contents

Abbreviations .....	iv
1 Introduction.....	5
2 Overview of the current debate on Cohesion policy and ESIF funds in relation to the use of financial instruments.....	6
2.1 Cohesion policy, territorial cohesion and financial instruments: a literature review..	7
2.2 Debates on the future role of financial instruments.....	12
2.3 Financial Instruments Promoting Territorial Development at Sub-national Level...	15
2.3.1 The use of Financial Instruments within EU Cohesion Policy .....	15
2.3.2 The impact of the economic and financial crisis .....	16
2.3.3 The use of financial instruments at sub-national level.....	17
2.3.4 Territorial scales and governance models for ESIF FIs.....	17
2.3.5 Other EU-level financial instruments .....	19
2.3.6 Evidence of effectiveness .....	20
2.3.7 Financial Instruments Promoting Territorial Development Outside Cohesion Policy.....	20
3 Concepts and methods .....	22
3.1 Rationales for public intervention and the roles of grants and financial instruments	23
3.2 What value-added might financial instruments offer, especially compared to grants?	25
3.3 Linking the territorial dimension and the impact of ESIF FIs .....	26
3.4 Approaches to the assessment of value added and impact .....	28
4 Overview of data and data sources.....	30
4.1 Data sources and challenges.....	30
4.2 Potential usefulness of OP indicators to measure impact of FIs .....	32
5 Elaborated plan for regionalising data.....	35
6 Elaborated plan for analysing the added value of financial instruments .....	39
6.1 Plan for the analysis of added value .....	39
6.1.1 Assessing the value-added of financial instruments.....	40
6.1.2 Impacts associated with financial instruments and grants.....	44
6.2 Clustering of regions .....	46
6.3 Analysis of FIs at territorial level .....	50
7 Elaborated plan for carrying out the case studies .....	52
7.1 Selecting the case studies .....	52
7.2 Conducting the case studies.....	53
7.2.1 Desk research .....	54
7.2.2 Fieldwork.....	54
7.2.3 Data collection .....	55
7.2.4 Analysis and reporting .....	56
7.3 Resources for developing the case studies .....	58
References .....	60
Annex I: Key datasets for EU-wide quantitative analysis, regionalisation, value-added of FIs and impacts associated with grants and FIs .....	64
Annex II: National/sub-national breakdown of co-financed FIs 2007-13.....	67
Annex III: OPs involving significant contributions to FIs and investments in final recipients ..	71

Annex IV: Ex post evaluation of FIs for enterprise support – evidence of impact from case studies .....	72
Annex V: Ex post evaluation of FIs for enterprise support: use of indicators in case study OPs .....	75
Annex VI: European Parliament study on FIs for Energy Efficiency and Renewable Energy – indicators in the 2007-13 Case Study OPs .....	79
Annex VII: Quality Control .....	81

## List of Figures

Figure 3-1: The potential for financial instruments in ESI Fund programmes .....	24
Figure 3-2: Target recipients, market imperfections and rationales for FI.....	25
Figure 3-3: Financial instruments and territorial cohesion: a framework for analysis .....	28
Figure 5-1: Strategies for regionalising ESIF FI data – 2007-13.....	37
Figure 5-2: Core deliverables under Task 2 .....	38
Figure 6-1: Data and methods of analysis – value-added of financial instruments.....	42
Figure 6-2: Impacts associated with financial instruments and grants.....	45
Figure 6-3: Regional typology example provided in project Terms of Reference .....	46
Figure 6-4: Factors affecting the uptake and implementation of financial instruments .....	46
Figure 6-5: Potential criteria for regional clustering, data availability and factors identified in ToR .....	48
Figure 6-6: Typology of regions.....	49

## List of Tables

Table 2-2: Examples of sub-national institutions using ESIF in 2007-13/2014-20.....	19
Table 4-1: Summary of key data sources (grants and FIs) and challenges, for periods 2007-13 and 2014-20.....	31

## Abbreviations

COSME	EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises
CPR	Common Provisions Regulation
EAPB	European Association of Public Banks
EC	European Commission
EFSI	European Fund for Strategic Investments
ESIF	European Structural and Investment Funds
ESPON	European Territorial Observatory Network
EU	European Union
FI	Financial Instruments
MA	Managing Authority
NPB	National Promotional Bank
NUTS	Nomenclature of Territorial Units for Statistics
OP	Operational Programme
SME	Small and Medium Sized Enterprises

# 1 Introduction

This Inception Report represents Delivery 1 for the applied research project on Financial Instruments and Territorial Cohesion as described in the project Terms of Reference. This report has been revised following feedback from the ESPON EGTC, Project Support Team, Monitoring Committee and Senior Scientific Quality Management team.

For this deliverable, the Terms of Reference require:

- a **description of the conceptual and methodological framework** to be applied;
- an **overview of the current debate** on Cohesion Policy and ESIF funds in relation to the use of financial instruments (Task 1);
- an **overview on data and data sources to be used** (for the preparation of Task 2);
- an **elaborated plan for regionalising data** on financial instruments and grants, and overcoming potential challenges in relation to data collection, data harmonisation and missing data (for Task 2);
- an **elaborated plan on how to perform the analysis of added value** of financial instruments as a complement to grants at the territorial level (for Tasks 3 and 4); and
- an **elaborated plan for carrying out case studies** and a proposal for case studies (for Task 5).

This report is structured as follows: Chapter 2 provides an overview of current debates on Cohesion policy, territorial cohesion and financial instruments; Chapter 3 provides the conceptual and methodological framework for analysis to be used. Chapter 4 discusses the data issues, and Chapter 5 presents an elaborated plan for regionalising the data. Chapter 6 provides an elaborated plan for analysing the added value of financial instruments. Chapter 7 then provides a plan for carrying out the case studies. The project Terms of Reference mention providing a proposal for case studies. However, the starting point for selecting case studies will be the typology of clusters established in Task 4; as the work on Task 4 has not yet produced a sample of outliers, no preliminary selection of potential case studies could be established at this stage.

Looking ahead, discussions are ongoing with the ESPON EGTC on two main issues:

- Several elements of the proposed analysis will depend on the availability of voluntary FI data submitted by managing authorities to the Commission; the project consortium is currently seeking ESPON's help in obtaining this data.
- The consortium has suggested holding an event in autumn 2018 to gather stakeholder input for the project. This could, for instance, be in the form of a focus group or invited seminar, and potentially be aligned with the 2018 European Week of Regions and Cities in Brussels. This initiative is currently being progressed.

## 2 Overview of the current debate on Cohesion policy and ESIF funds in relation to the use of financial instruments

- Although little is known about the spatial incidence of FIs, **access to finance is inherently spatial** at national and subnational levels.
- National financial systems play an important role; **there are also significant differences in the geography of finance** within countries, due to physical factors and the location of financial institutions and their networks.
- Issues of quality of government are important in the context of FIs due to implementation challenges; as a result, because of the correlation between quality of government and levels of economic development, **disadvantaged regions are doubly disadvantaged**.
- The effect of FIs on disadvantaged regions is influenced by the **choice of financial products** (which have their own geographies), **market ‘thinness’** and the profile of resident **firms**.
- The **debate on the future role of FIs in Cohesion policy is at an early stage**; emerging themes include the need for: a balance between the use of grants and FIs within Cohesion policy; clear and stable rules relating to FIs; a level playing field among FIs; and concern over potential administrative capacity issues.
- The **role of FIs in Cohesion policy has increased** over successive programming periods while **remaining relatively modest** in terms of overall Cohesion policy expenditure.
- The **economic and financial crisis had a varied impact** on the uptake of FIs within Cohesion policy; it drove some to adapt to provide more mainstream funding than initially envisaged, including working capital. Difficulties in finding private sector participation were exacerbated.
- The **territorial distribution of Cohesion policy FIs is complex**; FIs are used under national, regional and multi-regional OPs, they are implemented using different governance models at different territorial scales, using a wide range of institutions.
- Cohesion policy FIs are being implemented within an increasingly complex landscape, with a **proliferation of instruments being offered** at different scales, and on different terms.
- **Evidence of effectiveness is so far rather limited**, although contribution to Cohesion policy objectives can be seen at OP level.
- **FIs are also widely used outside Cohesion policy** under domestic policy, including in the non-EU ESPON countries.

This chapter represents Task 1 as envisaged in the Terms of Reference. First, there is a discussion of the role of financial instruments in regional development, with a focus on Cohesion policy FIs. This is followed by an overview of the current debate on the potential role of FIs within Cohesion policy. How Cohesion policy FIs have been used thus far to support territorial development is then examined, including the use of FIs at different territorial levels, the impact of the crisis, the role of other EU-level FIs, and a brief discussion of the evidence of effectiveness. The chapter concludes with a brief consideration of FIs outside Cohesion policy.

## 2.1 Cohesion policy, territorial cohesion and financial instruments: a literature review

Financial instruments (FIs) represent a small but increasing and high-profile proportion of ESIF programme resources - **uptake of FIs under ESIF programmes has roughly doubled** since the 2007-13 programming period (Wishlade, Michie, Robertson and Vernon, 2017). Use of FIs has been concentrated within ERDF programmes, and has focused primarily on support to SMEs. The European Commission (European Commission, 2012) has encouraged the use of FIs in Cohesion policy on the basis that such instruments are more **sustainable** (because funds are recycled to be spent again in the same region), that they may generate **better quality projects** (because funds have to be repaid and commercial expertise in project appraisal can enhance project selection) and that they can be a more **efficient use of public funds** (because private finance can be leveraged in to supplement public spending). However, the overarching rationale for the use of FIs is that facilitating access to finance by using financial instruments can contribute to sustainable regional economic development.

For the 2014-20 period, provisions have been made in the ESIF regulations to encourage increased use of FIs **across different Funds, under new Thematic Objectives and using new modes of implementation**, including by contributing to EU-level FIs. Meanwhile, the **landscape has become more complex** for the implementation of FIs, as the EU has responded to the economic and financial crisis by enhancing access to finance through the European Fund for Strategic Investments (EFSI), part of the Investment Plan for Europe.

While much has been written about the implementation of FIs under Cohesion policy, often focusing on the challenges involved in their implementation, little of it has had an explicitly spatial dimension. In part, this owes to the relative novelty of FIs as a delivery mechanism, leading to a steep learning curve for Managing Authorities (MAs) in setting up FIs, so that debates have been dominated by issues of *process* rather than of *substance*. This **study is an opportunity to address the ‘territorial gap’ in financial instrument research**.

Although Cohesion policy applies in all regions, its focus is on those facing obstacles to development. Typically these include low administrative capacity, a low rate of entrepreneurship, underdeveloped financial markets, and low density population. Central to this study is the hypothesis that many of the obstacles to development in disadvantaged regions are precisely those that make the delivery of policy through FIs challenging. In short, the implementation of FIs and their contribution to territorial cohesion lies at the nexus of the geography of finance and the quality of government. This study eschews an explicit definition of territorial cohesion which has been studied in depth through ESPON already (ESPON, 2013), focusing instead on a range of spatial dimensions relevant to FIs in Cohesion policy.

Importantly, in the context of this study, the **territorial component of Cohesion policy was diluted** from 2007 when it became an ‘all-region’ policy, more explicitly addressing horizontal objectives linked to the European 2020 agenda. Cohesion policy still retains a spatial dimension, reflected in the scale and intensity of funding for the less-developed regions, but the fine-grained discrimination

outside these regions has disappeared. This is important, and especially so in the context of financial instruments, because little is known about the spatial incidence of FIs. There are, however, reasons to think that the uptake of FIs within an Operational Programme (OP) may be skewed towards the more developed areas. This introduces the risk of crowding-out the private sector in such areas. It also risks exacerbating existing infra-regional or infra-national disparities, depending on the spatial scope of the OP.

At a general level, **access to finance is inherently spatial**. This is true at national and subnational levels. The *national* context is important: access to finance is conditioned by broad models of capitalism and the role of the State in investment finance. In their seminal work Hall and Soskice (2001) develop a framework to understand commonalities and differences between institutions in different economies. They distinguish liberal market economies (LMEs), epitomised in Europe by the United Kingdom, and coordinated market economies (CMEs), such as Germany, and suggest that a Mediterranean cluster might also be distinguished. Nölke and Vliegenthart (2009) expanded the typology to include dependent market economies (DMEs) typified by the VISEGRAD countries, but potentially including Romania (Ban, 2013). Others have suggested that the Baltic countries constitute a 'state-crafted neoliberal model' (tending towards the LME model), while Slovenia follows a neo-corporatist pattern (Bohle and Greskovits, 2007) more akin to coordinated market economies.

Among other things, these economic **models differ according to the primary means of raising investment capital**, with LMEs more reliant on capital markets, CMEs tending towards domestic bank lending and internal funding, and DMEs drawing more on foreign direct investment and foreign-owned banks. Alternative approaches have been proposed by other scholars, for example Amable (2003), distinguishes market-based, continental, social democratic and Mediterranean capitalism, but pre-dating eastern enlargement. Again **specific characteristics related to access to finance are identified**. Notable among these are the sophistication of financial markets, the role of banks, the development of venture capital, the availability of patient capital and the role of public intervention. The resulting clusters are not watertight or geographically comprehensive but they illustrate the diversity of institutional financial contexts.

Looking specifically at how **national financial systems influence SME finance** Moritz *et al* (2015) and Masiak *et al* (2017) distinguish between bank-based, market-based and former socialist countries. They show that SME financing differs more *between* these country groups than by firm, product or industry-specific characteristics. They also argue that government support programmes can only be effective if they take account of both SME characteristics and national supply-side conditions. In short, **national financial systems matter**.

The national financial context affects issues such as availability of finance *per se*, but it also provides the institutional framework for the implementation of FIs. The domestic landscape for FIs is complex, varied and opaque (Wishlade *et al* 2017). Some countries have longstanding sophisticated structures which provide experienced mechanisms for disbursing ESIF cofinanced FIs. In others, new national promotional banks (NPBs) are in the process of being established in response to the aftermath of the financial crisis. In some central and eastern European countries ESIF funding is the mainstay of

economic development policy and may also be a significant component of the resources of NPBs. Elsewhere the picture is more fragmented, with niche funds, regional and sectoral banks and others financial institutions playing various roles.

While the national level provides an important backdrop, a strand of entrepreneurship research shows that there are **significant differences in the geography of finance within countries**. Mason and Harrison (2002) and Berggren and Silver (2012) have pointed to disparities between regions in the availability and type of investment capital available to firms due to the effects of space and place (Mason, 2012).

The **physical distance** between firms and investors or lenders affects relations between them and investment flows. In the case of loan finance, greater distance between small business borrowers and their banks would be expected to reduce in-person visits by bank staff, exacerbating information asymmetries. This increases the risk of poor investment decisions leading to higher default rates (Degryse and Ongena, 2005; DeYoung et al, 2008). Business angels and venture capital are also characterised by localised investing because of the need for 'soft' information that cannot readily be standardised or automated (Martin et al 2005; Mason, 2007; Cumming and Dai, 2010; Avdeitchikova, 2009; Harrison et al, 2010). Longer distance flows of venture capital do happen, but generally through syndication with local investors. As a result, such flows gravitate towards regions that already have significant sources of their own (Florida and Smith, 1991; Sorenson and Stuart, 2001).

Related, **financial institutions have their own geographies**. The key contrast is between centralised and decentralised financial systems. Local and regional banking systems are more supportive of local economies because of vested interests in the local economy and lower information asymmetries; small local banks are better at meeting the credit needs of local SMEs (Zhao and Jones-Evans, 2017). Local banks derive informational advantages from their proximity and close relationships with borrowers, and this is reflected in lower interest rates and collateral requirements (Jimenez et al, 2009; Casolaro and Mistrulli, 2008). However, in recent decades banking systems have been centralised in many countries because of changes in the regulatory framework. One example of the impact of this can be seen in Italy, where the decline in local banks has had particularly adverse effects for the south of the country (Alessandrini and Zazzaro, 1999; Alessandrini et al, 2009). Venture capital also has a particular geography: the concentration of venture capital investors in particular regions means that the business community in those regions has much more knowledge of the role of venture capital and ways to access it, thus stimulating demand, whereas in regions with few venture capital firms knowledge is weak and incomplete, reducing demand and the prospects of success for those firms that do seek venture capital (Martin et al, 2005).

The capacity of public policy to respond to regional disadvantage in the geography of finance is contingent on **quality of government**. Recent research has highlighted wide divergences in the quality of government within countries, as well as across the European regions as a whole. There is a broad correlation between levels of economic development and quality of government (Charron et al, 2013). Places with weak and/or inefficient institutions suffer from a variety of problems including corruption, rent-seeking, clientelism and nepotism and principal-agent or information problems. These

lead to imperfectly functioning markets, a loss of efficiency and growth potential, and to institutional and government failure, affecting the capacity of governments to design and deliver public goods and policies. Moreover, where Cohesion expenditure is higher, the importance of quality of government also increases so that in regions where support is highest – over €120 per head per annum - the most efficient way to achieve greater economic and social cohesion is by improving the quality of government (Rodriguez-Pose and Garcilazo, 2015).

Issues of quality of government are especially pertinent in the context of financial instruments because of the challenges involved in their implementation. These have been well-documented generally (Mazars et al 2013; Nyikos 2016), in the context of support for SMEs (Wishlade et al, 2016) and in the case of FIs for energy efficiency and renewables where the challenges are even greater because of the specialist technical expertise also required (Wishlade et al, 2017). Managing authorities across the EU, irrespective of quality of government and including those with substantial experience of running co-financed FIs, find aspects of FI implementation difficult. Because of the correlation between quality of government and levels of economic development, **disadvantaged regions are doubly disadvantaged**: access to finance is generally harder in the more disadvantaged areas, and these same regions may lack the administrative capacity to implement public policy measures to compensate for shortcomings in the geography of finance.

Also relevant is the **tier of administration** at which FIs are managed and implemented. In many countries FIs are funded from regional OPs and, self-evidently, apply to that region. In others, FIs are implemented under national or multiregional OPs and therefore straddle several regions; under other arrangements, several OPs contribute to nationally-managed funds.<sup>1</sup> In addition, the 2014-20 Common Provisions Regulation introduced an option for MAs effectively to pool some of their resources into EU-level or joint instruments such as the SME Initiative where implementation is effectively delegated 'up' to the EIB group. Such pooling or centralisation can help address some of the administrative and regulatory challenges of FI implementation. However, a clear lesson from evaluations and past studies is that FIs must be tailored to local needs and conditions (Veugelers, 2011; Tykvová et al 2012; Berggren and Silver 2012; Michie and Wishlade 2011). How and to what extent is it possible to reconcile centralised administration and local responsiveness?

Comparatively little is currently known about the **spatial incidence of ESIF and other EU financial instruments**; indeed, it is an objective of this study to understand this better. However, there are reasons to think that the combined effects of the pressure to absorb funds, together with the greater density of investible projects might lead to investments being concentrated in the more prosperous areas within an OP area. The extension of Cohesion policy to all regions arguably increases this likelihood. There is an analogous situation in EFSI. Reflecting the market-led nature of EFSI, a larger share of investments is located in the more prosperous Member States, even though investment policy is ostensibly spatially neutral. There is also at least anecdotal evidence of crowding out of

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<sup>1</sup> See also Annex I: Key datasets for EU-wide quantitative analysis, regionalisation, value-added of FIs and impacts associated with grants and FIs.

commercial finance.<sup>2</sup> At the same time, the regulatory requirements for EFSI and EU level instruments, such as COSME, are less demanding than for FIs under shared management. As a result, regions where ESIF are the main funding source for FIs are subject to tougher rules.

This leads on to the **role of financial instruments in disadvantaged regions**, how the advantages claimed for FIs play out in different conditions and what this might mean for the relationship between grants and FIs. There are several aspects to this.

First, it is important to note that the term 'financial instruments' encompasses financial products – loans, guarantees and equity - that have little in common except that, unlike grants, the capital advanced is repayable. This in turn means, of course, that **FIs are only suitable for investments that are at least potentially revenue-generating or cost-saving.**

Second, there is evidence that **each type of financial product has its own geography.** This is perhaps most evident in the case of regional venture capital funds where the typical approach of governments has been to establish hybrid funds with private sector fund managers. These comprise a mixture of public and private money, with private investors given certain incentives (Murray, 2007). However, it is debatable whether constraining funds by restricting their investments regionally is good practice (Veugelers, 2011), mainly because such funds typically involve relatively small amounts of capital under management. For example, in the case of the EU Seed Capital Funds, the funds in the assisted regions were smaller than those in other locations, despite having more generous financial incentives for private sector investors (Murray, 1998). The same was evident in the English regional venture capital funds (Mason and Harrison, 2003) and in the Norwegian regional seed capital fund (Growth Analysis, 2011). Small funds generally have a number of disadvantages, including relatively high management costs, limited scope for diversity and spreading risk, and constraints on follow-on investment (ECA, 2012).

