EStIF

EUROPEAN STRUCTURAL AND INVESTMENT FUNDS JOURNAL

SPECIAL ISSUE ON FINANCIAL INSTRUMENTS

New Programming Period & Lessions Learnt

- The Use of Financial Instruments in European Structural and Investment Funds
  What are the Improvements in the Legal Framework for the Programming Period 2014-2020 from an Audit Perspective?
  Dennis Wernerus and Rares Rusanescu
- A Practical Approach to the Market Analysis Part of SME-Related *Ex-ante* Assessments
  Helmut Kraemer-Eis and Frank Lang
- The Role of Monitoring Committees in the Programming Period 2014-2020 of Cohesion Policy
  Nico Groenendijk and Milana Korotka

Management, Implementation & Control

- Financial Instruments and State Aid Rules for Risk Finance 2014-2020
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- Evaluation Capacity Building Process in Slovenia
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Practices & Experiences

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  Bottlenecks, Opportunities and Directions for the Future
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- Operating Experience with Regard to Assignment of Structural Funds in the Centru Region, Romania
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Editorial

Dear Readers,

This issue of our EStIF journal marks the first anniversary of its creation in 2013!

This is a good reason to celebrate and, more importantly, to thank the more than 40 experts who have contributed over the past year to this platform for exchanging ideas and knowledge on the European Structural and Investment Funds.

The date of publication of this third issue in 2014 also coincides with a major political event at EU level: The beginning of the new European Commission's work under President Jean-Claude Juncker.

The way in which this new body of Commissioners has been set up marks a clear break with previous practice, the intention of which is to change the manner in which regional and social policy is dealt with by the Commission. In addition to reporting to the Commissioners Corina Creţu and Marianne Thyssen, the Directorates-General for both Regional and Urban Policy, and Employment, Social Affairs and Inclusion will also have to report to nearly all the Vice-Presidents (with the exception of the First Vice-President and the High Representative).

The Juncker Commission has also declared that the Union will put in place a €300 billion investment programme to provide new impetus to the EU economy and stimulate private investment in the real economy. It can be expected that most of this will take the form of loans and guarantees, and increasing use will be made of financial instruments to disburse this money. The European Investment Bank (EIB) and the European Investment Fund (EIF) will play a key role in this regard.

Consequently, this issue of the EStIF journal focuses on financial instruments (FIs): Dennis Wernerus and Rares Rusanescu discuss the use of FIs in the programming period 2014-20 from an audit perspective, Helmut Krämer-Eis and Frank Lang share with us the EIF's experience of SME-related *ex-ante* assessments for FIs, and Phedon A. Nicolaides presents the relevance of State aid rules in setting up and managing FIs.

A Member State's perspective is also presented in the articles on implementing risk capital funds in the Italian region of Emilia Romagna written by Luigi Amati, Andrea Caddeo and Francesca Natali, and in Federica Fotino's article on the Italian experience of Joint European Support for Sustainable Investment in City Areas (JESSICA), which is aimed at facilitating investment in urban development through FIs.

This issue also contains articles dealing with Member States' first experiences of the preparation and setting-up of administrative arrangements for the programming period 2014-2020. Nico Groenendijk and Milana Korotka describe the role of monitoring committees in the Netherlands. Krunoslav Karlovčec presents his proposals regarding how evaluations might be carried out in Slovenia in the programming period 2014-2020. The article by Birgit Schliewenz shows the first operating experience with regard to the assignment of Structural Funds in Romania.

To sum up, the authors who have submitted articles for this third issue of the EStIF in 2014 have once again brought our attention to subjects that are highly relevant at this early stage in the programing period. In our view, this is the best possible anniversary gift to our journal!

We hope that you will find the articles equally interesting and we are looking forward, as always, to receiving your comments and suggestions.

Martin Weber

A Practical Approach to the Market Analysis Part of SME-Related *Ex-Ante* Assessments

*Helmut Kraemer-Eis and Frank Lang**

For the support of financial instruments in the 2014-2020 programming period ex-ante assessments have effectively become a mandatory prerequisite, and the main elements required are given by the Common Provisions Regulation (CPR). Guidance to managing authorities (MAs) is available through the ex-ante assessment methodology published by the European Commission. Since 2013, the European Investment Fund (EIF) has performed small and medium-sized enterprise (SME) related ex-ante assessments and we have published, for the market analysis part, "Guidelines for SME Access to Finance Market Assessments (GAFMA)". Both guidance documents provide a toolbox of good practices to managing authorities. In this article, we summarise the framework for ex-ante assessments and present the experiences that EIF has made so far in conducting ex-ante assessments, which can also be taken as helpful practical recommendations: It is useful to follow a standardised approach that is in line with good practice and has taken into consideration relevant legal requirements. If surveys are performed, the number of questions should be limited to those that are essential to obtain the information needed for the analysis. Whenever a financing gap is quantified, the assumptions, on which the estimations are based, should be made transparent and the results should be interpreted with the necessary care. In addition, different tools should be applied in parallel when performing a market assessment.

I. Starting Points

For the current programming period it is a political aim to deliver more funding under the European Structural and Investment Funds (ESIF) through financial instruments. This is also reflected in the related legislative environment. Both the multiannual financial framework (MFF) and ESIF policy frameworks "emphasise the need for more use of financial instruments (...), particularly in a context of fiscal retrenchment."[1] Indeed, "(f)inancial instruments can be valuable in multiplying the effect of Union funds when those funds are pooled with other funds and include a leverage effect."[2]

For the support of financial instruments *ex-ante* assessments have *de facto* become a mandatory

* Dr. Helmut Kraemer-Eis, Head of Research & Market Analysis, European Investment Fund (EIF). Dr. Frank Lang, Senior Manager, Research & Market Analysis, EIF. This Article should not be referred to as representing the views of the EIF or of the European Investment Bank Group (EIB Group). Any views expressed herein, including interpretation(s) of regulations, reflect the current views of the author(s), which do not necessarily correspond to the views of EIF or of the EIB Group. Views expressed herein may differ from views set out in other documents, including similar research papers, published by EIF or by the EIB Group. Contents of this Article, including views expressed, are current at the date of drafting, and may change without notice. No representation or warranty, express or implied, is or will be made and no liability or responsibility is or will be accepted by EIF or by the EIB Group in respect of the accuracy or completeness of the information contained herein and any such liability is expressly disclaimed. Nothing in this Article constitutes investment, legal, or tax advice, nor shall be relied upon as such advice. Specific professional advice should always be sought separately before taking any action based on this Article.

1 See European Commission, *Financial instruments in ESIF programmes 2014-2020 – A short reference guide for managing authorities* (Ref. Ares(2014)401557 - 18/02/2014), available online at <http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf>, accessed at 29 September 2014, p. 3. According to the same source, "(h)owever, the only specific target set is that in the October 2013 European Council (significant increase for all countries compared to 2007-2013 period and doubling amounts of ESIF support delivered to SMEs through financial instruments in programme countries)."

2 Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ 2012 L 298/14, Recital 52.

prerequisite under the Common Provisions Regulation for the 2014-2020 programming period, in contrast to the voluntary gap analyses of the 2007-2013 programming period. In order to provide the managing authorities with guidance on how to conduct the *ex-ante* assessments, the European Commission recently published an "*Ex-ante* assessment methodology for financial instruments in the 2014-2020 programming period" (*Ex-ante* assessment methodology). This methodology proposes to split the CPR requirements for an *ex-ante* assessment into a "market assessment" and an "implementation and delivery" building block.[3] A similar approach has been introduced and applied in practice by the EIF.

The EIF is the European body specialised in SME risk financing.[4] As a preparatory exercise for the set-up of financial instruments in the current programming period and based on its good relationships to managing authorities in Europe, the EIF has performed SME-related *ex-ante* assessments on behalf of several MAs.[5]

In EIF's interpretation, the "market assessment" building block has been defined following the CPR requirement of "an analysis of market failures, sub-optimal investment situations, and investment needs for policy areas and thematic objectives or investment priorities to be addressed with a view to contributing to the achievement of specific objectives set out under a priority and to be supported through financial instruments".[6] For this building block, we developed "Guidelines for SME Access to Finance Market Assessments (GAFMA)" in EIF's Research & Market Analysis (RMA),[7] which are "based on available good practices methodology",[8] as required by the regulation.