It has also been argued that the real problem facing regional public sector venture capital funds is one of **'thin' markets in disadvantaged regions** - these regions lack an appropriate eco-system to support venture capital investing. In other words, **it is not simply a problem of demand or supply.** There is also evidence of *positive* effects of FIs on disadvantaged areas. For instance, a study of Small Business Administration guaranteed lending in the US showed a correlation between the level of guaranteed lending and the level of employment in a local market (Craig et al, 2009). Crucially, this correlation was only significant in low income markets, perhaps suggesting a crowding-out effect in more prosperous areas. This also supports arguments for regionally-discriminating guarantee schemes, though these appear less attractive to lenders, as mentioned at a recent DG REGIO workshop on financial instruments as a delivery mechanism for ESIF post-2020.<sup>3</sup>

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<sup>2</sup> For example, as raised as an issue for discussion at an EAPB workshop on the role of public banks in supporting smart and resilient infrastructure as part of the European Week of Cities and Regions 2017, 11 October 2017, Brussels.

<sup>3</sup> Held as part of the European Week of Cities and Regions 2017, 10 October 2017, Brussels.

A third issue is that **the profile of firms in disadvantaged regions is different** from that in thriving regions. This has direct implications for the perceived benefits of FIs, and for the role of grant support, specifically:

- *Sustainability*: default rates may be higher in more deprived areas, reducing the size of the legacy available for reinvestment in those regions, while more prosperous regions benefit from recycled funds.
- *Quality*: proposed investments or enterprises may be of poorer quality in more disadvantaged areas - evaluations of enterprise creation initiatives in disadvantaged areas in the UK suggest that they are successful in encouraging start-ups, but that those businesses tend to be small, marginal and few of them generate a living wage (Rouse and Jayawarna, 2011).
- *Efficiency*: it may be more difficult to attract private finance in problem regions and management costs and fees may be relatively higher. Is there a trade-off between leverage and the ability to generate returns? If so, does this trade-off have particular spatial patterns?

**Disparities between regions are reflected in Cohesion policy FIs.** A Managing Authority survey in peripheral maritime regions showed that while 73 percent of respondents in Regional Competitiveness and Employment regions were satisfied with the result of FI implementation in 2007-13, only 44 percent of respondents in Convergence regions felt the same (CPMR, 2016). However, peripheral sparsely-populated areas located in more developed regions still reported poor uptake of FIs.

The **relationship between grants and financial instruments** is rarely well articulated in policy. FIs are often perceived as a solution for difficulties in accessing finance, rather than as an alternative, or complementary policy delivery tool. FIs are only suitable for projects which generate revenue or cost savings, hence the focus on business support, urban development and low carbon economy; **grants can only partially cover investment requirements**, owing to State aid rules, but can provide an incentive to alter behaviour, for instance by funding feasibility studies or subsidising investments considered in the wider public interest. There is a need for the support offer to be coordinated (e.g. FIs will not be attractive when grants are available for similar purposes) and a plethora of schemes causes confusion for recipients (Evans, 2013). While the grant-FI relationship has not received much attention in the past, there are signs that this is rising up the agenda following the wider use of FIs in 2007-13. Some MAs perceived FIs as improving the capacity of Cohesion policy to meet targets, with a key benefit being the deterrence of grant dependency, the development of an “entrepreneurial culture” and support for (niche) market development. (Wishlade et al, 2016).

## **2.2 Debates on the future role of financial instruments**

**Attention is now turning to the post-2020 period.** The debate on the potential future role of FIs within Cohesion policy is **still at a relatively early stage**, and represents only a small part of a much wider debate on the future of Cohesion policy itself.

No concrete policy proposals related to FIs have emerged since 2015, when DG REGIO Commissioner Crețu (Crețu, 2015) highlighted some of the main outstanding political questions, by setting the following questions:

- what is the best use of Cohesion policy funds to stimulate investment in Europe?

- which form of support is most efficient (grants, repayable assistance, FIs, or their combination)?
- should the share of FIs in EU funds should be further increased?

Contributions to the debate so far have consistently stressed several themes: the ongoing need for grants within Cohesion policy and that FIs should act as a complement to these; the need for clear and stable rules relating to FIs; the need for clarity among the current proliferation of FIs from different sources, and in some cases, the need for a level playing field between these FIs. The potential impact of FIs on administrative capacity has also been a concern.

In 2015, the General Affairs Council underlined the **important role of grants** as well as the need **for better guidance and stable rules** on financial instruments to address implementation challenges (European Council, 2015). While recognising the effectiveness of using FIs to increase the impact and leverage of ESI Funds, the Council noted that “grants within cohesion policy are an effective form of support for many types of projects and programmes on their own and in combination with financial instruments”. The Council highlighted the need for stable, consistent and clear rules throughout the whole implementation period as a pre-requisite to attract private investors, in response to the challenges in 2007-13 when successive legislative amendments and guidance notes were issued to clarify rules. The Council called on the Commission to provide guidance on the use of financial instruments and on the synergies between different instruments in a timely manner without going beyond the scope of the regulations by creating additional obligations. Guidance on combining the use of the ESI Funds and EFSI was requested along with practical and timely solutions to implementation challenges by the Commission and through the *fi-compass* platform.

More recently, the Seventh Cohesion Report explored the future of Cohesion policy, but said little on the anticipated future role of FIs beyond noting the **need for complementarity** between FIs (European Commission, 2017). The report notes evidence from the ex post evaluation of FIs suggesting that SMEs may in some cases prefer FIs to grants, as a loan covering 80% of an investment would mean them having to find less additional financing than a grant covering 20%, and suggests that this may prove to be a key source of the added-value of FIs in the longer term.

Looking at the use of EU FIs beyond Cohesion policy, when reporting on **the future financing of the EU**, the High Level Group on Own Resources suggested that increased use of FIs could increase the added value of EU expenditure. However, the external study commissioned by the Group (Núñez Ferrer et al, 2016) revealed that the distribution of financial flows resulting from the main FIs diverges from the traditional distribution of co-financed Cohesion policy grants, agricultural subsidies or even R&D grants, by **confirming the comparative advantage of wealthier Member States** in attracting this kind of funding.

The EC's Reflection Paper on EU Finances outlines five possible scenarios for future EU financing, while stressing that grants will continue to be needed for non-revenue generating investments (EC, 2017). **Higher use of FIs foreseen under all future scenarios**, including Scenario 1 (carry on), Scenario 3 (some do more) and Scenario 5 (doing much more together)). *Much* higher use of FIs is foreseen under Scenario 2 (doing less together), and Scenario 4 (radical redesign). However, Cohesion policy has potentially a lower budget share in all scenarios except Scenario 5. It is

suggested that EU-level FIs could be integrated within a single fund to address the **proliferation of different FIs/sources**, and the potential to expand the pan-European venture capital Fund of Funds is raised. The complementarity between Cohesion policy and EU-level FIs should be ensured through upstream coordination, ensuring the same rules and clearer demarcation of interventions.

These proposals are consistent with the findings of a recent report on the uptake and effectiveness of FIs within Cohesion policy programmes (Wishlade, Michie, Robertson and Vernon, 2017). The report recommends that the role of ESIF FIs, EU-level FIs and other initiatives be reappraised; that greater regulatory stability be provided allowing existing FIs to 'bed-in'; and that guidance and support be refocused. Three possible future options for FI implementation under ESIF are outlined for consideration - maintaining the status quo; modifying the status quo to provide a more level playing field for ESIF FIs in terms of their ability to compete with EU-level FIs; and a set of options which would involve making upfront decisions about the FI delivery mode.

The issue of **complementarity** between Cohesion policy and EU-level FI, including EFSI, has also been a recurrent theme of contributions by stakeholders to the debate. Commenting on the proposed extension of EFSI (EFSI 2), the Committee of the Regions has called for consistency of EFSI with Cohesion policy OPs and for better synergies between them (Committee of the Regions, 2016). Also referring to EFSI, a constructive proposal with regards to the future of the EFSI and Cohesion policy would entail clarifying roles for both instruments, establishing clear boundaries between EFSI and Cohesion policy and identifying clear opportunities when the two instruments can be combined (CPMR, 2017). Synergy with other policies and instruments, including Horizon 2020, EFSI and other FIs should be enhanced to maximise the impact of investment; an 'equal treatment' approach in relation to procedures, e.g. on State aid rules, should become the leading principle (EPP Group, undated). Ongoing discussion around EFSI also focuses on concerns about the additionality of EFSI and potential for crowding out ESIF FIs, and the possibility that EFSI-supported projects will be concentrated in the more-developed parts of the EU - where there is greater public and private sector capacity for preparing projects, established investment banks, platforms and FIs, potentially contributing to exacerbating territorial disparities across the EU (Bachtler, Martins, Wostner and Zuber, 2017).

Another key issue for stakeholders is the **importance of achieving a balance between forms of finance**. The European Parliament asserts that grants should remain the basis of Cohesion policy financing, whilst the use of loans, equity and guarantees should be carried out with caution (European Parliament, 2017). The emphasis should be on defining where financial instruments can **add most value** within a future Cohesion policy that continues to rely primarily on grants, and the Commission should not impose targets with regards to the use of FIs at programme level (CPMR, 2016; CPMR, 2017). An **appropriate balance** between grants and FIs must be reached - FIs should be promoted when they have added value, but it is essential to maintain the variety of tools for all regions (whatever their category) to be able to choose the implementation processes that are the most efficient and best meet the priorities and needs (EPP Group, undated).

The need to improve **administrative capacity** in relation to FIs has also been highlighted in the ongoing debate. A survey conducted by the Committee of the Regions identified major training, technical assistance and communication challenges for local and regional authorities around the issues of access to finance and the low level of familiarity with new tools offered by the Investment Plan for Europe and EFSI (Committee of the Regions, 2016).

The next milestones related to the debate on the future of Cohesion policy (and the role of financial instruments within it) are expected to take place during 2018, with proposals on the post-2020 Multiannual Financial Framework expected in May 2018, followed by the Commission's Cohesion policy legislative proposals in June 2018 and then the launch of Council negotiations. This overview will be updated to take account of the developing debate as further detail emerges. As well as taking account of emerging policy documents and position papers, stakeholder input will potentially be gathered as part of an interactive forum which the team proposes to organise as part of or in parallel with the European Week of Regions and Cities in Brussels in October 2018.

## **2.3 Financial Instruments Promoting Territorial Development at Sub-national Level**

### **2.3.1 The use of Financial Instruments within EU Cohesion Policy**

The role of financial instruments has **increased over successive Cohesion policy programming periods**. In 1994-99, ERDF spend in the form of FIs was estimated at just €300 million, rising to some €1.2 billion in 2000-06; the most recent summary of FI spend for 2007-13 shows ERDF and ESF OP commitments to FIs of just over €12 billion. Indications from the 2014-20 Operational Programmes are that this could rise to over €20 billion for the ERDF, ESF and Cohesion Fund (under which FIs can also be used in 2014-20). At this level, the role of FIs in overall spend remains comparatively modest (at below 6 percent of OP indicative allocations); actual allocations will likely vary, partly as a result of the now-mandatory ex ante assessment, which must be completed prior to establishing cofinanced FIs.

In looking at 2007-13, the following 'headline' figures emerge, based on the situation at the end of the programming period, and reported in the programmes Final Implementation Reports (FIRs):<sup>4</sup>

- 25 Member States had established co-financed FIs in 2007-13 (Croatia, Ireland and Luxembourg had not) involving support from 192 OPs (including one cross-border-cooperation OP).
- €16.4 billion in OP contributions had been committed to FIs, of which €15.2 billion had reached final recipients – an overall 'absorption rate' of almost 93 percent of OP contributions, an increase of 20 percent compared to what was reported at the end of 2015.
- 77 holding funds and 981 'specific' funds (i.e. loan, guarantee, equity or other funds) had been set up. Most of the funds provided support to enterprises – and all Member States using FIs supported enterprises; 11 Member States financed urban development and 9 Member States supported energy efficiency.
- An estimated €8.5 billion of resources have reportedly been returned for reinvestment in programme areas.

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<sup>4</sup> Note that this data is still subject to change as not all final closure reports have been approved; financial instrument data is one of the reported causes of the delay in approval of the 2017 FIRs.

- Average support per final recipient was €40,000, with average product size ranging between €16,000 for guarantees to c.€410,000 for equity investments.

There are wide variations between Member States, both in their use of FIs and levels of absorption:

- Italy alone accounted for over 29 percent of OP contributions paid to FIs (€4.8 billion) by end March 2017.
- Other large Member States had also made significant payments to FIs by end March 2017 including Germany (€1.7 billion) and the UK (€1.6 billion), but payments are not directly related to country size, with Greece and Poland also each paying over €1 billion, but France just €442 million.
- In 18 countries, over 90 percent of monies paid to FIs had been paid to final recipients, with Belgium, France, Lithuania Portugal and Romania all achieving full absorption. The lowest absorption rates are found in Spain (60 percent) and the Netherlands (74 percent), while the cross border programme FI reported zero absorption.

### 2.3.2 The impact of the economic and financial crisis

The aftermath of the crisis increased both the scope and the need to use FIs in economic development policy, with constraints on public expenditure reducing the funding available and intensifying the need to find financially sustainable solutions for infrastructure spending (Wishlade, Michie, Robertson and Vernon, 2017). Further, access to finance for some businesses, especially SMEs, was affected as bank lending became more constrained. The potential flexibility of FIs was valued, as they could address a wider range of financing needs, providing firms with access to vital working capital.

Within Cohesion policy, there was a varied impact on the implementation of FIs. The crisis caused a **shift in the purpose and form** of some FIs - some were adapted to help SMEs survive in the difficult economic conditions (e.g. as in Portugal) or became the main mechanism to stimulate recovery (as in the OP Economic Growth in Lithuania). Some FIs were used to provide **more mainstream funding** than had originally been envisaged and moved towards financing **working capital** (as in Hungary, and in some Polish regions) (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016). Partners in the FIN-EN network also reported that **difficulties in attracting private sector funding** were exacerbated by the financial crisis (Michie, Wishlade and Gloazzo, 2014).

There was also a **varied impact on uptake** – sometimes this was negative – for example, some regions in the FIN-EN network reported the need to undertake extraordinary closures of FIs due to underperformance (Michie, Wishlade and Gloazzo, 2014), while in other cases the effect on uptake was positive (as in Wales, where the ERDF-funded JEREMIE became a lender of last resort for firms unable to find funding elsewhere (Michie and Wishlade, 2011)). The impact differed depending on the choice of financial product – for example, guarantees were in some cases found to be of limited use because of the lack of liquidity (Michie, Wishlade and Gloazzo, 2014). In the case of loans, the impact again varied. The ex post evaluation of FIs for enterprise support found that in some cases (e.g. the Languedoc-Roussillon ROP, the Enterprise and Innovation OP in the Czech Republic, North East England OP and Bavaria ROP) the demand for ERDF co-financed loans was hardly influenced by the crisis. In other cases, demand weakened so much that the instrument had to be redesigned

(particularly seen in Lithuania, Hungary and Portugal) (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016).

### **2.3.3 The use of financial instruments at sub-national level**

The take-up of FIs varies not only between countries, but within them. **Co-financed financial instruments may be offered under national OPs, regional OPs or multiregional OPs.** In some regions, FIs receive funds from several OPs. There may be FIs available from several sources (including several OPs) in any given region. Among regional OPs, the importance of FIs varies considerably - in the 2007-13 OPs, FIs accounted for a significant proportion of planned expenditure in some regions, notably in parts the UK, Belgium and Italy, where in some regions more than a quarter of OP commitments were made to FIs (Wishlade and Michie, 2015). A number of regions did not use FIs at all, notably in Austria, Belgium, France and the Netherlands.

The ex post evaluation of financial instruments for enterprises (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016) found that co-financed FIs tended to aimed at regional development within an OP area generally, and that it was rare that individual instruments were restricted to disadvantaged regions within the area covered by an OP, regardless of whether the OP was national or regional in scope. Nevertheless several examples were found: for instance, within the Bavaria OP (DE), in North East England (UK), and in the Brussels region (BE). Microfinance more often has a particular focus on disadvantaged areas, for instance, the BRUSOC microfinance (loan) scheme is restricted to the *Zone d'Intervention Prioritaire* within the Brussels region, and has a focus on disadvantaged regions and micro or social enterprises or individuals with difficulty accessing finance.

For the 2014-20 period, there are already several examples of sub-regional targeting using FIs, e.g. FIs targeting mountainous areas in Friuli-Venezia-Giulia and mid-caps in the Mezzogiorno (Wishlade, Michie, Robertson and Vernon, 2017). A recent study on financial instruments for energy efficiency and renewable energy confirmed that this is also the case for this type of FI, but in some cases different rates of FI uptake at a sub-national level may present an issue for regional development objectives (Wishlade, Michie and Vernon, 2017). For example, in Estonia, no applications for the renovation loan were received from the most deprived area (Ida-Virumaa), despite an entitlement to an additional 10 percent support. To tackle similar potential issues, the new Green Fund in Sweden, set up in the 2014-20 period, recognizes the risk that investment will be heavily concentrated in Stockholm. In an attempt to address this issue, the fund manager will be asked by the MA to consider the regional distribution of investments across the country, though ultimately investment decisions will be driven by project quality not regional distribution.

### **2.3.4 Territorial scales and governance models for ESIF FIs**

Modes of governance are a crucial aspect of the territorial dimension of financial instruments. Financial systems are inherently spatial, characterized by complex institutional geographies that both reflect and influence their functioning. This, in turn, produces geographical effects on the ability of entrepreneurs to access finance, which typically work to the disadvantage of peripheral regional economies. A key question is, therefore, to what extent the institutional arrangements for ESIF FIs have the capacity to perpetuate or counter such patterns.

ESIF FIs are implemented using **different governance models which operate at different territorial scales**. In 2007-13, for example, ESIF FIs were implemented in a variety of ways, including:

- At national level, through existing national financial institutions (e.g. KredEx in Estonia)
- At national or regional level by EU-level institutions (e.g. the EIB-managed JESSICA Fund in Sicily, EIF-managed JEREMIE Funds in Slovakia or Romania)
- At regional level, through existing financial institutions, such as the Land banks in Germany, or regional-level fund managers, such as Almi Invest's eight regional venture capital firms in Sweden)
- At regional level, through new bodies specifically set up for ESIF FI implementation, such as North East Finance in North East England, which was set up to manage the regional JEREMIE Fund holding fund (which was then implemented through a range of new and existing regionally-based fund managers)
- At local level by small fund managers and credit institutions, as in Hungary and Poland.

*Box 2-1: Governance models for FIs in Hungary and Poland in 2007-13*

Very high numbers of FIs were reported in Hungary and Poland in 2007-13. The high numbers reflected how FIs were implemented and the governance models being used. In particular, many financial institutions (including smaller financial intermediaries such as savings cooperatives) were involved in order to make support programmes available in all regions and local areas. In Poland, for example, the number of FIs reported corresponded to both the operational agreements between the Holding Funds and financial intermediaries and the one-stage funding agreements between the MAs and the managers of specific funds. The high number of FIs lay in the fact that many financial intermediaries were selected to offer the same type of product i.e. loans, guarantees, or equity, in the same programme area. This could particularly be seen in the case of the Regional OPs and the Eastern Poland Development OP for loan and guarantee products. The intermediaries were primarily small or medium-sized entities, operating regionally or locally (often part-owned by regional and local authorities).

*Source: Wishlade, Michie, Familiari, Schneidewind and Resch (2015)*

**A wide range of different institutions is involved in the supply of ESIF FIs**, including national and regional development banks, public financial institutions, regional development agencies, guarantee providers, government departments, EU institutions and standalone funds. The boundaries between some of these institution types are blurred. There is considerable diversity in terms of length of experience, some are small in scale and reach, while others are substantial and operate internationally. As mentioned above, their geographical remit varies - some (the *Land* banks in Germany) have an explicitly subnational remit. Others are nationwide in scope, but with a strong regional representation (Bpi France, BGK in Poland). There is little standardised information available and systemic transparency is low. The environment within which ESIF FIs (and public sector FIs more widely) are implemented is increasingly complex. Some funds and institutions operate transnationally and across borders, and are linked with other institutions via cooperation programmes, joint initiatives or sources of funding. Further, EU funding sources increasingly use domestic institutions within the Member States and their regions to assist with delivery (see figure below).

In practice, however, little is known about how the territorial reach of the agencies involved in delivering ESIF FIs affects the regional incidence or uptake of FI spend, or to what extent this differs from grants. Also, the role of domestic institutions and of the EU level cannot be ignored. In particular:

- In 2014-20 the new option introduced in the CPR for MAs to contribute ESI Funds to the SME Initiative enables OP funds to be “delegated up” by Managing Authorities for spending through the EIB Group on a national basis. Six Member States are so far implementing the SME Initiative (BG, ES, MT, FI, IT, RO). This has required the introduction of a new dedicated OP for that purpose, with the whole OP allocation in the form of financial instruments. It is not clear for every country how the SME Initiative will work alongside any FIs which may be implemented under other OPs managed by the same managing authority (Wishlade, Michie, Robertson and Vernon, 2017). Also, as with FIs offered under any national OP, the regional incidence of expenditure is not necessarily known.
- Many national and regional financial institutions that deliver FIs using domestic funds co-fund them with ESI Funds, manage EU FIs and/ or are involved in implementation of the joint SME Initiatives with the EIB; the regional presence of such agencies is not always clear, and nor is the regional incidence and uptake of spend.
- The EIB and EIF are also involved in managing EU-funded FIs as ‘entrusted entities’; the EIB focuses on the provision of loan and debt-based instruments to mid-caps while the EIF deals with loan guarantee schemes (such as COSME, InnovFin, Creative Europe and PF4EE), as well as equity instruments such as the COSME Equity facility for Growth, and implements its own venture capital fund of funds programme. These FIs are generally implemented through financial intermediaries, including national/regional development banks and ultimately commercial banks, who on-lend to SMEs and project promoters. Institutions using these funds may ‘re-brand’ them, reducing transparency not only about the source of funds, but about their regional incidence.