The EIF also contributed to the SME-related part of the above-mentioned project to establish the *ex-ante* assessment methodology published by the Commission.

In this article, we provide an overview of approaches to perform *ex-ante* assessments in practice. We mainly cover the market analysis part of SME-related assessments, based on our experience at EIF's RMA. We start with a short description of the legal background, followed by a brief introduction to the "*Ex-ante* assessment methodology for financial instruments in the 2014-2020 programming period". We give particular emphasis on Volume III, which is dedicated to Thematic Objective 3 ("enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF)").[9] The main part of the article encompasses a description of EIF's approach to SME-related *ex-ante* assessments, thereby focussing on the market analysis part, i.e. the "SME Access to Finance Market Assessments (AFMA)". We then give an overview of EIF's experiences gathered in the AFMAs that have been conducted so far. At the end of the article, we summarise our conclusions and recommendations.

II. The Background: *Ex-ante* Assessments in the Regulation for the Programming Period 2014-2020

Financial instruments are defined as being "Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or

3 See *Ex-ante assessment methodology for financial instruments in the programming period 2014-2020, Volume I: General methodology covering all thematic objectives, Version 1.2 - April 2014*, Study commissioned by the EIB, co-financed by DG REGIO and assigned to the consortium led by PwC, available at <http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/ex_ante_vol1.pdf>, accessed at 29 September 2014, p. 12.

4 The EIF is part of the European Investment Bank (EIB) group and has a unique combination of public and private shareholders. It is owned by the EIB, the EU - through the European Commission - and a number of public and private financial institutions. EIF's central mission is to support Europe's SMEs by helping them to access finance. EIF primarily designs and develops venture capital and guarantees instruments which specifically target this market segment. In this role, EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth, and employment. See for more information about EIF the website <www.eif.org.>.

5 Please note that a centralisation of *ex-ante* assessment services at EIB for the EIB Group (including EIB and EIF) is in preparation.

6 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, OJ 2013 L 347/358, Article 37 (2).

7 The GAFMA is published as an EIF Working Paper. See H. Kraemer-Eis and F. Lang, *Guidelines for SME Access to Finance Market Assessments (GAFMA)*, EIF Working Paper 2014/22, available at <www.eif.org/news_centre/publications/eif_wp_22_gafma_april14_fv.pdf>, accessed at 29 September 2014.

8 Art. 37(2) Common Provisions Reg. (fn. 6).

9 Art. 9 Common Provisions Reg. (fn. 6).

quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants".[10] Further applicable definitions and the specific provisions on financial instruments are set out in a number of legal bases: The Financial Regulation and its Implementing Rules, the CPR, delegated and implementing acts linked to the relevant articles of this Regulation, the ESIF-specific regulations, the applicable State aid framework, and in the Fund-specific regulations and applicable horizontal regulations.[11]

According to the CPR for the 2014-2020 programming period, "(s)upport of financial instruments shall be based on an *ex-ante* assessment which has established evidence of market failures or suboptimal investment situations, and the estimated level and scope of public investment needs, including types of financial instruments to be supported."[12] The requirements for an *ex-ante* assessment are mainly stated in Article 37 (2) of the CPR. We list these requirements in table 2 in chapter III. (In addition, table 2 also depicts two proposals to allocate these requirements to two potential building blocks of an *ex-ante* assessment, which are described in more detail in chapter III).

The *ex-ante* assessment is necessary for the setting up or the continuation of a financial instrument as far as it comprises a contribution from ESIF 2014-2020.[13] However, the *ex-ante* assessment "should not be confused with the *ex-ante* evaluation, which is part of programming".[14] Details of the *ex-ante* evaluations are laid down in Article 55 of the CPR.

III. The *Ex-ante* Assessment Methodology – With a Particular Focus on SME-related *Ex-ante* Assessments

According to its authors, the recently published "*Ex-ante* assessment methodology for financial instruments in the 2014-2020 programming period (...) is a reply of the Commission to the frequent questions from the managing authorities on the particular elements of the *ex-ante* assessment included in Article 37 (2) of the CPR." The methodology "is intended as a toolbox encompassing good practices and providing practical guidance to managing authorities in the preparation and the realisation of the *ex-ante* assessment of the financial instrument (FI) envisaged in the Programme(s)".[15] Managing authorities can "use that methodology or apply any high quality methodology which provides the elements mentioned in the Regulation."[16]

Ex-ante assessments of financial instruments that are mainly targeting SMEs are covered in Volume III of the *ex-ante* assessment methodology which is "dedicated to Thematic Objective 3, notably: 'Enhancing the competitiveness of SME, including agriculture, microcredit and fisheries'". However, it "should be used in conjunction with Volume I", which provides descriptions and tools "dedicated to the General Methodology covering all Thematic Objectives".[17]

According to the *ex-ante* assessment methodology, the requirements of Article 37 (2) can be split into two building blocks, namely "market assessment" and "implementation and delivery"; both building blocks shall facilitate the development of *ex-ante* assessments.[18] A similar approach has been applied in SME-related *ex-ante* assessments by the EIF and is described in the next chapter. Indeed, the EIF had already started to perform *ex-ante* assessments before the *ex-ante* assessment methodology was published. Important parts of EIF's approach are described in the GAFMA, which itself then formed a basis for the *ex-ante* assessment methodology (see chapter IV.2 for further details). Both, the approach described in the *ex-ante* assessment methodology and the GAFMA, were drafted taking into consideration the

10 Art. 2 (p) Financial Reg. (fn. 2).

11 See European Commission, *Financial instruments in ESIF programmes 2014-2020* (fn. 1) p. 2.

12 Art. 37(2) Common Provisions Reg. (fn. 6). Please note that, for consistency reasons, we used the spelling "*ex-ante*" and not "ex ante" and that we corrected the spellings accordingly in citations.

13 *Ex-ante assessment methodology Vol. I General Methodology* (fn. 3) p. 11.

14 European Commission, *Financial instruments in ESIF programmes 2014-2020* (fn. 1) p. 8.

15 *Ex-ante assessment methodology Vol. I General Methodology* (fn. 3) p. 11.

16 European Commission, *Financial instruments in ESIF programmes 2014-2020* (fn. 1) p. 9.

17 *Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period, Volume III: Enhancing the competitiveness of SME, including agriculture, microcredit and fisheries (Thematic objective 3), Version 1.2 - April 2014*, Study commissioned by the EIB, co-financed by DG REGIO and assigned to the consortium led by PwC, available online at <http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/ex_ante_vol3.pdf>, accessed at 29 September 2014, pp. 11-12.

18 See *Ex-ante assessment methodology Vol. I General Methodology* (fn. 3) p. 12.

Table 1: A comparison of the ex-ante assessment methodology and the GAFMA approach

	GAFMA approach	*Ex-ante* assessment methodology
Coverage of Thematic Objectives (TOs)	TO 3 (SMEs)	In principle all TOs (although specific methodologies not yet published for all TOs)
Building blocks	Split of *ex-ante* assessment in 2 Building blocks,although differences in interpretation of what should be covered where (see Table 2)	
	"SME Access to Finance Market Assessment (AFMA)" and "Proposed Investment Strategy (PIS)"	"market assessment" and "implementation and delivery"
Methodological description	Detailed description of a methodology for the market assessment part (GAFMA) as a basis for the remaining parts (PIS) of the *ex-ante* assessment	Description of a methodology for all parts of the *ex-ante* assessment; the market assessment part, in particular, has been based on the GAFMA
	High level of detail, description of different methodological approaches and analytic tools, examples and literature recommendations for the market analysis (AFMA) part	Less detail for the market analysis part (when compared to the GAFMA), but the methodology description also covers the delivery and implementation part
Tools suggested for the market analysis part for TO3	Similar analytic tools, although different naming	
	•Indicators •Peer Group Analyses (benchmarking) •Stakeholder interviews and surveys among SMEs	•Literature review and data gathering (incl. benchmarking) •Stakeholder interviews •Online surveys among SMEs
Implementation	Implemented in practice since 2013	Implementation possible for all MAs since its publication (May 2014)

Sources: Ex-ante assessment methodology Vol. I General Methodology (fn. 3), Ex-ante assessment methodology Vol. III Enhancing the competitiveness of SME (fn. 17), and Kraemer-Eis and Lang (fn. 7).

legal requirements. However, there are differences between the two. Table 1 provides a brief overview. Details are explained throughout the following chapters.