Table 2-1: Examples of sub-national institutions using ESIF in 2007-13/2014-20

Member State	Sub-national institution
BE	SOWALFIN (Société Wallonne de Financement et de Garanties des PME), created in 2002 to support SMEs via specific FIs was Intermediate Body for Wallonia ERDF OP and delegates management of FIs to subsidiaries, the ‘Invests’ – investment funds part-owned by SOWALFIN managed FIs under ERDF 2007-13 OP, as did SOCAMUT and NOVALIA, subsidiaries of SOWALFIN and providers of micro-credit, loans and guarantees.
DE	Land Banks and Land business development banks use ESI funds to co-finance some FIs.
IT	Medio Credito Centrale (Banca del Mezzogiorno MedioCredito Centrale S.p.A. (BdM-MCC)) has been involved with ESIF FIs through the co-funded Fondo Centrale di Garanzia (FCG).
UK	Scottish Investment Bank (Scottish Enterprise) manages ERDF-funded FIs, as does Finance Wales, and INVEST NI, a regional development agency in Northern Ireland.

Source: Authors

### 2.3.5 Other EU-level financial instruments

ESIF FIs are part of an **increasingly complex landscape of funding mechanisms**, including from EU-level sources (often managed by the EIB Group). MAs now have a wider range of options for implementing FIs – contributing to a financial instrument set up at Union level such as the SME Initiative, seeking synergies with COSME, InnovFin, and EaSI, as well as the newer European Fund for Strategic Investments (EFSI). Some of these instruments have a long history and have been operating in various forms over several programming periods. The framework to facilitate MAs making contributions to EU-level FIs was introduced in the Financial Regulation and CPR for the 2014-20 period. EFSI itself is not a financial instrument (within the meaning of the EU Financial Regulation), although it can be invested in FIs. There are concerns about the relationship between ESIF FIs and other EU sources of finance, especially concerning the competitiveness of the former. There are also

potential overlaps between ESIF and EFSI, and the opportunities for synergies are quite challenging in administrative terms. The scale of funding under the various measures is often difficult to determine, partly due to overlaps between initiatives, but can also be quite fragmented. EFSI in particular is essentially a market-led instrument, for which there is no geographical quota and project support is demand driven.

The recent independent evaluation of EFSI noted that when considering EFSI-related investment by Member State in absolute values, the UK, Spain, France, Germany and Italy are the top five beneficiaries of the Infrastructure and Innovation Window, accounting for over 73 percent of mobilised investment. These same five countries are also the top beneficiaries for the SME Window, (although in a different order), with Italy benefiting from almost 38 percent of the guarantees and equity made available (Ernst & Young, 2016). The “recognised need to act on geographical imbalances” was one of the main reasons for the European Court of Auditors recommending against the extension of EFSI (European Court of Auditors, 2016).

### **2.3.6 Evidence of effectiveness**

Evaluation **evidence of the effectiveness of co-funded FIs remains limited** (Wishlade, Michie, Robertson and Vernon, 2017). There is however evidence of FIs having helped achieve OP objectives. The ex-post evaluation of FIs for enterprise support found that, for the OPs analysed, almost all of the Priority Axes where FIs were implemented met their operational objectives, 70 percent achieving them to a high degree (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016). FIs were found to have improved access to finance for a considerable number of enterprises in case study OPs (e.g. around 7 percent of all SMEs in Lithuania), achieving an important OP objective (to increase SME access to finance).

The ex post evaluation found that the transferability of lessons on where FIs are most effective is limited by the context-specific nature of FI implementation. The report states that evidence suggests that FIs are most effective where tailored to specific regional or national circumstances, and there is no successful ‘one size fits all’ approach - **models are seldom transferable without modification** to take local, regional or national circumstances into account.

### **2.3.7 Financial Instruments Promoting Territorial Development Outside Cohesion Policy**

Financial instruments are **widely used outside Cohesion policy** - many countries have used financial instruments as part of their domestic economic development policies for decades, with instruments operating at national and subnational levels. Many have no explicit spatial orientation. Among those instruments which do, four broad groups can be identified (Mason, Michie and Wishlade, 2012):

- Financial instruments that are restricted to designated disadvantaged regions, such as the Norrlandsfonden in **Sweden** which offers flexible loans, convertible bonds and guarantees in the five northernmost counties, and the ‘regional risk loan’ operated by Innovation **Norway** supporting high risk projects in designated problem regions;
- Financial instruments available nationwide, but which favour designated areas either because the investment policy has an explicit social/regional dimension or through higher financial

contributions, such as the support for reindustrialisation instrument (ARI) in **France**, which provides interest-free loans with more advantageous terms in assisted areas.

- Financial instruments that are available nationwide, but where there is an explicit spatial dimension in, for example, the regional administration of the measure (thereby seeking to address the issue of proximity to sources of finance) or the earmarking of funds on a regional basis (with the aim of ensuring an adequate supply of funds other than in the core regions). The New Regional Policy in **Switzerland**, for example, places a significant focus on financial instruments, which amount to around half of the overall envelope. Cantons are obliged to contribute 50 percent for individual projects, and they must assume 50 percent of any incurred loss (of their own and the federal contribution), encouraging them to take precautions to avoid such losses. In addition, the guarantees and interest payments provided by SECO (State Secretariat for Economic Affairs) to SMEs in mountainous and rural areas have important regional development implications. A further example is Finnvera loans and guarantees, which are administered through a network of 16 regional offices in **Finland**. The strong regional presence is considered to result in a close relationship with and better understanding of the client base, helping ensure a low rate of default and contributing to a better understanding of the industries in which Finnvera's clients operate.
- Financial instruments that are operated at the subnational level, corresponding to the jurisdiction of the agency responsible for the measure; such measures may be a response to a perception that the region is disadvantaged in the national context regarding access to finance, but this is not always so. For example, around half the 20 regional development agencies in **Austria** use subsidised loans and guarantees in addition to grants, and several *Länder* have also set up equity instruments.

As the focus of this study is on Cohesion policy FIs, this necessarily means that scope for discussion of non-EU FIs is limited. However, it is recognised that these countries still offer interesting insights and experiences with the use of financial instruments, and while statistical analysis of their measures falls outside the remit of the study, consideration will be given to including **non-EU ESPON countries** where possible, for example, in the selection of case studies. Further discussion about how to incorporate this would be welcomed by the consortium.

### 3 Concepts and methods

- A number of **rationales underpin public intervention** to promote economic development.
- Financial instruments are only relevant where the project financed has the capacity to **generate returns or savings** to repay the capital advanced.
- Although their role may be limited because of this, **financial instruments offer a number of potential advantages over grants** – specifically that they may be more sustainable, that they may generate better quality projects and that they may be more efficient.
- **FIs may also offer some less quantifiable gains** such as helping to develop local financial markets and reducing the grant-dependency culture.
- The discussion of the territorial dimension of financial instruments in Chapter 2 suggests that any such **value-added is unlikely to be distributed evenly**: many of the obstacles to development in disadvantaged regions are precisely those that make the delivery of policy through FIs challenging.
- Such gains are **challenging to measure** – they are only partially captured in the data collected, which is neither comprehensive nor available at the required level of granularity – and the means of quantifying the counterfactual situation are largely absent.
- A **combination of quantitative and qualitative techniques** is required to assess the value-added generated by FIs in different territorial situations and to assess the wider impacts associated with grants and financial instruments.

Against the background of the debates outlined in Chapter 2, the aim of this study is to provide evidence at the territorial level on the added value of ESIF financial instruments in 2007-13, and where data allows, 2014-20. Importantly, the main outcome, according to the terms of reference, is to provide evidence on what the increasing shift to using FIs implies for territorial cohesion, and whether using FIs as a *complement to grant schemes* is a more effective way to implement ESI Funds in terms of value added for territorial development. The relationship between grants and FIs is relevant at two levels: first, at a macro ‘policy’ level, in relation to the different justifications for public intervention; and second, at a micro ‘project’ level, where it may be appropriate to combine grants and FIs in order to optimise outcomes.<sup>5</sup>

The discussion that follows sets out a framework for analysis that links the collection and analysis of data, the design of regional clusters relevant to the implementation of FIs and the assessment of the value-added of financial instruments. It is structured as follows:

- section 3.1 sets out the **theoretical rationales for public intervention** and the respective roles of grants and financial instruments;
- section 3.2 outlines the specific **rationales for using financial instruments and the value-added** they might be expected to offer.
- section 3.3 links the **territorial dimensions of financial instruments with issues of impact**.

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<sup>5</sup> For example, in the context of energy efficiency investments, there could be a rationale for funding feasibility studies with grants, but the actual investment with FIs.

- section 3.4 discusses the **methods and approaches for measuring the impact** of financial instruments.

### 3.1 Rationales for public intervention and the roles of grants and financial instruments

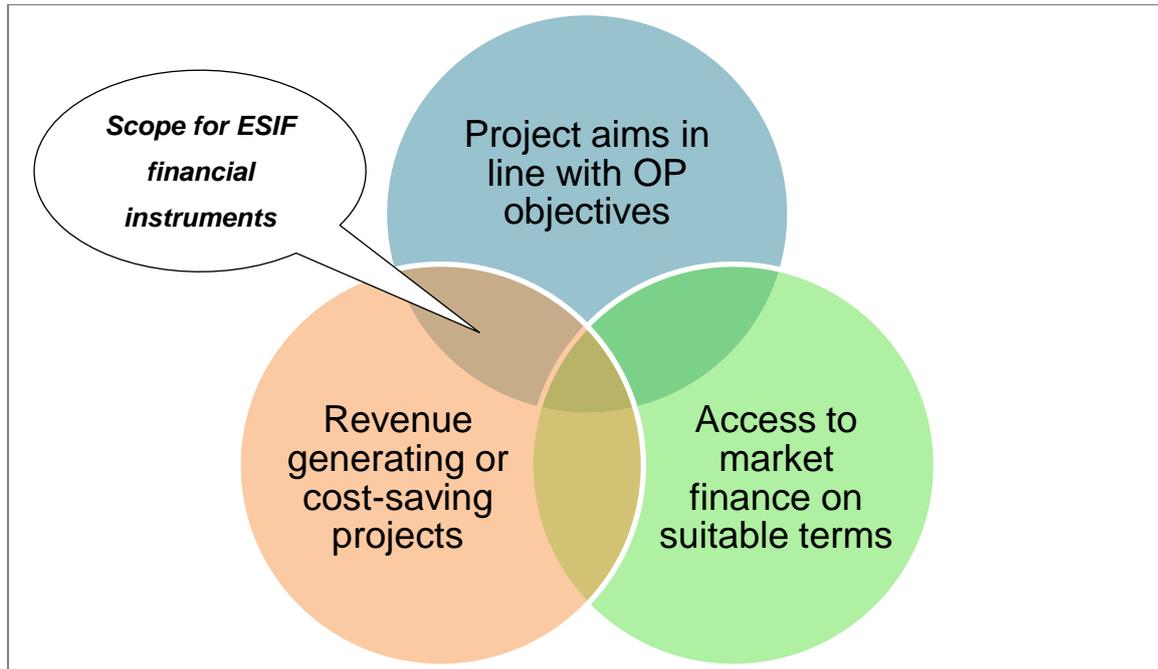
In broad terms the **justification for public intervention** in economic development policy is to support activities that the market cannot or will not undertake alone, but which are considered in the wider public interest. The situations in which this can arise can be grouped into four main categories (Meiklejohn, 1999; Wishlade *et al*, 2017), though two or more of these may be present at once:

- The provision of **public goods** – those that are considered ‘non-excludable’, i.e. access to goods and benefits from which cannot be restricted to those who fund them, so there is no efficient private market for them. Classic examples include street-lighting and lighthouses, but clean air and some public infrastructures such as flood defences could be included in this group.
- The supply of **merit goods** – those goods and services where public authorities consider they need to intervene to ensure provision at optimal levels. Examples include aspects of education, culture, health services, museums and libraries.
- The presence of **externalities** – the idea that the actions of an individual or a firm have spillovers which affect others, but which are not reflected in market prices. In other words, commercial assessments of returns on investment do not necessarily capture the wider societal or longer term benefits. Conventional examples are: research and development, where undertakings may be deterred from spending on R&D because they cannot reap all the gains from their investment (assuming it is successful at all), but others might ‘free-ride’ on their innovation if it is; and vocational training, where firms may be dissuaded from upgrading staff skills because it increases the likelihood of employees being ‘poached’ by others.
- **Imperfect information** – situations where certain types of project cannot obtain private finance at all or at affordable cost because banks or investors have insufficient information to assess risks accurately, or the costs of obtaining that information make transaction costs too high. Information asymmetries can be particularly acute among start-ups, who have no track record and new firms in high technology sectors, where the risks are difficult to assess precisely because their activities are innovative. Such firms often lack the collateral needed to secure capital, or the cost of capital is too high because of their risk profile; as a result, access to finance is likely to be especially difficult for certain categories of SME, notably start-ups, small and/or young firms and high tech enterprises (Siedschlag *et al*, 2014).

Assuming there is a rationale for public *financial* intervention (as opposed to regulatory measures for example), the second issue is **what form of intervention is appropriate**. The rationales outlined above suggest that, in general, FIs will be least appropriate in the case of public goods and most applicable in the case of imperfect information. In an ESI Fund context, financial instruments can be suitable as a policy delivery tool alone or in combination with grants where projects address Operational Programme objectives and the investment has the potential to generate revenue or savings to repay the capital advanced, but where the market is unwilling or unable to advance the capital either at all or on suitable terms. Another important consideration is the role of an incentive effect – will potential project promoters’ behaviour be altered by the offer of a grant or will this represent a windfall gain? In summary, financial instruments may be more suitable policy tools than grants where:

- the **project has potential to generate revenue** (or costs savings) to repay the capital made available (this is an essential prerequisite, probably ruling out using FIs for the provision of public goods).
- the **private sector cannot provide the amount of capital required at an acceptable cost** for projects that contribute to policy objectives to go ahead. (private finance may be available, but the costs and conditions are too onerous).
- the **need for incentives is limited** – the project promoter is persuaded to undertake the project, but lacks funds (implying that the issue is lack of finance, not cost of finance).
- the **amount of funding required is higher than could be covered by a grant** (due to State aid rules) and/ or relates to working capital requirements (also constrained by State aid rules, which relate to fixed capital investment).

Figure 3-1: The potential for financial instruments in ESI Fund programmes



Source: authors

The above discussion makes clear that while there is *potential* for the use of financial instruments across a range of policy areas and for a number of types of target recipients, there are significant areas of policy intervention where FIs are not suitable. Importantly, however, this picture is not fixed in time or space: in some regions it may be feasible to fund some types of investment through FIs whereas in others grant funding is needed; over time the use of FIs may become more mainstream, and ultimately be replaced with more private sector finance.

Importantly, the rationales for intervention, the nature of the market imperfection and their impact on target recipients vary widely between policy objectives, giving rise to the need to tailor financial products (loans, guarantees, equity etc.) to the needs of target recipients, as illustrated in Figure 3-2.

Figure 3-2: Target recipients, market imperfections and rationales for FI



Source: Wislade et al (2017).

### 3.2 What value-added might financial instruments offer, especially compared to grants?

Three main arguments have been advanced by the European Commission for the use of financial instruments in ESI Funds, in place of grants (European Commission, 2012).

- **Sustainability.** Because funds are, in principle, repaid, they can be reinvested for the same purpose in the region, generating the same or similar gains for the locality more than once, unlike grants which not only may involve a windfall gain, but are also, by definition, not repaid. That said, the sustainability of FIs depends on a number of factors, including projects being sufficiently successful to repay the funds and management costs and fees at a level that do not erode returns, at least excessively.
- **Efficiency.** Because financial instruments may have the capacity to attract private sector capital, they may increase the efficiency of public spending by leveraging in private capital. They may also cost the public sector less to administer than grants because of the involvement of financial

intermediaries. On the other hand, the capacity to attract private capital may be doubled-edged – success in attracting private capital may be indicative of crowding-out private markets.

- **Quality.** Because support has to be repaid, project promoters may undertake more robust analyses of project viability and be more committed to project success than for non-reimbursable support. In addition, the due diligence required from financial intermediaries may result in improved project quality and greater contributions to OP objectives. At the same time, tightly drawn funding agreements with financial intermediaries may result in project selection criteria that are scarcely different from commercial terms, limiting the added value induced by publicly-funded FIs.

In addition, some **‘softer’ benefits from financial instruments** can also be claimed. In particular, FIs may contribute to *the development of local financial markets*, particularly when combined with other instruments such as those supporting the development of business angel networks. Also, use of close-to-market measures and involvement of financial intermediaries may stimulate local financial markets to step in, lowering the need for public intervention longer term. For example: the recent ex-post evaluation of ERDF financial instruments for SMEs (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016) found that long-term use of FIs in the north-east of England had supported the emergence of a distinct regional financial intermediary sector in a disadvantaged part of England; and in Estonia, ERDF cofinanced housing renovation loans were discontinued in 2014-20 because the private sector had stepped in having observed a market opportunity developed during 2007-13 where none was perceived to have existed before (Wishlade, Michie and Vernon, 2017). In addition, a shift towards financial instruments may also result in a *cultural change away from subsidy dependency* towards greater acceptance of market-based finance. Such effects are more difficult to quantify, but evidence from recent studies supports their existence (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016).

The effects, or potential effects, outlined above are specific to FIs. In addition, **FIs would also be expected to generate the same types of outputs in relation to OP objectives as grants**, including job creation, investment, new business starts, greenhouse gas reductions. Clearly the nature of such outputs will differ according to the projects financed. However, there is currently no analysis of the extent to which different instruments are associated with different outputs, and the absence of systematic collection of indicators by instrument means it is unclear whether the *form* of intervention itself has an impact on meeting these aims. While there is no *a priori* reason to suppose that a euro spent in the form of a financial instrument would generate more jobs than a euro invested in the form of a grant for the same purpose, it can be argued that *even if the outputs are the same, FIs have more impact because of their revolving nature*.

### **3.3 Linking the territorial dimension and the impact of ESIF FIs**

The range of factors considered in Chapter 2 in relation to the geography and governance of financial instruments points to a complex and multidimensional framework that is not straightforward to capture. It encompasses contextual elements at the national level and diverse regional circumstances that together condition the implementation of financial instruments.

At **national** level, the extent to which mature financial markets and institutions exist, and the nature of those institutions, affects not only the type of financing typically sought by firms and public authorities in order to invest, but also the institutional frameworks available to deliver ESIF co-financed FIs.

At the **regional** level, the interplay of a number of factors is relevant to the implementation and impact of FIs:

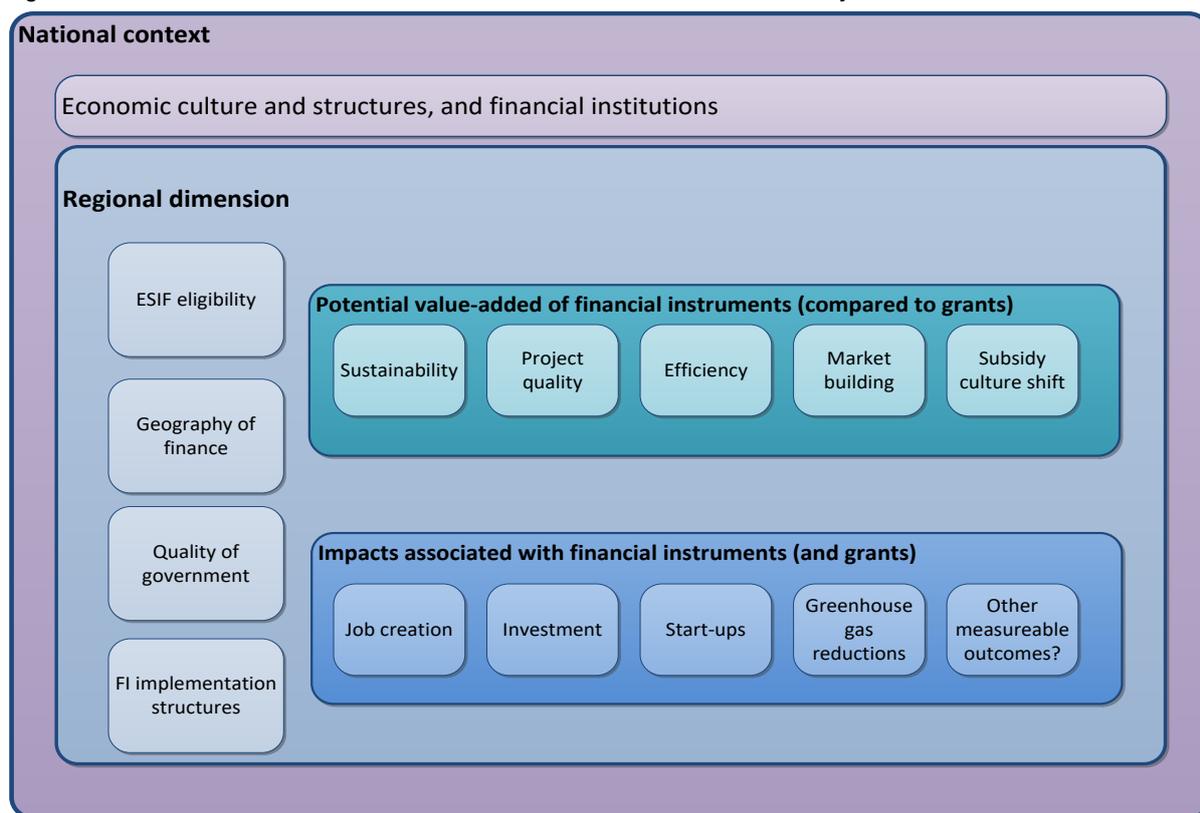
- **Eligibility for ESI Funds and levels of regional development.** Designation as a Convergence (or Less Developed Region- LDR - in 2014-20) region reflects levels of economic development as measured in GDP(PPS) per head. As a measure of economic development, GDP per head is not ideal, but its importance in the present context also lies in the scale and intensity of ESIF financing, which has bearing on the use of FIs.
- **Geography of finance.** As described in Chapter 2, access to finance has a strong spatial component, partly arising from physical distance and partly from the geographies of financial institutions. This implies that regions that are more distant from agglomerations tend to be more disadvantaged with respect to access to finance.
- **Quality of government.** The capacity of public policy to respond to regional disadvantage is partly contingent on the quality of government. This is especially pertinent in the context of financial instruments given the implementation challenges experienced by many Managing Authorities.
- **Financial instrument implementation structures.** Also relevant is how and by whom financial instruments are implemented. In many cases FIs are planned, funded and implemented within regional OPs, so are 'self-contained' within the region. However, FIs may also be operated under national or multiregional programmes. While this may help to address issues of quality of government at subnational level, there is a potential tension inherent between 'higher' level implementation and the need to adapt financial instruments to local conditions.

These factors *potentially* affect the extent to which financial instruments can deliver added value, for example:

- default rates may be higher in more disadvantaged regions, reducing the legacy available for reinvestment and rendering FIs less **sustainable**
- proposed investments or enterprises may be of poorer **quality** in less developed regions, leading to a more significant role for grants in the development of investible propositions
- it may be more difficult to attract private finance in less prosperous regions, resulting in lower rates of leverage, higher levels of management costs and fees and ostensibly less **efficient** FIs than in more prosperous regions.

In addition, the achievement of 'softer' policy outcomes specific to FIs such as changing subsidy culture and developing local financial markets, may take different timespans to achieve in different regions. The key elements are summarised in Figure 3-3. This overall framework links the key debates surrounding uneven regional development and the deployment of financial instruments discussed in Task 1 with the analysis to be undertaken in Tasks 3, 4 and 5 on the basis of the data generated in Task 2.

Figure 3-3: Financial instruments and territorial cohesion: a framework for analysis



Source: authors.

### 3.4 Approaches to the assessment of value added and impact

The overall aim of this study is to ‘provide evidence on what the increasing shift to using financial instruments implies for the objective of territorial cohesion and whether using financial instruments as a complement to grants is a more effective way to implement ESI Funds in terms of value-added for territorial development.’

There are a number of major challenges involved in producing such evidence, in particular:

- Some **basic data on financial instruments at relevant territorial scales are absent** and need to be collected or constructed. For example, data on FI allocations and investment is not always available even at NUTS 2, let alone NUTS 3, as requested in the ToR
- There is **no systematic collection of information on policy performance at the level of instruments**, as opposed to Operational Programmes or priorities.
- Some **aspects of impact do not lend themselves to quantification** – for example, the shift away from a subsidy culture or the extent to which FIs might be considered to generate higher quality investments
- Other **effects are only likely to emerge over the longer term** – anecdotal evidence from MAs with long experience of implementing financial instruments suggests that several policy cycles are needed to embed financial instruments as policy tools and adjust their use in response to policy learning.
- The **spatial scales of relevant datasets do not coincide**. For example, the geographies of regional typologies do not coincide with the scale at which financial instruments are implemented.

These challenges, and others, mean that a **mixed methods approach to assembling and assessing the evidence is required**. This comprises three main elements:

1. **Quantitative analysis of EU-wide data sources.** The key data sources are summarised in Annex I. On the basis of a first trawl of the data available, it is evident that these are insufficient for a *comprehensive* quantitative analysis. EU-wide data collated from several data sources can provide some insights, and it is expected that certain patterns will emerge in relation to regional clusters, but the data are relatively high level and far from comprehensive. For this reason, insights from other studies, desk research, further data gathering from MAs and qualitative insights from the case study research will be essential both to complement the data and provide explanatory information.
2. **Data collection and analysis at OP level.** It is expected that the EU level data can be enhanced or complemented by data collected from MAs directly. However, it is important that expectations about the range and quality of the data available are not unrealistic - past studies show that relevant information on outputs is generally not collected at the level of financial instruments to enable an assessment of their effects. There are some known exceptions to this;<sup>6</sup> however, even here the data available are inadequate to undertake robust quantitative analyses that demonstrate the causal effects of financial instruments on outputs.
3. **Qualitative assessments based on stakeholder inputs.** Given the known shortcomings of the EU-wide data, insights from the case studies are an important complement to the quantitative analysis. Moreover, qualitative analyses have the capacity to contribute a more fine-grained understanding of what works and why, especially where those effects are not readily captured through quantitative indicators. This is especially important in the context of financial instruments where the available quantitative data can be difficult to interpret.

In addition, these analyses can be complemented by comparing and contrasting approaches to FIs between funding periods (2007-13 and 2014-20), with changes in policy, and the underlying reasons for change, yielding insights into the rationales for the use of FIs based on their perceived effects. For example, it is known that several MAs which operated FIs in 2007-13 have altered their approach in 2014-20. A potentially important complement to the analysis of value added concerns understanding the reasons underpinning such change.

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<sup>6</sup> For example, the ex post evaluation of financial instruments conducted for DG Regio found that one case study out of nine (NE England) did collect such data.

## 4 Overview of data and data sources

- There are several important data sources available to assist with the completion of Task 2, which involves the analysis and mapping of the usage of ESIF financial instruments in relation to grants. These sources cover most of the main requirements relating to both grants and FIs, and to the 2007-13 and 2014-20 periods.
- **There are limitations to what these core data sources can provide**; some gaps will have to be addressed through primary research. A pilot exercise has already been undertaken with the ERDF MA in Sweden; this exercise highlighted that while additional background data on final recipients may exist, in practice it could be difficult to obtain, due to strict data confidentiality policies of FI intermediaries.
- In particular, **data on FIs for the period 2014-20 is still somewhat lacking** as the implementation period has been protracted; however, publication of the next summary report on FIs for this period is anticipated in early 2018.
- Managing authorities submit additional information relating to the 2007-13 period to the Commission which is essential for this project. This is not published by the Commission; the research team is currently seeking access to this data with the help of the ESPON ECTG.

The aim of Task 2 is to analyse and map the use of ESIF financial instruments funding in relation to grants.<sup>7</sup> More specifically, and depending on data availability the **key objectives** are as follows:

- Analyse and map the **geographical distribution** of FIs at NUTS2 (and NUTS3 if possible).
- Identify regional distribution of **types of FI** used (loans, guarantees, equity, mixed/other).
- Examine the **distribution of FIs** in relation to grant expenditure under ESIF.
- Explore feasibility of assessing regional incidence of **other EU FIs** (e.g. Horizon 2020, COSME, CEF, EFSI, EPI-AGRI, EIB), and, where information is available, analyse and map expenditure.
- Assess distribution of FI expenditure by **investment category** (2007-13) or thematic objective (2014-20).
- Identify the main **types of intermediary** involved in implementing FIs.
- Identify the main **groups of final recipients** of FIs.

### 4.1 Data sources and challenges

This section discusses provides an overview of the data and main data sources in relation to these objectives. Since the start of the project, consortium partners have examined the **data available on FIs** in relation to these core objectives. The analysis has focused on the latest summary report on FIs (EC 2017) and specifically the country annexes. In addition, a pilot data gathering exercise was conducted in Sweden to assess the availability of additional data on FIs (see Box 4-1). (See also Annex I on the key datasets for EU-wide quantitative analysis, regionalisation, value-added of FIs and impacts associated with grants and FIs.)

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<sup>7</sup> The focus of this study is on EU Cohesion policy. No Interreg programmes involving non-EU countries use FIs. This means that the non-EU ESPON countries are largely excluded from the scope of the study, except if it proves possible to obtain information on programmes such as Horizon 2020.

Table 4-1: Summary of key data sources (grants and FIs) and challenges, for periods 2007-13 and 2014-20

Objective	Main Data Sources	Challenges
Geographical distribution of FIs	<ul style="list-style-type: none"> <li>i. Summary Reports</li> <li>ii. "2007-2013 ERDF CF Categorisation Projectselection AIR2014 Raw" <a href="https://cohesiondata.ec.europa.eu/EU-Level/2007-2013-ERDF-CF-Categorisation-Projectselection-/b5xq-38ds">https://cohesiondata.ec.europa.eu/EU-Level/2007-2013-ERDF-CF-Categorisation-Projectselection-/b5xq-38ds</a></li> <li>iii. Complemented by primary research</li> </ul>	<ul style="list-style-type: none"> <li>i, Information limited to OP level and some OPs cover multiple NUTS 2 regions.</li> <li>ii, Covers to end 2014, so not to closure.</li> <li>iii, Resource constraints in MAs could limit access to information.</li> </ul>
Regional distribution of types of FI used	<ul style="list-style-type: none"> <li>i. Summary Reports</li> </ul>	<ul style="list-style-type: none"> <li>i. Missing or unreliable data. Meaning of blanks and zeros to be clarified. General plausibility check required eg. where amounts invested exceed amounts paid to funds (See also 2017 Summary report at pp65-68).</li> </ul>
Distribution of FIs in relation to Grant expenditure 2007-13 and 2014-20	<ul style="list-style-type: none"> <li>i. Summary Reports</li> <li>ii. WP13 of Ex Post Evaluation of the ERDF and CF: Key outcomes of Cohesion Policy in 2007-2013</li> <li>iii. Annual implementation reports (AIR)</li> <li>iv. Data for pp2014-2020 at open data portal: <a href="https://cohesiondata.ec.europa.eu/">https://cohesiondata.ec.europa.eu/</a></li> </ul>	<ul style="list-style-type: none"> <li>i. Information reported for ERDF and ESF, but not EAFRD in 2007-13.</li> <li>ii, Allocations and expenditures given for 2014 (so not at closure).</li> </ul>
Other EU FIs	<ul style="list-style-type: none"> <li>i. Commission, eg: <a href="https://ec.europa.eu/easme/en/easme-data-hubs">https://ec.europa.eu/easme/en/easme-data-hubs</a> MAs and national research office data.</li> <li>ii. EIB: <a href="http://www.eib.org/efsi/efsi-projects/index.htm">http://www.eib.org/efsi/efsi-projects/index.htm</a></li> <li>iii. Complemented by primary research</li> </ul>	<ul style="list-style-type: none"> <li>Lack of data on regional level on other EU grants/ funds may mean analysis needs to be compiled from award information, if available.</li> </ul>
FIs by investment category	<ul style="list-style-type: none"> <li>i. Summary Reports</li> <li>ii. "2007-2013 ERDF CF Categorisation Projectselection AIR2014 Raw"</li> <li>iii. Data for pp2014-2020 at open data portal: <a href="https://cohesiondata.ec.europa.eu/">https://cohesiondata.ec.europa.eu/</a></li> </ul>	<ul style="list-style-type: none"> <li>Information reported with respect main categories (SMEs, urban, energy) in 2007-13, but categories not clear cut; for 2014-20, thematic objectives (TO) apply, but many FIs are multi-TO</li> </ul>
Intermediary types	<ul style="list-style-type: none"> <li>i. Summary Reports</li> <li>ii. Complemented by primary research</li> </ul>	<ul style="list-style-type: none"> <li>Information reported but sometimes missing and unreliable.</li> </ul>
Recipient types	<ul style="list-style-type: none"> <li>i. Summary Reports</li> <li>ii. Managing Authorities additional data</li> <li>iii. Complemented by primary research</li> </ul>	<ul style="list-style-type: none"> <li>Limited information – essentially limited to enterprises, urban development funds and energy efficiency projects in 2007-13 reporting. Moreover, even these categories are not clear-cut. Data confidentiality regarding background and geographic location of final recipients. Constraints in terms of time and resources at MA offices could limit our chances to get access to otherwise available information</li> </ul>

Source: Authors

As Table 4-1 indicates, the existing information covers much of the data required; however, there is very little information in relation to FI final recipients and it is likely that some gaps would need to be

addressed through primary research. As mentioned, a pilot was undertaken in Sweden with a view to establishing to what extent gaps could be filled through contact with MAs. In this instance, the scope appears to be limited; however, contact with MAs in other countries may be more fruitful.

*Box 4-1: Swedish Pilot Data Gathering Exercise*

The consortium conducted a pilot data gathering exercise on FIs in Sweden. This involved communicating directly with the MA for Sweden, Tillväxtverket, to assess the availability of new data on FIs that is not contained in the summary reports, particularly in relation to the location of final recipients and beneficiaries. The Swedish pilot study highlighted that background data on final recipients could be difficult to obtain due to strict data confidentiality policies of FI intermediaries. The Swedish intermediaries have restricted the MA from handing out any information that could potentially expose the identity of individual enterprises. Furthermore, a request to the MA to restructure their data on final beneficiaries to a geographic level, without exposing the individual information of the companies involved, was rejected on the grounds of being too resource intensive. While this lack of information presents a challenge for the regionalisation of the data on FIs, the MA did provide additional useful information, including the number of registered portfolio companies according to EVCA classification.

*Source: Authors*

Specifically in relation to the 2014-20 period, existing data on FIs as published in the first summary report for the this period very thin - it was clear implementation of FIs was at a very early stage. However, more positively, the publication of the next summary report (covering the period up to the end of 2016) is anticipated in early 2018.

A further issue concerns the availability of data reported to the Commission by MAs relating to the 2007-13 period, but not published in the annual Summary Reports. The Consortium is seeking access to this data which, even if not complete, at least provides a starting point and an opportunity to reduce the amount of data to be gathered through primary research by national experts.

## **4.2 Potential usefulness of OP indicators to measure impact of FIs**

One fundamental element contributing to assessing the impact of financial instruments is an examination of their contribution to achieving the regional policy-related goals and objectives specified in the Operational Programme. Within all Cohesion policy programmes, Managing Authorities must collect monitoring data on their programme interventions, and report progress in their Annual Implementation Reports. Progress is reported against a series of financial and physical indicators. Physical indicators may be 'core' or 'common' indicators, and must be selected from a list provided by the Commission; others indicators are programme-specific. These core or common indicators are reported against by the MA at priority and programme levels. In addition, from 2012, MAs reported on progress of financial instruments in an annex to the Annual Implementation Report. However, information requested on physical (as opposed to financial) progress was limited and provided on a voluntary basis, so data availability has been uneven.

Depending on the quality of this data, it can potentially be used to support evaluation studies which try to assess the impact of OP interventions. However, the Commission's ex post evaluation of financial instruments for enterprises in the 2007-13 period found that too few MAs provided such data related to FIs to make any assessment of their impact in terms of final outcomes such as productivity and employment (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016). In some cases, and

especially for equity FIs, it was too early for an assessment, in others the strategic programme goals were too broad e.g. long-term economic growth of the programme area, to allow for any separate assessment of the net effects of FIs. Especially with FIs for enterprise support (which make up the vast majority of Cohesion policy FIs) MAs have tended to view the FIs as mechanisms for improving access to finance for SMEs in their country or region (often an important component of an OP strategy), rather than as alternative tools for pursuing wider OP (regional development) objectives. Thus, in itself, the act of increasing the supply of finance to SMEs in the country/region (i.e. the very existence of the FI) was seen as a de facto contribution to the OP goals. Improved access to finance was achieved when funds were disbursed, so evidence of what the investment itself contributed to (and achieved) would not necessarily be sought.

Measuring FI performance has been similarly challenging with FIs for energy efficiency and renewable energy (Wishlade, Michie and Vernon, 2017). In addition to the main indicators for which data was gathered at programme level, including 'numbers of jobs created', several core indicators were suggested relating to energy. There were no specific core indicators for energy efficiency, however, although the core indicator on the reduction of GHG emissions could be indirectly linked to energy efficient investments. Only 15 Member States reported on this indicator (Ramboll and IEEP, 2015).

More generally, the ex post evaluation of Cohesion policy programmes focusing on energy efficiency in buildings noted difficulties in obtaining data to provide evidence of achievements of ESIF interventions including both grants and FIs for energy efficiency and renewables in 2007-13 (Ramboll and IEEP, 2015). Output, result and impact indicators reported on by MAs in 2007-13 were not always designed appropriately, relevant indicators were not always used, and methodologies were diverse. As the report noted, there was: 'little correlation between the level of funding [...] made available and their results in terms of the two most commonly used types of indicator: greenhouse gas emissions, and energy reductions' .

These findings confirmed the conclusions of several ECA reports on ERDF and Cohesion Fund investments in energy efficiency and renewable energy:

- For energy efficiency investments, MAs lacked baseline data on energy savings potential in the sectors selected for investment when they were drawing up OPs, and so did not have the information to estimate to what extent a programme could contribute towards the achievement of a policy objective (ECA, 2012).
- Performance indicators for energy efficiency measures were not adequate for the proper monitoring of the programmes. MAs used different measurement methodologies and units, and so the results of the energy efficiency measures are not comparable across the EU and cannot be aggregated (ECA, 2012).
- Although for renewable energy, the audited projects delivered outputs as planned, direct measurement of economic growth or job creation was outside the ECA audit scope. Energy production targets were achieved (or almost achieved) in only one-third of audited projects. OPs did not establish performance indicators for proper monitoring and evaluation of the cost-effectiveness of measures, which could also have facilitated assessing the contribution of the EU funds to targets (ECA, 2014).

In 2014-20, more stringent reporting is required. MAs must report the contribution of FIs to the achievement of the indicators of the relevant priority or measure (in 2017, 2019 and the Final Implementation Report). This includes:

- the output indicator (code number and name) to which the financial instrument contributes;
- the target value of the output indicator; and
- the value achieved by the FI in relation to the target value of the output indicator.

This is in addition to the usual financial reporting, and specific reporting on progress in set-up, leverage, and programme resources paid back to financial instruments from investments.

## 5 Elaborated plan for regionalising data

- **FI data exists at OP level.** Regionalisation of the data is complicated by FIs being offered under different scales of programmes, including national and multi-regional OPs, being funded from several OPs, and by OP data not necessarily being at NUTS2 level.
- The **regionalisation strategy will consider both FI and grant data**, and the periods 2007-13 and 2014-20 (depending on data availability). The process will be undertaken through the following steps:
  - Identify significant FIs operating above NUTS2 level
  - Disaggregate expenditure to NUTS2 level
  - Relate this to disaggregated grant expenditure
  - Format existing data and allocate it to geographic boundaries (this work is already ongoing) and integrate in the GIS database
  - Disaggregate data to a higher geographic resolution than NUTS2, prioritising by share of OP resources committed to FIs or absolute scale of commitments/investments in final recipients using a range of strategies.
- The core deliverables for Task 2 (including the production of new maps, charts and figures) will help establish the nature and type of regions where FIs are distributed compared to grants (e.g. urban/rural, more developed, less developed, transition). This task is essential for the development of a regional typology in Tasks 3 and 4 of the research.

This chapter provides an elaborated plan for regionalising the data on financial instruments and grants, and for overcoming potential challenges in relation to data collection, data harmonisation and missing data.

Financial instruments are implemented within the ESIF OPs, which means that the geographical scope of implementation is the same as the OP in which the FI operates. Getting an insight into the processes of FI implementation below OP level is in some cases more difficult than for grants, for example due to the involvement of financial institutions and the private sector, and the use of confidentiality agreements. The geographical boundaries of the OPs are, therefore, the sole source of formal geographical information on FIs. The key challenge to overcome is localising the FI expenditure to a geographic resolution high enough to make it possible for the consortium to analyse the impact of the investments.

The **main challenges** in relation to an assessment of the geographical distribution of FIs at the regional level include the following:

- FIs may be offered under different **types of programme** - regional OPs, national OPs and multiregional OPs; however, there is no data available on the regional incidence of spend within a given OP (so some data is only available on a national or multiregional basis).
- In a given region **FIs may be available from two or more OPs**, potentially requiring different mechanisms for disaggregating the data (for example, the distribution of FIs for urban development would likely be different from that for SME support).
- To the extent that regional **data is available, this is at the level of the OP**, not necessarily NUTS2 regions, and in no case at NUTS3.

Annex II provides an overview of the main spatial patterns of implementation of ESIF FIs, based on an analysis of the Summary Report. In order to deal with these issues, the consortium has set a primary objective to identify the significant FIs operating on a multiple NUTS2-level, in preparation of a set of harmonized NUTS2 aggregates. Disaggregating FI expenditure to a single NUTS2-level in a first step will not only facilitate a comprehensive visualization of the geographic distribution of FIs, but also enable the expenditure to be related to thematically classified figures of grant expenditure and other explanatory variables found at NUTS2 level. Annex III shows an overview of the most significant multiple NUTS2 FIs in terms of EU commitment and take up.

The consortium has already carried out basic data formatting of the information from the Summary Report into an integrated Excel table allowing for calculations. A geographic workspace/database is being built up, including vector layers for all OPs with the correct target area boundaries (regional, multiregional, national and cross-border). Relevant additional information will be attributed to the OP vectors (thematic objectives, priorities, funding, grant expenditure). Next, the data on FIs, which the consortium has already restructured, will be pivoted and integrated to the GIS database, providing a solid workspace for analysis.

To meet the objectives of the study, the consortium will also seek to develop a method of disaggregating the information to an higher geographical resolution than NUTS2 (NUTS3 or areas with specific geographical features). In considering this task it is important to note that there were 981 specific funds recorded by 31 March 2017, and many of them were very small in scale. It remains to be seen whether it is feasible to disaggregate expenditure below NUTS2 in all cases, but there are reasons to think it may be challenging, not least reasons of confidentiality as highlighted in the Sweden pilot. If this proves problematic, the regionalisation task will prioritise the analysis of instruments in order of expenditure expressed either in terms of the share of OP resources committed to FIs and/or the absolute scale of commitments / investment in final recipients (see Annex III: OPs involving significant contributions to FIs and investments in final recipients). In this way, the analysis will capture the most significant measures and enable time and resources to be allocated effectively. The regionalisation of FI expenditure beyond OP level is a central task for obtaining information on final recipients. This part of the task is also the most challenging and will be approached using a combination of strategies.

Figure 5-1: Strategies for regionalising ESIF FI data – 2007-13

Method	Strengths	Weaknesses
<p><b>Approach Managing Authorities / Intermediate Bodies.</b> Possible through targeted interviews or/and a broader survey.</p>	<ul style="list-style-type: none"> <li>- The consortium has at its disposal a team of national experts with experience of working on FIs in all EU languages.</li> </ul>	<ul style="list-style-type: none"> <li>- Resource constraints (or respondent fatigue) at managing authorities</li> <li>- Information confidentiality</li> <li>- Uneven information quality and harmonisation issues.</li> <li>- Not likely to generate EU wide coverage.</li> </ul>
<p><b>Use ESIF spend data at a higher geographic resolution to determine location.</b></p>	<ul style="list-style-type: none"> <li>- Good data availability. For example, "ERDF/ESF/CF Priority Theme Overview 2007-2013" or "2007-2013 ERDF CF Categorisation Projectselection AIR2014 Raw". Especially the AIR2014 data which offer a breakdown on re-payable/non-repayable financial aid.</li> </ul>	<ul style="list-style-type: none"> <li>- Using ESIF grant allocation as a "proxy" for the location of FIs could undermine the basis of comparison with grant expenditure thematic.</li> </ul>
<p><b>Use the location of locally-operating intermediaries.</b> For some multi-regional OPs, FIs are implemented through many different intermediaries, aiming to ensure local outreach. In these cases, it may be possible to establish the distribution of FI investment by examining the names and locations of these intermediaries. Examples of local intermediaries can be found in both Hungary and Portugal.</p>	<ul style="list-style-type: none"> <li>- Basic intermediary information for each FI is provided in the summary report</li> </ul>	<ul style="list-style-type: none"> <li>- Limited to locally operating intermediaries. Not likely to generate EU wide coverage.</li> </ul>
<p><b>Use the thematic orientation of the FI (article 44) to determine location.</b> FIs were focused on three main policy targets in 2007-13 – enterprises, urban development and energy efficiency and renewable energy.</p>	<ul style="list-style-type: none"> <li>- For high-profile development plans (especially for some urban projects) it may be possible to identify exact locations.</li> <li>- The complimentary FI data requested from COM could possibly provide additional breakdown categories.</li> </ul>	<ul style="list-style-type: none"> <li>- Broad definitions. Might only make sense in relation to regional FIs.</li> </ul>

Source: Authors

The strategy above is focused on the period 2007-13, for which 'closure' data is available in the Summary Report. Regarding 2014-20, the analysis will be done along similar lines. However, it remains to be seen how much data will be available to analyse. The first Summary Report covering 2014-20 (EC, 2016) showed that while 21 Member States could already report on progress with FIs, there were significant differences between Member States in terms of roll out. An update is due to be published in early 2018, at which time a reappraisal can be undertaken.

The study will also seek to assess the regional distribution of EU FIs other than ESIF. Somewhat different strategies are likely to be required here. For example, while details of EFSI projects are in the public domain, it may not always be straightforward to determine their location within countries.

For COSME, quite detailed information appears to be available, but the role of financial intermediaries may make it difficult to understand the spatial incidence of spend. For Horizon 2020, again detailed information appears to be available, but some painstaking analysis may be required to bring the data onto a regional footing.

The core deliverables for Task 2 are outlined in Figure 5-2. The deliverables from Task 2 will help establish the nature and type of regions where FIs are distributed compared to grants (e.g. urban/rural, more developed, less developed, transition). This task is essential for the development of a regional typology in Tasks 3 and 4 of the research. The quality assurance process to be followed with respect to data collection is outlined in Annex VII: Quality Control.

Figure 5-2: Core deliverables under Task 2

<b>Deliverables</b>	<b>Focus/Status</b>
New Database on Financial Instruments	A geographic database is under construction for ESPON. The database will include the FI data joined with vector files representing all operational programme boundaries with attributed properties (priority axis codes, funds etc) The database will also include all FI data disaggregated by the consortium with information on sources (Summary report or MA). Instructions to the usage of the workspace will be included. Any new data gathered, and databases developed during the research, will be made available and the consortium will deliver the datasets in a standardized manner according to ESPON requirements, as well as provide proof of the integration of data used in the framework of the activity of the project into the ESPON database.
Methodological Report on Data Gathering Process Used	The report will document challenges in relation to missing data, data collection, data harmonization and the regionalising of data on financial instruments and grants. This will involve a full methodological description on how the data was gathered and main data sources and what needs to be taken into account when interpreting the data and an annex including the final dataset.
New Maps on FIs	As outlined in the ToR, a series of maps will be produced in vector format, to map the regional distribution of expenditure through ESIF FIs and other EU grants according to NUTS 2 and NUTS 3 levels (where possible). All maps will be based on data generated in the project by the consortium. The content and focus of the maps will be determined by the consortium on the basis of the most interesting findings from the data analysis.
New Charts, Tables and Graphs on FIs	Information derived from the new data base will form the basis for a number of new tables, graphs and charts to support policy reports/briefs, with content to be determined by consortium. These will analyse how FIs/grants are distributed across the five ESI Funds and the main thematic areas of OPs, and identify the main intermediaries and recipients of FIs/grants.

Source: Authors

## 6 Elaborated plan for analysing the added value of financial instruments

- Financial instruments are claimed to offer elements of **value-added** over grants, notably in relation to sustainability, project quality and efficiency, but also in relation to ‘softer’ benefits such as development of local financial markets and reducing a culture of subsidy dependency.
- Financial instruments can also be expected to generate **impacts** such as job creation, investment, start-ups and reductions in greenhouse gas emissions.
- There is no *a priori* reason to suppose that FIs are more effective at generating such impacts, even if the outputs per euro of initial spend are the same, FIs can be considered to add value to the extent that the initial outlay is repaid, whereas as grant funding is ‘lost’.
- The literature suggests that the **spatial distribution of the benefits of financial instruments** is likely to be uneven. It can be posited that the implementation and outcomes from financial instruments are conditioned by the national financial context, levels of regional development, the quality of government and factors associated with the geography of finance.
- These factors can be used to develop a typology of regions and to develop hypotheses about the circumstances in which financial instruments might offer most benefits.
- This chapter outlines a plan for **assessing the value-added of financial instruments** (compared to grants) and the **impacts associated with financial instruments and grants** and analysing the extent to which this **differs between typologies of region**.

The terms of reference require the development of a methodology that helps to measure what value-added different types of projects financed by ESIF financial instruments have for different types of territories when implemented as a complement to grant schemes. The aim of this chapter is first, to outline the approach to the development of such a methodology; and second, to indicate the proposed approach to the construction of regional typologies. As will be seen, these plans build closely on the literature and debates reviewed in Chapter 2, and the on the concepts and methods set out in Chapter 3. The implementation of the approach will be contingent on the data captured under Task 2 of the study (see Chapters 4 and 5).

### 6.1 Plan for the analysis of added value

Although some policy instruments have added value because they *exist* – the potential use of these instruments may structure relationships between parties – FIs predominantly have added value if they are *used*. Potential use of FIs, however, may still be relevant as it provides insights into the potential extra added value that can be created if FIs are employed at a wider scale. As a result, a precursor to assessing the value-added of financial instruments is to have **a detailed understanding of the actual use of financial instruments**. This in itself is not a trivial task.

The task of developing regionalised information on FIs has been described in Chapter 5. Information is available on the use of instruments at different NUTS levels, but it is not reported with the aim of providing insights into the contribution of FIs to territorial cohesion. The territorial scope of the use of FIs does not always follow NUTS classifications and the overviews do not always provide exact information on where within the scope of a programme the instruments are primarily used. This will require pragmatic decision-making on how the data will be analysed. These decisions will be

documented in the reports or appendices. The main focus in the quantitative analysis of patterns of use will be the 2007-13 programmes; this partly reflects data availability and maturity – in principle data on this FI spend relates to the situation at programme closure (European Commission, 2017). As the use of FIs was limited to certain priorities in 2007-13 (enterprises, urban development and energy efficiency and renewables), the share of FIs in relation to grants for these priorities in different regions will also be mapped to the extent possible. This provides a more refined overview of the use of FIs as a complement to grants. In addition, data available for the 2014-20 period will be used to provide further insights: although very little information is currently available on the implementation of financial instruments in 2014-20,<sup>8</sup> Managing Authorities had to provide more detailed information on their plans for the use of financial instruments in 2014-20 than in 2007-13. This has the scope to yield particular insights – for example, significant shifts in the proposed use of FIs compared to 2007-13 whether this involves a proposed increase or decrease, or a reorientation of FIs towards new policy objectives – could usefully be examined in order to understand policymaker perceptions about the potential effects of FIs.

In Chapter 3, two groups of **effects of financial instruments** were noted (see Figure 3-3). The first type of effect relates to the **value-added of financial instruments** (in relation to grants); the second concerns the **impacts associated** with policy interventions *in the form of financial instruments and grants*.

European Commission has actively promoted the use of financial instruments as a policy delivery tool because of the **value added** they can offer in relation to grants (European Commission, 2012). Three main arguments have been advanced for the use of financial instruments in ESI Funds, in place of grants, assuming that the target investments have the capacity to generate returns, namely sustainability, efficiency and project quality. These effects, or potential effects, are specific to FIs. In addition, FIs would also be expected to generate the same types of **impact** in relation to OP objectives as grants, including job creation, investment, new business starts and greenhouse gas reductions. While there is no *a priori* reason to suppose that a euro spent in the form of a financial instrument would generate more jobs than a euro invested in the form of a grant for the same purpose, it can be argued that *even if the outputs are the same, FIs have more impact because of their revolving nature*.

The sections that follow consider the assessment of the value added of FIs and the impacts associated with FIs and grants in turn.

### **6.1.1 Assessing the value-added of financial instruments**

As mentioned above, the key areas in which financial instruments are claimed to offer value-added over grants are threefold:

- **Sustainability.** Because funds are, in principle, repaid, they can be reinvested for the same purpose in the region, generating the same or similar gains for the locality more than once,

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<sup>8</sup> The Commission was due to produce an annual summary report on financial instruments covering the position to the end of 2016 by end 2017, but at the time of writing this had not been published.

unlike grants which not only may involve a windfall gain, but are also, by definition, not repaid. As such, *resources returned* are a fundamental element in which FIs differ from grants. Until the 2017 final summary report of MA data (European Commission, 2017), little information was available on the return of resources under 2007-13 programmes. Resources returned consist of gains that have been returned and resources paid back, but also of the “value of resources at final recipient level which have yet to be paid back, which is the amount of potential legacy” (*Ibid*, p35). The summary report indicates that there is information on the scale of the legacy for almost all countries.<sup>9</sup> Overall, a legacy of around €8.4 billion in Structural Funds contributions is estimated. This represents over 80 percent of Structural Funds invested in final recipients (*Ibid*, p36). It is anticipated that, with the assistance of the ESPON Secretariat, disaggregated information (i.e. at the level of the financial instrument) can be made available for this analysis.

- **Efficiency.** Because financial instruments may have the capacity to attract private sector capital, they may increase the efficiency of public spending by leveraging in private capital. They may also cost the public sector less to administer than grants because of the involvement of financial intermediaries. As a result, two quantitative elements are relevant to this analysis. First, *the balance between ESIF funding, other public funding and private funding*. This balance, as understood by the Court of Auditors, involves that one euro of European funding is just as essential as one euro of national funding in obtaining private funding. So, if, for example, in a certain programme there is €3 million EU funding, €2 million national funding and €4 million private funding, then EU funding is 3/5 of public funding and can so claim to obtain a leverage of 3/5 of the private contribution (in this case €2.4 million). Also the ‘leverage effect’ as defined in Article 223 of the Rules of Application<sup>10</sup>– “The leverage effect of Union funds shall be equal to amount of finance to eligible final recipients divided by the amount of the Union contribution.” – will be presented. Mapping differences between this balance and the leverage effect provides an insightful overview of regional differences in other public sector contributions to financial instruments that are received by final recipients. Second, management costs and fees. These are generally well documented and can be used for the analysis. However, some apparent regional differences found may result from differences in the use of instruments - for example, guarantees are cheaper to manage than other financial instruments, so disaggregation by type of financial product will be required as part of the analysis, which must also take account of different governance arrangements.
- **Quality.** Because support has to be repaid, project promoters may undertake more robust analyses of project viability and be more committed to project success than for non-reimbursable support. In addition, the due diligence required from financial intermediaries may result in improved project quality and greater contributions to OP objectives. This aspect of value-added does not readily lend itself to quantitative analysis using EU-wide data. This aspect is best explored at the level of the case study analysis.

In addition, financial instruments might be expected to offer some softer, longer-term benefits in relation to development of local financial markets and a reduction in subsidy dependency. By their nature these are also less easy to quantify. As outlined in Chapter 3, the combination of the nature of the information available and its incompleteness mean that different types of analysis will be required in order to assess the value-added of financial instruments. The key approaches and sources are outlined in Figure 6-1.

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<sup>9</sup> Only Austria and cross-border cooperation reports on legacy were missing.

<sup>10</sup> Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

Figure 6-1: Data and methods of analysis – value-added of financial instruments

<b>Value-added</b>	<b>Type</b>	<b>Measures</b>	<b>Method of analysis</b>	<b>Data availability</b>	<b>Issues</b>	<b>Task link</b>
Sustainability	EU-wide quantitative	Legacy / returns	Assess scale of returns by type of region and financial product.	Requested from COM, but may be patchy and difficult to interpret; Ex ante assessments conducted for 2014-20	What does legacy value indicate? Could be that FI is just not risky enough if returns are high? Data difficult to interpret, even if available.	Collect data under T2, analyse under T3/4
	OP/FI quantitative		Ad hoc assessment depending on data available; focus on priority OPs determined by scale, interest, relevance...;	Unknown, but see evaluations; ex ante assessments conducted for 2014-20. Consider scope to benchmark returns	Comparability between FIs	Collect in T2 and T5, as appropriate, for analysis in T4.
	Qualitative	Expectations and perceptions of value of returns and relationship with risk.	Interviews in case studies; mini surveys?	Consider risk profiles, expectations of returns	Anecdotal by nature	T5, but feeds back into T4
Efficiency	EU-wide quantitative	Management costs and fees	Assess scale of management costs and fees by type of region and financial product. Benchmark against standard ESIF admin costs?	Available in summary report	Interpretation of high and low costs; sometimes NPBs do not make costs explicit or absorb some. Comparability issues.	Collect in T2; analyse under T3/4
	EU-wide quantitative / OP/FI quantitative	Leverage	Assess scale of leverage by type of region and financial products.	Some information in summary report; complementary information requested from COM; some may be required from direct contact with	Comparability between instruments; differences of interpretation; data may not capture all private contributions.	Collect in T2; analyse under T3/4

<b>Value-added</b>	<b>Type</b>	<b>Measures</b>	<b>Method of analysis</b>	<b>Data availability</b>	<b>Issues</b>	<b>Task link</b>
				MAs		
	Qualitative	MA time & effort to set-up; perceptions of complexity; delays?	Desk based research; interviews;	Evaluations; ex ante assessments; interviews with MAs and others; issues of critical mass	Anecdotal by nature.	T5, but feeds back into T4
Quality	Qualitative	Perceptions of project quality among stakeholders.	Desk based research; interviews.	Evaluations; ex ante assessments; interviews with MAs and others;	Largely anecdotal.	T5, but feeds back into T4.
Development of local financial markets	Qualitative (primarily)	Extent to which local financial markets are perceived to have evolved.	Anecdotal evidence of how local financial markets have adapted in response to use of FIs – eg NE England and Estonia renovation loan	Evaluations; ex ante assessments; interviews with MAs and others;	Anecdotal by nature.	T5, but feeds back into T4
Impact on subsidy culture (and other effects?)	Qualitative	Perceptions of change in attitude to subsidies	Anecdotal evidence of attitudinal changes to grants / repayable finance	Stakeholder views / interviews.	Anecdotal by nature.	T5, but feeds back in to T4.

### 6.1.2 Impacts associated with financial instruments and grants

The first dimension of the analysis outlined above concerns effects that are exclusively attributable to financial instruments so that they can be considered, potentially, to offer benefits that go above and beyond those offered by grants. In addition, however, financial instruments can be expected to achieve some of the same outputs as grants; it is, not known to what extent FIs might be more effective at generating such outputs, though there is no *a priori* reason to suppose that a euro invested through a financial instrument would have a different impact to a grant.

In 2007-13 some €11.4 billion of Structural Funds were committed for investment through financial instruments. For 2014-20, this is expected to increase to around €20 billion (over 7 years, so a little less than €3 billion per year). Even at this increased level, the sums involved are extremely modest at around 0.02 percent of EU28 GDP. As FIs are only a very small share of all government intervention in the regions, there are unlikely to be significant differences between regions with a high uptake of these instruments and regions with a low uptake. Moreover, while regression analysis could provide insights into the correlation between the use of FIs and wider economic labour market effects, it would not establish causality. Indeed, any correlation between the use of FIs and economy-wide patterns would likely reflect the fact that more developed and growing regions are better equipped to implement and absorb funds in the form of financial instruments. In short, given the small scale of FI spend and the difficulties in establishing a counterfactual, it is considered more appropriate to focus on the **effectiveness of the instruments that are in use, based on evaluations of the instruments themselves**, rather than on finding causal relationships between the employment of instruments on economic, social and territorial cohesion and smart, sustainable and inclusive growth at the level of NUTS regions. We will look at the following criteria:

- The amount of funding paid to final recipients, as a proportion of the overall funding commitment, including the kind of financial recipients reached, i.e., large enterprises, SMEs (and micro enterprises within this category), individuals and the aims of the programme, such as urban development or energy efficiency/renewable energies projects.
- We have requested the European Commission to provide the data they have received from Managing Authorities on jobs created by FIs. As we have also regionalised data on jobs created for the ESIF programme overall, we will compare, for all regions addressed by ESIF, patterns of jobs created by grants and FIs.
- In the case studies it will be possible to look at other achievements. It is currently however a complex issue to obtain overall data on achievements such as jobs created, as the provision of these data by MAs over the 2007-13 period is insufficient for overall analysis (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016).

Figure 6-2 summarises the key approaches planned in relation to assessing the impacts associated with financial instruments and grants.

Figure 6-2: Impacts associated with financial instruments and grants

<b>Type of analysis</b>	<b>Measures</b>	<b>Method of analysis</b>	<b>Data availability</b>	<b>Issues</b>	<b>Task link</b>
EU-wide Quantitative	Job creation	Assess scale of jobs associated by region and financial product	Requested from COM as collected in AIR; available in WP0 at OP level; possible scope to cross tab with WP13 at NUTS 3 level.	Job creation not relevant to all FIs or OPs	Collect data in T2, possibly complement under T5
EU-wide quantitative / OP/FI quantitative	Other indicators, as relevant – eg GHG reductions, number of start-ups	Assess results compared to targets; to what extent available at level of FI? Only if FI only priority?	Assess availability under WP0. Known paucity of data on FIs specifically for most OPs.	Question of disaggregating FI outputs from that of priority as a whole where priority is not wholly FI based. Likelihood that data is no more than anecdotal or illustrative, as per DG Regio ex post assessment of FIs for SMEs.	Assess data under T2 to see to what extent useable under T4.
Qualitative	Other intended or unintended outcomes	Stakeholder interviews; evaluation studies....	Evaluations; ex ante assessments; interviews with MAs and others;	Largely anecdotal.	T5

## 6.2 Clustering of regions

As the Terms of Reference for this study indicate, financial instruments will not produce uniform results across European regions. Both the uptake and effectiveness of financial instruments, are, according to the Terms of Reference, affected by levels of development, available infrastructure, geographical specificities and governance mechanisms. The Terms of Reference specify that typologies of regions should be devised, with each type distinguishing between high and low FI uptake (see Figure 6-3).

Figure 6-3: Regional typology example provided in project Terms of Reference

<b>Regional typology (based on level of development and financial situation, available infrastructure, geographical specificities and governance mechanisms)</b>					
Ideal typical region 1		Ideal typical region 2		Ideal typical region X	
Model region 1A	Model region 1B	Model region 2A	Model region 2B	Model region XA	Model region XB
High uptake of FI	Low uptake of FI	High uptake of FI	Low uptake of FI	High uptake of FI	Low uptake of FI

Source: Project Terms of Reference

The typologies of regions are currently under development, reflecting the terms of reference and the factors identified in the literature discussed in Chapter 2. This suggests that the uptake, implementation and value-added of financial instruments is likely to be conditioned by a range of factors. These are summarised in Figure 6-4 and discussed below.

Figure 6-4: Factors affecting the uptake and implementation of financial instruments

<b>Factor</b>	<b>Relevance</b>	<b>Indicator</b>	<b>Elements</b>
National financial context	Type of financial institutions and main patterns in sources of finance for SMEs	National system of finance	<ul style="list-style-type: none"> <li>• Bank-based</li> <li>• Market based</li> <li>• Former socialist</li> </ul>
Cohesion policy eligibility	Broadly reflects level of development (GDP-PPS per head as % of EU average). Different designations reflect different intensities of Cohesion policy support	2007-13 Cohesion policy categories	<ul style="list-style-type: none"> <li>• Convergence</li> <li>• Phasing-out</li> <li>• Phasing-in</li> <li>• RCE</li> <li>• Non-EU ESPON 4</li> </ul>
Geography of finance	Degrees of agglomeration reflect development of local financial markets. Degree of remoteness affects access to finance	Urban, intermediate, rural classification and level of remoteness	<ul style="list-style-type: none"> <li>• Predominantly urban</li> <li>• Intermediate close to city</li> <li>• Intermediate remote</li> <li>• Rural close to city</li> <li>• Remote rural areas</li> </ul>
Quality of government	Affects administrative capacity to implement FI, which are generally	Quality of government index	<ul style="list-style-type: none"> <li>• Far above average</li> <li>• Above average</li> </ul>

Factor	Relevance	Indicator	Elements
	acknowledged to be more complex than grants		<ul style="list-style-type: none"> <li>• Average</li> <li>• Below average</li> <li>• Far below average</li> </ul>

The key criteria being considered for the development of regional typologies are as follows:

- *The system of finance.* The national financial institutional context is important. Access to finance to is conditioned by broad models of capitalism and the role of the State in investment finance. As such the national financial context not only affects issues of availability of finance per se, but also provides the institutional framework for the implementation of FIs. Work by Moritz et al (2015 and 2016) use the survey on access to finance of enterprises (SAFE)<sup>11</sup> to study financing patterns for SMEs. Moritz et al (2015) conclude that “the differences by country group are higher [...] than the differences by firm-, product- and industry-specific characteristics” (Moritz et al, 2015, p.24), a finding confirmed in updated research (Masiak et al, 2017). In these studies, the authors distinguish between **bank-based countries** (AT, BE, CY, DE, DK, ES, FR, GR, IE, IS, IT, LU, MT, NO, PT)<sup>12</sup> in which SMEs are more often financed by debt; **market-based countries** (NL, SE, UK, FI, CH<sup>13</sup>) in which SMEs are more often mixed- or trade financed; and **former socialist countries** (BG, CZ, EE, HR, HU, LT, LV, PL, RO, SI, SK) in which SMEs are more often internally financed.
- The classification of regions as *eligible for funding from Structural Funds*. The breakdown between regions is given in Figure 6-4, above. This classification is relevant partly because the focus of the study is on FIs financed through Cohesion policy. In addition, the different tiers of Cohesion policy eligibility are broadly indicative of levels of economic development (as measured in GDP-PPS per head); these tiers also involve differing intensities of Cohesion policy funding, which may partly explain high or low levels of uptake of FIs among Managing Authorities.
- The classification of regions as *Urban, Intermediate or Rural*, as published by EUROSTAT (EUROSTAT, 2011) and the ESPON Guidance on Regional Typologies (ESPO, 2011) to be used within the ESPON 2013 Programme.
- *The classification of intermediate areas and rural areas as either close to the city or remote.* This provides an indication of the availability of urban infrastructure. This classification is also by EUROSTAT and mentioned in the ESPON guidance. In a region close to a city more than 50 percent of the population can drive within 45 minutes to a city of at least 50,000 inhabitants. A region is considered to be remote if this counts for less than 50 percent of its residents (see also Dijkstra and Poelman, 2008).
- *Quality of Government.* The Quality of Government institute has developed an EU-wide survey on regional levels on Quality of Government (Charron et al, 2015). The European

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<sup>11</sup> This is which is published annually by the European Commission and includes some data from countries outside the EU (but not for all years) including Norway and Iceland (but not Switzerland and Liechtenstein). For the Eurozone only, these data are available twice a year through a survey by the ECB.

<sup>12</sup> DK, MT and IS have been added to this group for the purposes of this study, based on comments made regarding the classification by Moritz et al.

<sup>13</sup> The classification of Switzerland as market-based in based on Demirguc-Kunt and Levine (1999).

Commission has published a European Quality of Government Index, 2017 in the Seventh report on economic, social and territorial cohesion, which indicates the following. “Due to slight changes in the methodology the two surveys are not fully comparable.” (European Commission, 2017, 139). Neither the report, nor the website on which auxiliary material is published, provides the metadata to establish what these methodological differences are and whether these are relevant for the current project. However, the data of both surveys reveal that there are substantial regional differences in quality of government between regions in several Member States. These data are available at NUTS2 for Austria, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Ireland, Italy, Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Poland (and Serbia and Ukraine) and for NUTS1 in Belgium, Germany, Greece, Hungary, Sweden and the United Kingdom. In addition, there are also OECD-QoG data at national level. These data may help to provide an indication of the Quality of Government in Iceland, Norway and Switzerland. These data, however, do not provide insights in regional differences within these countries, and for Liechtenstein these data do not exist. Although the scores on ‘Voice and accountability’ are lower in Liechtenstein, the Worldbank Governance Indicator data do not suggest that Liechtenstein has very different scores than its neighbours - Switzerland and Austria.<sup>14</sup> As quality of government may change overtime, the data used will be that relevant to the period under study – for the most part 2007-13. The five levels of QoG are those indicated by Charron et al., 2015.

Figure 6-5: Potential criteria for regional clustering, data availability and factors identified in ToR

	<b>Level (general)</b>	<b>Level of dev. &amp; financial sitn.</b>	<b>Avail. Infra.</b>	<b>Geog. Specificities</b>	<b>Governance mech.</b>
System of finance	National	x			
Structural Funds	NUTS2	x			x
Urban-rural typology	NUTS3	x	x	X	
Remoteness	NUTS3		x	X	
Quality of government	NUTS2/NUTS1				x

Source: Authors

Combining all criteria results in potential 375 types of regions (5 (urban-rural, including level of remoteness) \* 5 (Structural Funds eligibility) \* 5 (levels of quality of government) \* 3 (systems of finance) = 375). However over 48% of all regions are concentrated in only 9 types and another 20% in 14 types. So over 2/3 of all NUTS3 regions can be found in only 6% (23/375) of all potential combinations (Figure 6-6). This list of 23 regional typologies concerns typologies which cover at least one percent of NUTS3 regions. At the next stage, the

<sup>14</sup>

<http://databank.worldbank.org/data/reports.aspx?source=worldwide-governance-indicators&preview=on>

thresholds can be adjusted and maps produced of the relevant typologies in order to ensure that their coverage is representative across the ESPON countries.

Figure 6-6: Typology of regions

<b>Structural Funds</b>	<b>Urban-rural</b>	<b>Finance system</b>	<b>QoG</b>	<b>Regions</b>
Convergence	Intermediate close	bank-based	above average	45
Convergence	Rural close	former socialist	below average	44
Convergence	Intermediate close	former socialist	below average	40
Convergence	Rural close	former socialist	far below average	27
Convergence	Rural close	bank-based	above average	24
Convergence	Intermediate close	former socialist	far below average	24
Convergence	Rural remote	bank-based	below average	21
Convergence	Rural remote	former socialist	far below average	21
Convergence	Urban	former socialist	below average	19
Convergence	Rural close	former socialist	average	16
Convergence	Rural remote	former socialist	below average	15
Phasing-Out	Intermediate close	bank-based	above average	16
RCE	Intermediate close	bank-based	above average	174
RCE	Rural close	bank-based	above average	133
RCE	Urban	bank-based	above average	106
RCE	Urban	market-based	above average	67
RCE	Intermediate close	market-based	far above average	36
RCE	Intermediate close	market-based	above average	31
RCE	Intermediate close	bank-based	below average	27
RCE	Urban	market-based	far above average	23
RCE	Rural remote	bank-based	above average	18
RCE	Rural close	bank-based	average	17
RCE	Urban	bank-based	far above average	16

Together these 23 types cover over two third of all ESPON-NUTS3 regions and provide a typology that can be used as background for the analysis of FIs.

The Terms of Reference indicate that, for each typology, the analysis should distinguish between regions with a high or low uptake of FIs. It should also be noted that a significant proportion of OPs do not use FIs at all. Moreover, the notion of 'uptake' can be interpreted in different ways, for example:

- The share of OP commitments made to FIs (this eliminates the bias arising from OPs having widely different total allocations)
- The absolute amount of commitments to FIs (this ensures that FIs with significant spend are captured, even if the amount is small as a proportion of the OP)
- The share of FI OP commitments invested in final recipients (this identifies situations where the absorption of funds by final recipients has been relatively high or low)
- The absolute amount of FIs invested in final recipients (this captures situations where large amounts of funds have reached final recipients in the form of FIs).

In practice, it is possible that all of the above (and perhaps other measures of uptake) will be relevant. This will become apparent when more of the analysis under Task 2 has been undertaken.

Analysing differences between pairs of model regions with high versus low uptake within this framework enables observations to be made for a larger set of regions.

### 6.3 Analysis of FIs at territorial level

As specific issue to be addressed in the study concerns the **disconnect** between the spatial scale of the regional typology (NUTS 3) and the possibility that, for many FIs, the most detailed level of data will be NUTS 2. This will require careful analysis of the composition of the NUTS 2 areas – ie the extent to which the NUTS 2 region is comprised of NUTS 3 regions that fall into different typologies, and an assessment of the extent to which it might be supposed that the uptake of FIs is different within the OP area. Financial instruments in OP areas comprising NUTS 3 regions of different typologies could potentially be examined at the case study stage in order to gain more insights into infra-regional differences.

The use and added value of financial instruments at a territorial level will be executed using the model regions. These model regions fit to an **ideal typical cluster of comparative regions** and come into pairs and have either a high uptake (model regions A) or a low uptake (model regions B) of financial instruments. As a first step in our analysis we will analyse whether there are differences in outcomes between these ideal typical clusters. These differences can be in different patterns of uptake between the ideal typical clusters of regions, but also relating to the impact (eg. jobs created by the programmes) or value-added (eg balance between public and private funding and the leverage effect). In a second step, more in depth analysis will take place comparing models regions A and B within the same ideal typical cluster of regions to study whether specific territorial features can explain differences in added value of these instruments. We will especially look at the way FIs may function as a complement to grants. Next to quantitative methods we will also use qualitative methods, especially to get also insights in the legitimacy dimension of the added value of the instruments used. These steps together will provide insights into the added value and impacts associated with FIs and their potential in different types of region.

An important consideration is the question of **FI implementation structures**. As noted in Chapter 2, there is an inherent tension on the one hand between implementing FIs centrally in order partly to address issues of quality of government, and on the other, the need for financial instruments to be tailored to local conditions. As summarised in Annex II, there is a range of different operating models. It is anticipated that an exploration of what implementation arrangements apply where will be used as a variable to refine the analysis of value added and impact.

## 7 Elaborated plan for carrying out the case studies

- The case studies will **enhance data collected at EU-level** by seeking programme or FI-level data which is not available at aggregated level, to explore the territorial impact (actual and/or potential) of FIs as compared to grants.
- In addition, the case studies will complement the quantitative aspect of the study by using **qualitative** tools, capturing and explaining features that cannot be easily measured by data.
- A key criterion for selecting a region as a case study will be **evidence of value added** through FI implementation.
- The Terms of Reference specify that case studies should be selected from the ‘outliers’ identified after the clustering exercise has been completed (Task 4). The selection process will aim to ensure **geographic balance, representativeness in terms of financial products used and potential transferability of findings**.
- The case study research will include **four phases**: desk research; fieldwork (interviews and surveys); data collection; and analysis and reporting. In-house and external resources will be coordinated to ensure consistency and timeliness in delivery of the case studies.

### 7.1 Selecting the case studies

As indicated by the Terms of Reference, the objective of Task 5 is to produce **at least five case studies** on particular countries or regions which have substantial experience with ESIF FIs and which could provide solid information on what might be expected elsewhere in Europe. The aim of the case studies is to complement the quantitative element of the study by using qualitative tools, thus capturing and explaining features that cannot be easily measured by data. The role of case studies in this study is particularly important for 2014-2020 programming period, due to the limited availability of data.

The starting point for selecting case studies is to produce a sample of regions which do not easily fit into the typology of clusters established in Task 4. The case studies to be selected will be complementary in nature, as they will focus on outliers but will still offer useful insights in terms of implementation of FIs from a territorial perspective, as the analysis of financial instruments implementation in the selected model regions aims at being made in a way that conclusions could be applied to as many regions as possible. Nevertheless, the main criterion for selecting a region as a case study will be its exemplification of strong added value of FIs implementation, as an example of good practices, regardless of its consideration as a “non-typical case” or outlier.

As the work on Task 4 has not concluded and therefore a residual sample of outliers has not yet been produced, no preliminary selection of potential case studies can be established at this point. However, a number of subcriteria to select regions complementing the main

criterion (availability to provide an example of strong added value of FIs implementation) are proposed as follows:

**Firstly**, the sub-sample of regions subject to further analysis by means of case studies will be, to the extent possible, **geographically balanced**, not only to ensure that the sample is as representative as possible but also for theoretical reasons, stemming from the insights gained in Tasks 1 and 3. In this regard, the territorial dimension could be also taken into account by bearing in mind the fact that less developed regions might be doubly disadvantaged: harder access to finance conditions often coincide with a more modest administrative capacity – which is critical for the implementation of financial instruments. Case studies will also be the most suitable way of exploring instruments that operate at Operational Programme level with varied geographical contexts (NUTS 2 or NUTS 3 regions), to overcome the difficulty of relating FIs to regional typology at NUTS 3 when it is not possible to regionalise FI data to this level, and therefore scaling to NUTS 2 level is needed.

**Secondly**, statistics stemming from the summary of data on the progress made in FI implementation (European Commission, 2017) will be used to inform the decision regarding case studies. Some elements to take into account will be, for instance, the distribution of financial products, i.e. equity, loans, guarantees, the modality of implementation, the Priority Axes within which FIs are programmed and the relative weight of the financial allocation to FIs with respect to a given OP. In this way, the **case studies will represent, as far as possible, an approximation of what has been effectively implemented throughout Europe** – more debt than equity financial instruments or more FIs for SMEs than for energy efficiency, thereby focusing on the main traits of FI implementation.

**Thirdly**, each case study will present not only information but also a narrative that will be incorporated into the project's findings. Consequently, regions/financial instruments will be selected with the final aim of producing **case studies with significant value added**. While research on a given financial instrument will be unbiased and the outcome not defined at the outset, the selection of case studies will be influenced by their value added. In order to properly carry out the case study selection, some questions to be answered before making a decision could be the following:

- Might the research lead to a clear narrative that could complement the other project findings?
- Will findings of the case study be relevant and transferable to other regions/financial instruments?
- Is the financial instrument to be studied in line with Cohesion Policy priorities?
- Is there available information with sufficient quality?
- Can potential challenges to research be overcome?

## **7.2 Conducting the case studies**

Once the (at least) five regions to be categorised as case studies have been selected, the case studies will be conducted in four phases:

### **7.2.1 Desk research**

The project team will firstly look at secondary sources of information through desk research. Potential documentary sources to be examined are, among others:

- OP and ROP ex ante evaluations
- Ex ante assessments carried out for Financial Instruments
- OP Annual Implementation Reports for the 2007-13 and 2014-20 period, including the Final Implementation Reports for 2007-13
- 2007-2013 OP and ROP interim and ex post evaluations
- Studies and evaluations related to implementation of specific FIs
- Other documents related to specific FIs (where available), for example funding agreements, reports to Programme Monitoring Committees etc.
- Examples of FIs support to specific projects in different areas (through *fi-compass* research, EIB-EIF website searches etc)
- Evaluations or studies on related regional and national public strategies
- Any other relevant scientific publications carried out by universities, research centres etc.

### **7.2.2 Fieldwork**

The fieldwork will involve contacting three main levels of key stakeholders:

- Public Administrations: Managing Authorities and Intermediate Bodies at national, regional and, when applicable, local level
- Private sector: Financial Institutions
- Private sector: FI beneficiaries: SMEs, individual SMEs, Business Associations etc

The techniques to gather information from these stakeholders will be semi-structured interviews (Public Administration, Financial Institutions and Business Associations) and, in some cases, online surveys to a sample of SMEs.

Together, the desk research and fieldwork will aim to collect additional data that was not possible to collect at EU28 level, at a greater level of granularity, as well as the 'story' behind the data and 'softer' qualitative evidence on outcomes and impacts. Annexes IV, V and VI provide examples from previous studies of how case studies can capture more than is revealed by simple data on spend or on progress measured via indicators, by augmenting hard data with a narrative based on qualitative research.

The consortium has been strategically set up to cover different regions of the EU and will approach the stakeholders to perform the fieldwork by leveraging its vast network of contacts

among local stakeholders, which are often long-lasting clients. External experts will also be used where necessary:

*Local stakeholder network:* The consortium aims to gather as much information as possible from the above. If deemed appropriate, additional information could be sourced from advisers such as professional services firms that have for instance assisted the MAs in drafting ex ante assessments, developing investment strategies or performing audits on a given financial instrument.

*External experts:* The team will select a group of external experts corresponding to regions previously identified, which will facilitate communication with stakeholders. External experts on the ground will be entrusted with data collection, if this approach is deemed appropriate. In this way, the consortium will benefit from: access to national databases; familiarity with relevant national academic network; access to all relevant national stakeholders; screening of documents in national language; and ability to conduct interviews in the national language. The selection, coordination and monitoring of the network of external experts will be carried out by the consortium to ensure proper achievement of results. Nevertheless, the consortium will also rely on its abundant in-house language skills and geographical coverage to limit the engagement of external experts and thereby facilitate coordination activities.

### **7.2.3 Data collection**

To ensure homogeneity and proper collection of data, a set of tools will be developed comprising case study templates, interview scripts and questionnaires, to which experts must adhere. In order to develop the tools, a preliminary version will be tested by the consortium by way of a **pilot run to test the adequacy of tools and further fine-tune them**, if necessary. The test run will also reveal the most advantageous modalities of data collection, that is, the decision to carry out telephone interviews or an online survey, for instance based on the SurveyMonkey platform. The final version of the data collection tools, once validated by ESPON; will then be forwarded to the experts for them to use.

The emphasis put on the development of tools is grounded in the aim that case studies should be eventually drafted in a homogeneous manner in terms of layout and content. This becomes especially relevant if experts external to the consortium are engaged to cover specific regions, and coordination with clear instruction must be ensured. The tasks entrusted to experts will be clearly specified and a time schedule with milestones will be agreed on, which will be in line with the overall milestones and delivery schedule of the project. A single point of contact between the consortium and all experts will be established in order to give feedback to experts and answer the most common questions that might arise over the course of the work. In this regard, all experts will be regularly informed about the overall study progress. Possible tools could be a FAQ or creating a shared workspace on Microsoft Teams, Skype for Business, Dropbox or other similar software.

Previous studies have examined the extent to which the impact of financial instruments can be assessed at case study level. The ex post evaluation of financial instruments for enterprises in 2007-13 (Wishlade, Michie, Familiari, Schneidewind and Resch, 2016) found that too few managing authorities collected enough data to make any realistic assessment of their impact. Among the nine case studies, only five reported job creation data. However, while quantitative data might have been lacking, softer evidence provided some interesting and useful insight into how FIs had been working in practice, and in ways that went beyond simple impact indicators. For example, FIs were seen to have had a tangible positive impact on improving access to finance for SMEs in Lithuania, in supporting the development of a sustainable regional revolving fund in North East England (UK), in developing the business angel finance market in Bavaria (DE) and in nurturing regionally-based financial intermediaries in Małopolska (PL) and in Hungary. Further, the case studies showed that effects of FIs on turnover, job creation, innovation capacity and competitiveness of supported companies are not systematically measured. Although some firms upgraded their technology and technology and business processes, in some countries FIs were extensively used for financing working capital as opposed to fixed investment.

Similarly, in the case studies carried out for a European Parliament study on FIs for energy efficiency and renewable energy (Wishlade, Michie and Vernon, 2017), MAs reported a number of issues with using common indicators to measure FI performance:

- Some EE and RES FIs had been measured against non-specific indicators
- Simple quantitative indicators did not always capture all the benefits of a measure, which may have been more qualitative and/or involved more indirect effects. For example, in Estonia, the perceived success of the FI was reflected in the fact that its implementation helped the market develop to a point where commercial banks were willing to step in – hence the FI was not continued in 2014-20. In addition, a survey among household in renovated buildings found that most considered their living conditions to be 'good', that their energy bills had decreased and that many problems in the buildings had been resolved owing to the renovation loan investment.
- Related, formal targets were not always seen as the best measures of achievement. For example, in England, the success of the pre-investment support provided under the Low Carbon Innovation Fund (LCIF) meant that potential investee companies sometimes were enabled to seek funding from the private sector instead of the LCIF. This adversely affected progress towards the Fund's targets, but ultimately was seen as a successful intervention.

Thus, the qualitative work carried out for the case studies was able to highlight a number of useful and important outcomes for FI interventions which had not necessarily been reflected in the quantitative data or in the formal OP indicators.

#### **7.2.4 Analysis and reporting**

All the information gathered from primary and secondary sources will be analysed to extract the main findings and results. For each of the FIs reviewed in the case studies a SWOT<sup>15</sup>

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<sup>15</sup> Strengths, Weaknesses, Opportunities, Threats.

analysis will be conducted, which will be informed by all information collected. A SWOT matrix will be elaborated with the aim to objectively aggregate insights in an easily understandable but structured manner that allows for comparison among FIs. Both endogenous as well as exogenous factors on the contribution of a FI to territorial development will be taken into account. Indicative examples of influencing factors are provided below.

**Illustration 1: FI SWOT matrix**

	Positive factors	Negative factors
Endogenous factors	<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• High absorption capacity among beneficiaries</li> <li>• Knowledge-sharing between public and private sector</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Poorly designed investment strategy</li> <li>• Lack of administrative capacity to manage FI</li> </ul>
Exogenous factors	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Potential to reach additional types of beneficiaries by amending the investment strategy.</li> <li>• 2014-2020 FI valuable as a pilot experience that will guide further interventions in the future</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Regulatory uncertainty, for instance in the context of regulation of certain industries.</li> <li>• Risk of the investment strategy becoming obsolete as a result of changes in the macroeconomic framework.</li> </ul>

**Project Fiche**

For each case study, a “project fiche” will be developed to provide a succinct overview of what activities a given FI has supported and to provide an illustration of the concrete impact on the ground. This would add another layer of information to the analysis performed, by encompassing conceptual questions such as the impact of FIs on territorial development but also concrete impacts on beneficiaries and their communities. Drawing on information at different levels will allow the consortium to produce meaningful case studies by means of a holistic approach and make inferences. An indicative template for the project fiches is presented below.

<b>FI #1: Sample project #1</b>	
Location of the project	
Beneficiary name and type	
Brief description of the project	
Outcome of FI policy intervention	
Photographic material	

### ***Case Study Reporting***

The case studies will be drafted following the template designed in the previous phase and will focus on emphasising the FI's contribution to territorial development in the selected region, which is one of the main conceptual research questions of this study.

An indicative table of contents of the case studies is as follows:

- An introduction explaining the case study context and rationale
- A brief overview of the case study elaboration process (types of stakeholders approached, techniques used and constraints encountered, if any)
- Description of main results and findings from the information gathered through desk research and fieldwork. This section will include the SWOT matrix and the Project Fiche.
- Index: a list of the sources of evidence considered, including any additional references and the categories of interviewees and survey description.

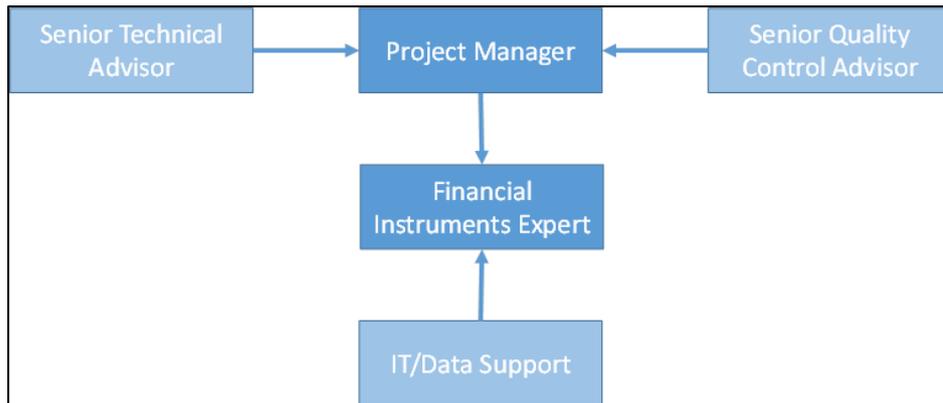
### **7.3 Resources for developing the case studies**

The in-house team will be composed of:

- *Project Manager*: responsible for the smooth organisation of the works encompassed by the case studies. Furthermore, the Project Manager will be the first point of contact for External Experts and between the consortium partners.
- *Senior Technical Advisor*: responsible to oversee the works and give specialised advice within the realm of financial instruments and, more generally, Cohesion Policy,
- *Financial Instruments Experts/Case Study Analysts*: entrusted with the day-to-day execution of the case studies, i.e. evaluating the information collected and processing that information in order to produce the case studies in the agreed scope.
- *Senior Quality Control Advisor*: responsible for the overall performance of the case study team, setting the standards for quality requirements of the outputs and deliverables of the project and will supervise the works to that end.
- *IT/Data Support team*: responsible for assisting the rest of the in-house team, notably the Project Manager and the Financial Instruments Experts/Case Study Analysts in the event of unforeseen technical issues and to ensure that these issues do not have an impact on workflow efficiency.

The organisational structure is designed to cover all required expertise, while at the same time facilitating open and smooth coordination at internal and external level. In this way, the organisational structure accommodates both hierarchy and flexibility in order to ensure successful execution of the works.

Box 7-2: Organisational structure for case studies



Source: Authors

**Quality management** is important to the entire project team, and all team members are focused on guaranteeing high quality deliverables. The quality assurance process to be followed with respect to the case studies is outlined in Annex VII: Quality Control.

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## Annex I: Key datasets for EU-wide quantitative analysis, regionalisation, value-added of FIs and impacts associated with grants and FIs

Source	Summary	Key elements	Spatial scale	Timescale	Missing elements / drawbacks
<p>Summary of data on the progress made in financing and implementing financial engineering instruments:  <a href="http://ec.europa.eu/regional_policy/sources/theses/fin_inst/pdf/closure_data_fei_2017.pdf">http://ec.europa.eu/regional_policy/sources/theses/fin_inst/pdf/closure_data_fei_2017.pdf</a>                      [Historical data and excel sheet by country here:  <a href="http://ec.europa.eu/regional_policy/en/funding/special-support-instruments/">http://ec.europa.eu/regional_policy/en/funding/special-support-instruments/</a>]</p>	<p><b>CORE FI DATA</b>                      Reporting on FIs at closure. Data is provided by MAs to COM.                      Covers 77 holding funds and 981 specific loan, guarantee, equity or other funds.</p>	<p>Where data is complete, quite detailed data on number and types of financial product; amount paid to funds and holding funds; amount invested in final recipients by financial product; management costs and fees.</p>	<p>Driven by the area of intervention of the financial product and the OP; see also Annex II.                      Where financial product operates at the level of the OP and the OP corresponds to NUTS 2, the data is, in effect regionalized at this level. However, there are many exceptions.                      Scope for Art 44b FIs to be regionalized through desk research.</p>	<p>Cumulative data to closure of 2007-13 programme</p>	<p>Financial instruments are linked to OP, but not to OP priorities.                      The same FI may contribute to more than one OP.                      The data are patchy and it is unclear what the difference between 'zeroes' and 'blanks' are.</p>
<p>Summary of data on the progress made in financing and implementing financial engineering instruments - <i>data not published in the summary report</i>. This has been requested from the COM on the basis of the template provided to MAs – see                       Data request to COM _ 20161205 Reportin</p>	<p><b>ESSENTIAL COMPLEMENTARY FI DATA</b>                      Reporting on FIs at closure. Data is provided by MAs to COM.                      Covers 77 holding funds and 981 specific loan, guarantee, equity or other funds.</p>	<p>Amounts of other assistance paid to the fund – beyond the OP                      Withdrawal of OP resources from the FI                      Interest generated, and whether or not reinvested                      Value of legacy resources                      Final recipients by type (LE, SME, individuals, urban projects, etc.)                      Number of jobs created                      Total amount of contributions mobilized at level of final recipient</p>	<p>As for the published information above.                      This data would need to be regionalized on the same basis as the published data</p>	<p>As for the published information above.</p>	<p><u>At present it is not known if the data will be released, and if so how comprehensive it is, given that some of the data are voluntary.</u></p>

Source	Summary	Key elements	Spatial scale	Timescale	Missing elements / drawbacks
<p>WP0 – Data collection and quality assessment. Database 1 on selected core indicator and database 2 all core indicators and programme specific indicators. Also, table on the availability of expenditure data at NUTS3 by priority theme.</p> <p><a href="http://ec.europa.eu/regional_policy/EN/policy/evaluations/ec/2007-2013/#1">http://ec.europa.eu/regional_policy/EN/policy/evaluations/ec/2007-2013/#1</a></p>	<p><u>INDICATORS BY OP AND PRIORITIES WITHIN OPS (BUT NO EXPENDITURE, THEMATIC PRIORITY, TYPE OF AID OR NUTS 3)</u></p> <p>Aim of WP0 included gathering and quality assessing physical data reported by MAs from 2007-2013 in AIRs (in particular 21 core indicators and specific indicators).</p>	<p>By OP and priority axis</p> <p>Core and specific indicators</p> <p>Gives target and achievement for indicators.</p>	<p>Spatial scale is the OP – so if national, scale is national, if regional may correspond to NUTS 2 in some MS.</p>	<p>Target and achievements for 2012 and 2013 (<i>so not at closure</i>).</p>	<p>No expenditure data is associated with the indicators.</p> <p>A separate table <a href="http://ec.europa.eu/regional_policy/sources/docgener/evaluation/data/data_availability_expenditure_nuts3.pdf">http://ec.europa.eu/regional_policy/sources/docgener/evaluation/data/data_availability_expenditure_nuts3.pdf</a> indicates whether is it feasible to obtain expenditure data by Priority theme at NUTS 3 (Note that the 'priority theme refers to the 86 themes identified by the COM, not the OP priority. This table is based on interviews with MAs. See also explanatory note here: <a href="http://ec.europa.eu/regional_policy/sources/docgener/evaluation/data/explanatory_note_nuts3.pdf">http://ec.europa.eu/regional_policy/sources/docgener/evaluation/data/explanatory_note_nuts3.pdf</a></p> <p>This appears to be preparatory work for WP13 – see below.</p>
<p>WP13 – Geography of expenditures</p> <p><a href="http://ec.europa.eu/regional_policy/EN/policy/evaluations/ec/2007-2013/#13">http://ec.europa.eu/regional_policy/EN/policy/evaluations/ec/2007-2013/#13</a></p>	<p><u>EXPENDITURE BY OP, 86 THEMATIC PRIORITIES AND NUTS 3 (BUT NOT TYPE OF AID)</u></p> <p>The study collected and mapped information on the regional breakdown of the ERDF and CF invested through 300+ Programmes, The aim was to identify</p>	<p>Allocations and expenditures for 300 OPs by 86 priority themes and by NUTS 3</p>	<p>Broken down to NUTS 3 within OPs</p>	<p>Allocations and expenditures given for 2013 and 2014 (<i>so not at closure</i>).</p>	<p>Which OPs are missing? Does this matter for the study?</p>

Source	Summary	Key elements	Spatial scale	Timescale	Missing elements / drawbacks
	cumulative allocations to selected projects and expenditure at NUTS3 and NUTS2 level broken down by 86 priority themes and to make estimates, based on an elaborated methodology, where the data was not available.				
2007-2013 ERDF CF Categorisation Projectselection AIR2014 Raw <a href="https://cohesiondata.ec.europa.eu/EU-Level/2007-2013-ERDF-CF-Categorisation-Projectselection-/b5xq-38ds">https://cohesiondata.ec.europa.eu/EU-Level/2007-2013-ERDF-CF-Categorisation-Projectselection-/b5xq-38ds</a>	<u>EXPENDITURE BY OP, TYPE OF SUPPORT, TYPE OF TERRITORY, PRIORITY (BUT NOT NUTS 3)</u> This dataset provides the raw cumulative categorisation data on the projects selected for support as reported in the 322 ERDF/CF programme annual Implementation reports (AIR) as at end 2014. The dataset is not a final picture of what was financed during 2007-2013. Closure of the period 2007-2013 will be finalised later in 2017.	Expenditure by OP, Priority code, type of territory, type of funding (repayable, non-repayable aid...), type of target.	NUTS area (but level variable) Type of territory (rural, mountain, island, urban...)	Covers to end 2014, so not to closure.	Interesting because enables type of support to be cross-tabbed with type of territory to get expenditure for each. BUT, data are patchy, especially for national programmes. Quick check suggests that expenditure on repayable support is broadly in line with summary report (but periods are different), this needs to be checked. Note also that definitions of territory are different from those proposed in this study.

## Annex II: National/sub-national breakdown of co-financed FIs 2007-13

Member State	National	Regional/Sub-national/other	Potential regionalisation issues?	Data issues noted
AT	None	2 Lander OPs offer FIs (NUTS 2 level)	Looks ok	Odd data in OP contribution box for Burgenland
BE	None	3 regions offer FIs. Two FIs are jointly funded from two OPs, to cover the whole Wallonia region (including Hainaut), separate data is provided. No FIs in Flanders.	Looks ok	
BG	National JEREMIE HF for SMEs, 5 specific funds	JESSICA Fund with two UDFs in Sofia	Regionalisation of national OP required	
CY	National JEREMIE HF, 4 specific funds	None	OK	
CZ	2 FIs, a loan and a guarantee fund, under the national 'enterprises and innovation' OP, which does not cover Prague	JESSICA Moravia-Silesia, two UDFs (not clear if this is regional or city based?) JESSICA Fund for Prague (housing)	National OP data to be disaggregated/regionalised	
DE	4 national ESF FIs	C 36 ERDF FIs offered by 14 Lander  Niedersachsen FIs may need to be split between NUTS2 regions  Includes a JESSICA Hessen, also other city-based FIs such as 5 FIs in Berlin	Could look to disaggregate national ESF data	
DK	None	9 regional FIs (4 ESF, 5 ERDF) funded from national OPs	OK	
EE	5 ERDF and 1 ESF national FIs	NB one FI is for renovation of apartment buildings so will be concentrated in cities	Could be disaggregated, if loan data available?	
EL	Most FIs set up through HFs into which contributions go from a combination of national (Convergence region only), genuinely national and regional OPs	See previous	Priority for disaggregating	

Member State	National	Regional/Sub-national/other	Potential regionalisation issues?	Data issues noted
ES	1 national OP with FIs	FIs under regional OPs  JESSICA Andalucia  Energy JESSICA – contributions from 10 ROPs. Data for specific funds broken down at ROP level.	National OP for innovation should be disaggregated	
FI	1 national FI to which 4 regional OPs contribute. Data separated to OP level.	1 regional FI (Oulu)	ok	
FR		FIs in all regions except Bretagne. JEREMIE HF in Auvergne with 16 sub-funds. JEREMIE HF in Languedoc-Roussillon with one specific fund. 2 HFs in PACA, each with one sub-fund.	ok	
HU	The national Economic Development OP (a national OP which covers six NUTS2 regions except central Hungary) and the Central Hungary (incl Budapest) regional OP both contribute to a HF with what seem to be 170 specific funds. These specific funds equate to agreements with implementing bodies/financial intermediaries.	As well as previous, 7 regional OPs contribute to one centrally managed FI, data is separated at OP level	Priority for disaggregation. Further breakdown may be possible by name of financial intermediary, as the high numbers of implementing bodies were used to ensure local reach of a smaller number of actual FIs (11), however the MA data does not reflect this.	
IT	several national OPs offer FIs  Also FIs from multi-regional OPs (2007IT161PO002 and 2007IT161PO006) which only cover Convergence regions (Apulia, Campania, Calabria and Sicily)	Many regional OPs offer FIs  JESSICA UDFs in Campania (Naples) and Sicily.	Priority for disaggregating data for Convergence regions and national OPs	Some FIs classified under 44(c) when their name suggests they may have been mis-classified
LT	1 national ESF FI 1 national JEREMIE HF with	None	Not high priority	

Member State	National	Regional/Sub-national/other	Potential regionalisation issues?	Data issues noted
	10 specific funds 3 more national ERDF FIs			
LV	All FIs under national ERDF or national ESF OP	None	Not high priority	
MT	1 national JEREMIE HF with 1 specific fund	None	Not high priority	
NL	None	8 regional/city FIs, including ones potentially based in/focused on Amsterdam, Utrecht, Den Haag. NB OPs in NL are 'multi-regional' as cover several provinces.	ok	
		JESSICA Fund den Haag, with 2 UDFs Standalone UDF in Rotterdam		
PL	National ESF OP supports FIs with BGK HF, implemented via regional bodies. 2 'national' ERDF OPs supporting FIs, but one of these is Eastern Poland (a multi-regional OP), so not national as such	Many FIs under regional OPs, reflecting local implementation  4 JESSICA FIs (Slaskie, Wielkopolska, Pomorskie, Zachodniopomorskie) NB Fund manager name won't always help to go below OP level as many in Warsaw.	Priority for disaggregating national and 'national' OPs (Eastern Poland) possibly via research on regional implementing bodies?	
PT	One 'national' OP has FIs (Thematic factors of competitiveness), but this OP covers Convergence regions only	4 regional OPs have 44 (a) FIs  5 regional OPs contribute to a JESSICA HF, not clear if possible to concentrate these below OP level as FM in Porto etc.	Disaggregate national OP COMPETE	Care should be taken with Madeira, as it is categorised as a national OP.
RO	1 national JEREMIE FI with 3 specific funds	None	Not high priority	
SE	None	11 regional vc FIs	ok	
SI	1 national HF with 2 ESF and 3 ERDF specific funds, plus a separate national guarantee FI	None	Not high priority	
SK	1 JEREMIE HF with 12 specific funds (funded from 3 different OPs – one of which	See previous – one specific fund under JEREMIE is for Bratislava region only	Disaggregation needed of Convergence and national OPs	

Member State	National	Regional/Sub-national/other	Potential regionalisation issues?	Data issues noted
	covers the Convergence regions only, one of which covers Bratislava only and one of which covers the whole country). Data is separated by FI/OP	JESSICA (e/e) fund is also funded from 3 OPs, one for Western Slovakia, Eastern Slovakia and Central Slovakia, one for Bratislava and from the Competitiveness and Economic Growth OP for the Convergence regions. Data separated.		
UK	None	<p>All 'regional'.</p> <p>Examples of two OPs contributing to a single HF/FI (eg Wales), but data provided separately.</p> <p>JESSICA Scotland will be concentrated in central belt (Glasgow?)</p> <p>Two local loan funds (East and West of Scotland) which will be below OP level.</p> <p>London Green Fund and SME Fund within London OP.</p> <p>Some small local FIs in England below regional OP level but very low value.</p>	Lowlands and Uplands Scotland OP covers three NUTS 2 regions.	<p>England: SW Loan Fund has contributions from several OPs but ok because data is split - but data looks odd. Why are FI No9 and 11 (SW Loan Fund) not under the HF (no 10)?</p> <p>LEEF Fund in London has spent more than it was allocated (Returns?)</p> <p>No 35 should be re-named JESSICA NorthWest. Allocations under these FIs and those under the 'JEREMIE' type FI in the NW are split - Merseyside phasing-in.</p>
CBC	One CBC programme, very small FI		Not high priority.	

Source: Author, using European Commission (2017) data.

## Annex III: OPs involving significant contributions to FIs and investments in final recipients

Programme	cci	MS	Fund	OP contributions invested in final recipients (€m)	Amounts of OP contributions paid to the fund or set aside in case of guarantees (€m)	GeoScope
<b>Large Multiple NUTS 2 OPs</b>						
NOP Research and Competitiveness	2007IT161PO006	Italy	ERDF	858	871.5	Multiple NUTS 2
OP 'Thematic Factors of Competitiveness'	2007PT161PO001	Portugal	ERDF	407.10	417.09	Multiple NUTS 2
OP 'Development of the Competitiveness of the Bulgarian Economy'	2007BG161PO003	Bulgaria	ERDF	326.74	345.49	Multiple NUTS 2
OP 'Competitiveness and Entrepreneurship'	2007GR161PO001	Greece	ERDF	317.50	317.50	Multiple NUTS 2
OP 'North West England'	2007UK162PO008	UK	ERDF	303.82	316.73	Multiple NUTS 2
OP 'Increase of Economic Competitiveness'	2007RO161PO002	Romania	ERDF	244.74	222.88	Multiple NUTS 2
OP 'Yorkshire and The Humber'	2007UK162PO009	UK	ERDF	241.68	246.18	Multiple NUTS 2
OP 'Central Macedonia - Western Macedonia - Eastern Macedonia & Thrace'	2007GR161PO008	Greece	ERDF	233.49	243.62	Multiple NUTS 2
<b>Large Single NUTS 2 OPs</b>						
OP Economic Growth	2007LT161PO002	Lithuania	ERDF	433.57	260.89	Single NUTS 2
OP 'Campania'	2007IT161PO009	Italy	ERDF	395.63	511.08	single NUTS 2
OP 'Saxony-Anhalt'	2007DE161PO007	Germany	ERDF	394.64	403.12	single NUTS 2
OP 'Sardinia'	2007IT162PO016	Italy	ERDF	393.39	363.97	single NUTS 2
OP 'Attica'	2007GR161PO006	Greece	ERDF	357.98	363.67	single NUTS 2
OP 'Puglia'	2007IT161PO010	Italy	ERDF	258.68	291.34	single NUTS 2
OP 'Wallonia (Hainaut)'	2007BE161PO001	Belgium	ERDF	245.34	240.78	single NUTS 2

Source: Assembled from European Commission, 2017.

## Annex IV: Ex post evaluation of FIs for enterprise support – evidence of impact from case studies

OP name	Main sectors/targeted (actual)	Target areas	No of SMEs supported (start-ups)	New jobs created (safeguarded)	Effects on performance, innovation capacity, competitiveness	Comments
<b>DE: OP Bavaria</b>	Loan: crafts and trade VC: technology firms	lagging areas	460	513	No data	Job effect below expectations
<b>FR: OP Languedoc-Roussillon</b>	Loan: young micro-enterprises VC: developing SME technology firms Guarantee: established SME, wholesale trade, renting activities, ICT	unspecific	1,285	No data	No data	
<b>UK: OP North East England</b>	Loan: wide spectrum VC: large proportion of tech	geographical distribution of SMEs supported and jobs created is measured	689 (44% start-ups)	1,953 (2,803) mainly in disadvantaged areas	136 new collaborations with knowledge base 18.9 million R&D levered in	Survival pattern of start-ups is observed
<b>CZ: OP Enterprises &amp; Innovation</b>	No data	unspecific	2,100	5,780	No data	Over-proportional job effect in relation to total OP

<b>OP name</b>	<b>Main sectors/targeted (actual)</b>	<b>Target areas</b>	<b>No of SMEs supported (start-ups)</b>	<b>New jobs created (safeguarded)</b>	<b>Effects on performance, innovation capacity, competitiveness</b>	<b>Comments</b>
<b>PL: OP Małopolskie</b>	77% Micro-enterprises Sectors: Manufacturing, Trade, services	geographical distribution of investments available	1,544	162	No data	
<b>LT: OP Economic Growth</b>	Guarantees: mainly young enterprises Loans: mainly wholesale and retail VC: mainly technology firms	unspecific	4,700	No data	No data	No systematic approach to capture effects
<b>PT: OP COMPETE</b>	SMEs in a wide range of economic activities	Convergence region	3,900	No data available (only for total OP)	No data	A positive effects on enterprises is expected but evidence is lacking
<b>ES: OP Technological Fund</b>	752 SMEs, 191 large enterprises Industrial sector, agriculture, wholesale	Convergence regions	756	No data	No data	
<b>HU: OP Economic Development</b>	Loans: 96% micro-enterprises Guarantees: 59% micro-enterprises VC: young micro-enterprises	geographical distribution of investments available	14,752	61,896	No data	

<b>OP name</b>	<b>Main sectors/targeted (actual)</b>	<b>Target areas</b>	<b>No of SMEs supported (start-ups)</b>	<b>New jobs created (safeguarded)</b>	<b>Effects on performance, innovation capacity, competitiveness</b>	<b>Comments</b>
	Sectors: 1) wholesale, trade 2) professional, scientific and technical activities 3) manufacturing					

Source: Wislade, Michie, Familiari, Schneidewind and Resch, 2016, Case study research

## Annex V: Ex post evaluation of FIs for enterprise support: use of indicators in case study OPs

OP	Comments
<b>CZ: OP Enterprises &amp; Innovation</b>	<p>Indicators collected by the MA included financial and output indicators, a result indicator (newly established firms) and an impact indicator (newly created jobs). Outcomes on company growth, turnover, and sales were not recorded by the monitoring system.</p> <p>The FI contributed significantly to job creation (in non-specific sectors). Around 17% of newly created jobs in the OP were reported as being due to FIs.</p>
<b>FR: Languedoc-Roussillon ERDF OP</b>	<p>Four indicators from the OP were relevant for monitoring. However, these indicators were not suitable for capturing the intended changes to meet specific objective 1.2.1 ('Number of projects financed by financial engineering devices') and they were even less suitable for capturing the change to meet PA 1's strategic objective. This was because only one result indicator was directly related to measure 1.2.1, while the other three results and impact indicators also covered other PA 1 measures with no visible separation between them.</p> <p>The indicator system established by the HF only partially compensates the OP's indicator deficiencies. Although these indicators cover the most important items, they are not documented in a standardised form and do not always cover the same items and the same periods. There are also unresolved issues with the methodology used for individual indicators. A much broader range of indicators seems to be available for individual FIs, covering the structure and development of each company supported, yet this information could not be accessed due to confidentiality rules in the funding agreements.</p> <p>Information about the structure of the final recipients is unreliable and remains mostly qualitative. The AIR reports more than 6,800 new jobs for all instruments (97% from the guarantee fund), while the HF only gives 1,369 new or maintained jobs. Neither of these figures can be verified by this study but they are clearly overestimated for the three funds.</p> <p>Only the reported number of supported enterprises seems reliable and is above target for all three instruments. By March 2015, 81 innovative SMEs had been financed through seed loans; 26 SMEs of high development potential had benefited from the co-investment fund, while 1,228 SMEs had received funding from the guarantee instrument. In the same period, 97.5% of the funding allocated to the seed loans was spent (EUR 1.95 million by JEREMIE) and 84% for the co-investment instrument (EUR 9.2 million invested directly by JEREMIE), while the guarantee instrument covered loans of EUR 126.3 million.</p> <p>There is no hard evidence of the type of SMEs supported. A recent evaluation gives the average enterprise age and size on a random sample from all three funds. The main sectors of final recipients are recorded. These are ICT, biotechnology, robotics, green businesses and health for the seed loan and the VC instrument, but wholesale trade and rental services (plus ICT) for the guarantee instrument.</p>
<b>DE: Bavaria</b>	The indicators collected by the MA cover financial and output indicators and a limited set of result indicators (jobs, total

<p><b>ERDF OP</b></p>	<p>investments volume). Outcomes on company growth, turnover, sales or indicators on the horizontal priorities (sustainability, equality) were not recorded by the monitoring system. Unfortunately, achievements on employment and value added have not yet been documented due to some projects still being in progress.</p> <p>The main result indicator is for job creation in less economically advanced regions and border areas in line with the Cohesion goal pursued by the programme. In total, 1,200 jobs should be created and 2,500 safeguarded, especially in technology but also in more conventional sectors such as crafts and retail. According to the MA, it is too early to demonstrate the actual job effects because all four funds are currently still in the implementation phase and no final examination has been made. A simple extrapolation estimate, based on data from the mid-term evaluation, suggests either moderate success or an over-optimistic ex-ante forecast. There is some preliminary indication that traditional grants are more effective in creating jobs.</p> <p>With respect to outcomes beyond financial absorption, there are major gaps in the result chain, which are partly due to data protection regulations. Positive effects on innovation capacity and the competitiveness of supported enterprises are assumed but cannot be assessed due to a lack of published data. Key stakeholders argue that all instruments have generated positive effects in addition to job creation; however, the evidence is too weak to prove any such effects.</p> <p>For the 'Investivkredit 100 Pro' loan fund (LfA), monitoring data and information are available on financial distribution across the target areas. There are also unofficial estimates of job effects per sector and gender. However, these are not sufficiently reliable. A first analysis, based on data from the mid-term evaluation, indicates that cost per job supported by the loan scheme is 2.9 times higher (EUR 696 000 per job) than one supported by the grant scheme (EUR 242 000 per job). The open question is therefore whether this can be comprehensively explained by systematic differences between grant recipients and loan recipients.</p> <p>In the 2011 mid-term evaluation, a counterfactual analysis was carried out on the employment effects of the FIs. The evaluators found some evidence that employment effects were significant for final recipients – but only those addressed by venture capital.</p> <p>In general, the mix of monitoring data and interview-based information on FI implementation suggests progress in terms of employment, sales/turnover and innovation capacity but due to the lack of micro-datasets on enterprises, such impacts cannot be quantified or precisely defined. It is not yet possible to show that FIs, notably loans, have encouraged more growth than traditional enterprise grants. In fact, preliminary early data extrapolation suggests the opposite. In order to shed light on this potential 'opportunity cost' issue, a detailed analysis of the different types of enterprises addressed by the different instruments is recommended, e.g. by cluster and MANOVA87/discriminant analysis in addition to a counterfactual comparison analysis.</p>
<p><b>HU: OP Economic Development</b></p>	<p>Programme- and priority-level indicators are poorly designed for almost all types of monitoring and strategic indicators. Values are missing in several AIRs for several indicators, for instance in the 2011 AIR for 'Access of financial mediation in the SME sector'. For 2007 and 2008 and there is no methodological guide on the meaning and interpretation of the values. During the interviews the MA and fund managers were obviously uncertain about indicators.</p>

	<p>It is hard to assess the effectiveness of the interventions in terms of result and impact indicators since all the FI schemes are still in progress (only 25% of the 14,000 transactions were closed by the end of 2014). Nevertheless, the official AIR 2014 reports on some of the result indicators – such as:</p> <p>the decrease in micro enterprises and SMEs without access to loans by 5.8% by 2013 under PA 4 (target value: 12.8 % decrease by 2015).</p> <p>improved access to financial mediation for SMEs by 4.2%points change in the share of SMEs having access by the end of 2013 (target: +10% points change by 2015).</p> <p>Unfortunately, the source of these data and the calculation methods are not clearly specified in the official reports. Nevertheless, the SMAF index for Hungary between 2007 and 2014 shows that the overall score for Hungary has improved, rising from 81 to 95. The SMAF debt sub-index and the SMAF equity finance sub-index performed even better, hitting the EU baseline in 2013 with a score of 103.</p> <p>These figures suggest a slow convergence in SME financing and a slowly closing gap in the Hungarian financial markets. Further analysis is required with regard to:</p> <p>(a) sustainability of the improvement in both the credit and equity financing indicators; and</p> <p>(b) the effective contribution that EDOP FIs generate in terms of growth and productivity at the micro enterprise level.</p> <p>Counterfactual impact assessments should answer these questions after the programme is closed.</p> <p>In our interviews, both government and market stakeholders emphasised the significant market-making effect generated by the venture capital funds and a potential market-clearing effect for SME microcredits. They also pointed to some indirect effects, such as the start-up network linked to the interventions, improved market know-how of FIs and positive perceptions of these instruments.</p>
<p><b>LT: OP Economic Growth</b></p>	<p>Key indicators reported by HF managers are the number of SMEs supported and private investment attracted.</p> <p>Up to the end of 2013, 4,720 SMEs benefited from FIs (83% of target and 7.2% of all SMEs in Lithuania). Loans and guarantees provided by FIs (both EU and private funds) made up 7.2% of the business loans from Lithuanian banks at the end of 2013.</p> <p>In general, effects on turnover, job creation, innovation capacity and competitiveness of final recipients have not been systematically measured due to gaps in the intervention logic of the FIs. Although some enterprises were able to improve technology and upgrade their business processes, FIs were extensively used for financing working capital.</p> <p>During the crisis, targeted selection of final recipients for FI support was abandoned in favour of a broad approach to help enterprises survive. Overall, only a minor share of investments was made in innovative enterprises. FIs were extensively used to finance working capital</p> <p>A 2014 evaluation of the impact of EU structural assistance on SMEs was the first to assess the impact of FIs in Lithuania. According to the counterfactual impact evaluation, only one of the two schemes analysed (‘investment credits provided under small loans to SMEs’ – Stage 2) significantly increased the number of employees and annual turnover of</p>

	final recipients. However, working capital credits provided under the same scheme did not have the same effect.
<b>PL: Malopolska ERDF ROP</b>	<p>The MROP reporting system includes three result indicators relevant for FIs, the value of loans or guarantees granted, the number of enterprises supported and jobs created. The latter only has data since 2012 and thus very likely underestimates the real job creation.</p> <p>There are no indicators which relate to the sectors of the final recipients, to investments induced or to SME turnover, which may impede assessment of the competitiveness outcomes of FI support.</p> <p>The FIs provided external finance for 287 SMEs up to the end of 2014, and 1,915 are expected by the end of 2015, which is 75% above the OP target. FI support led to loans and guarantees for SMEs of at least EUR 7.1 million. This is above the OP target of EUR 5.5 million. By the end of 2015, this value is expected to increase up to 8 times to EUR 48.9 million.</p> <p>By the end of 2014, 162 jobs had been created, which is around 20% of the target for all PA2 and matches the ERDF allocation to FIs of 21%. However, monitoring of jobs created by FI final recipients started only in 2012; therefore the reported value may underestimate the actual achievement. Measuring cost-effectiveness of different FIs is greatly distorted by shortcomings in reporting (underestimating jobs created, no turnover or Gross Value Added figures). The cost of one additional job varies within the loan instruments between EUR 45,000 and 300,000, with an average of over EUR 100,000, which is twice as much as the cost of an additional job in non-repayable support for SME investment (EUR 41,000).</p>

Source: Wislade, Michie, Familiari, Schneidewind and Resch, 2016 (edited extracts)

## Annex VI: European Parliament study on FIs for Energy Efficiency and Renewable Energy – indicators in the 2007-13 Case Study OPs

**Annex:**

<b>MS</b>	<b>OP/ESIF Fund</b>	<b>FI</b>	<b>Contribution to OP goals</b>
<b>Estonia</b>	OP for the Development of Living Environment (ERDF)	Renovation loan for apartment buildings	The main indicator used to measure FI performance was energy efficiency and how it reduced energy consumption.
<b>Slovakia</b>		JESSICA	Impact was determined by the following OP indicators, which contribute to energy savings and energy efficiency: Decrease in the energy intensity of renovated apartment buildings (in %); Decrease in the energy intensity of renovated apartment buildings (in kWh/m <sup>2</sup> ); Size of the renovated area (façade) of the apartment buildings(m <sup>2</sup> ); Annual energy savings through delivery of projects (GJ/year); Number of loans provided (total loans); Number of renovated apartment buildings (total buildings).
<b>Spain</b>	Ten regional ERDF OPs corresponding to several Spanish Autonomous Communities and Autonomous Cities	JESSICA FIDAE	Each OP had a slightly different approach, as each region varied in its needs and budget, and therefore in its priorities with regard to EE and renewable energy. Most OPs highlighted the need to bring about energy savings, promote EE and diversification of energy sources, both in production and geographic sourcing, and emphasise renewable energy in the energy production mix. The overarching policy challenge was alleviating Spain's foreign energy dependency. FIs played a minor role in most Spanish regions in 2007-13 and programming requirements for FIs were not as strict as in the 2014-20. This also applies to the indicators that would measure the impact of FIs. For example, for the Andalusia OP, where only one relevant indicator referred to renewable energy: Energy from renewable energy with respect to the total production (percent without hydraulic energy)      Reference value: 7.45% Target 2010: 15%, Target 2013: 21%
<b>UK</b>	East of England ERDF OP	Low Carbon Innovation Fund	The Fund reported against the following indicators: SMEs assisted (risk capital) Jobs created Jobs created (women)

MS	OP/ESIF Fund	FI	Contribution to OP goals
			Jobs safeguarded Jobs safeguarded (women) Successful innovation-related initiatives in SMEs Successful environmental-related initiatives in SMEs Successful start-up businesses Leverage of private sector funding (GBPm) Leverage of public sector funding (GBPm) New businesses integrating new products, processes or services. NB this FI was not categorised under Article 44(c) but rather under Article 44(a) as an FI for enterprise support.

Source: Wishlade, Michie and Vernon, 2017

## Annex VII: Quality Control

The main initial source of information for **FI data** is the country factsheets annexed to the 2017 summary report. However, this data must be treated with caution. Quality issues that could be problematic for the study are:

- Most countries show both zeros and blank spaces in the table. When computing ratios it is important to be sure that zero means zero and blank means missing data.
- Extreme values. Some financial instruments show values which are clearly impossible indicating some data errors. Errors may derive, for example, from comma/point issues or a failure to convert from a national currency system to Euros.
- The consortium is establishing modes of cross-checking the results in the tables to identify anomalies. Indication of possible errors could be when:
  - the “amounts of OP contributions paid to the fund” is smaller than “OP contributions invested in final recipients”
  - the sum of the specific funds under an OP is larger than the HF
  - the country total (calculated by the Commission) differs from the sum of each record.
  - The data recorded differs markedly in trends or patterns from that in previous years.

Data quality assurances and checks have been built into the **process of data collection**, including:

- A specific metadata and data template will be used by all individuals involved in the data gathering and management process, including a common template for standardized data collection procedures suitable for data collection at all NUTS levels (NUTS 0-3, i.e. ranging from national level to the most detailed regional level). The standardized metadata and data collection templates will build on the structure and information in existing databases, but bring in new variables where additional data is required. Furthermore, all data included in the new data collection will be harmonised and the data collection team will make sure that the data collected from different sources is comparable. A specific focus of the new data collection will be on assuring high quality metadata, so that all collected data can easily be traced to its original source, and that any information needed regarding harmonisation and data quality will be clearly stated. This will enable newly produced datasets to be built upon for future ESPON projects.
- A tracking sheet will be made available to all data gathering experts to be checked off during the data collection process to ensure a systematic basis for data collection.
- For regions which have experienced a boundary change, thus changing the boundaries of NUTS statistical units, values will be recalculated to produce coherent time-series.
- Key documents connected to data management (including data and metadata templates, notes on data, tracking sheets etc.) are available through a shared folder, so the task leads and data gathering experts involved have access to the same documents
- Sample checks of the collected data will be conducted to ensure the origin of the data (data source institution and correct variable), the quality of the collected data, and whether the data has been correctly populated in the data sheets.

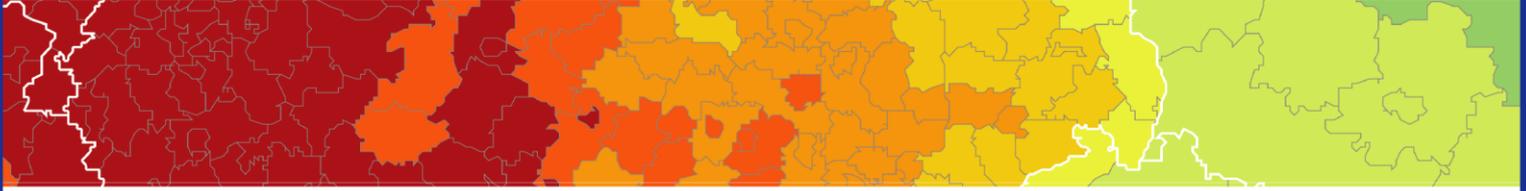
Regarding quality assurance in the conduct of **case studies**, in order to ensure and maintain the highest quality in research, the Senior Quality Control Advisor will observe the following principles:

- Documents must be clear, comprehensive, illustrative and to the point;
- All the relevant sources and evidence put forwards initially must have been taken into account; including research that challenges the case study team's own results;
- The results must be presented fully and with no bias;
- The deliverables must contain findings and recommendations that are i) clear, ii) policy-relevant, iii) consistent with other policy strategies, measures and actions at EU-level and iv) take into account the uncertainty inherent in any academic or scientific result.
- A full and clear description of the methodology must be provided, including any limitations of the research method, i.e. assumptions, difficulties, information gaps.

Another measure contributing to the quality of the case studies will be editorial review and proofreading by an in-house native English speaker. When the remarks of the peer review at consortium level are taken into consideration, the editorial and proofreading process will start:

- A linguistic expert will check the spelling as well as the wording and the overall language of the texts to be submitted.
- An editing and layout expert will ensure that each document is prepared in accordance with the editing style required by ESPON. Special focus will lie on the correct citation.

The contents produced in the framework of the case studies will be analysed by means of the methodology already highlighted in the technical offer, that is, with an evaluation matrix capturing the effects of financial instruments deployment on regional cohesion. In addition to project fiches for each of the case studies, policy-relevant conclusions to feed into Task 6 will be distilled with a SWOT matrix, as previously detailed.



### **ESPON 2020 – More information**

ESPON EGTC

4 rue Erasme, L-1468 Luxembourg - Grand Duchy of Luxembourg

Phone: +352 20 600 280

Email: [info@espon.eu](mailto:info@espon.eu)

[www.espon.eu](http://www.espon.eu), [Twitter](#), [LinkedIn](#), [YouTube](#)

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