The split of the *ex-ante* assessment in two building blocks is not a legal requirement, which implies that the content of each part is not described in the regulation, but has been applied for practical purposes (see chapter IV). Therefore, the interpretation which regulatory clauses should be covered in which building block differs between both approaches. While the *ex-ante* assessment methodology proposes to include the requirements of Article 37 (2) (a) - (d) of the CPR into the market assessment block and the requirements of Article 37 (2) (e) - (g) into the implementation and delivery block, we introduced a different split in the GAFMA. In our view, the market assessment should only cover "an analysis of market failures, suboptimal investment situations, and investment needs" as described in Article (37) (2) (a) and "an assessment of lessons learnt" as described in parts of Article (37) (2) (d), because all other parts of Article (37) (2) are related to the specific financial instrument that is intended to be established, hence, in our view, related to the implementation and delivery of the instrument. In particular, two parts that are proposed by the *ex-ante* methodology to be included into the market assessment block, namely the "assessment of the added value of the financial instruments that are being considered for support from the ESI Funds (...)", as required by parts of Article 37 (2) (b), and the "expected leverage effect", as required by parts of Article 37 (2) (c), are not covered by the AFMAs, which have been con-

ducted on behalf of EIF following the GAFMA. Rather, they are covered in the "Proposed Investment Strategy (PIS)" which is the second building block, related to delivery and management of *ex-ante* assessments conducted on behalf of EIF.

An overview of the similarities and differences of the two approaches to split an *ex-ante* assessment in two parts is given in Table 2 (on the next page).

In practice, the differences in approach lead to a strong emphasis of the *ex-ante* assessments conducted on behalf of EIF on the market analysis part, as a basis for the further considerations of the *ex-ante* assessment. These analyses are typically founded on a comprehensive gathering of available information on SMEs and the financing means that are available in the respective country and/or region. The typical result is a detailed insight into SMEs' access to finance, which can also be exploited or reused for other parts of the *ex-ante* assessment and can even form helpful input for other studies on SMEs' finance.

IV. The GAFMA Approach to the Market Analysis Part of SME-related *Ex-ante* Assessments: "SME Access to Finance Market Assessments (AFMA)"

1. Two Components of an *Ex-ante* Assessment

In the evaluation phase (2006-2008) of the previous programming period, the European Commission had provided funds to the EIF to produce evaluation reports to assess the financing needs of SMEs in Member States/regions. By the end of 2008, the EIF had completed 55 evaluation studies in 21 Member States, often with the help of the national development agencies or consultants, at national or regional level, and many of them following different approaches.[19] For the current programming period, the purpose of setting up the GAFMA was to provide one consistent approach and a standard structure for AFMAs.[20] Based on the GAFMA (for the market analysis part), EIF has already performed several SME-related *ex-ante* assessments.

The GAFMA approach considers the *ex-ante* assessments to be composed of two components: A market assessment part, which is named "SME Access to Finance Market Assessment (AFMA)", and a proposed investment strategy (PIS) part. Please note that, following this approach, the GAFMA uses the term PIS in a broader sense than the CPR and considers it to contain the "proposed investment strategy" as outlined in the CPR, Article 37 (2) (e), but also other items required by the CPR, Article 37 (2) (See for details the previous chapter).

The AFMA is the market analysis part of an (SME-related) *ex-ante* assessment, as described in Article 37 (2) (a) of the CPR.[21] In the AFMAs which are conducted by EIF or on behalf of EIF, recommendations regarding the details (e.g. size, allocation, potential intermediaries) and management of appropriate financial instruments/investment strategies (e.g. fund of funds) to tackle possible SME financing market gaps or weaknesses are not included as part of the market assessment. Rather, this more operational task is left to the PIS, being a separate document. The preparation of the PIS is not included in the realisation of an AFMA, but the PIS is based on the AFMA findings. Nevertheless, the AFMA structure includes a discussion of the priorities which should be applied when tackling the financing gaps that were possibly identified in the AFMA (i.e. a suggested hierarchy of the gaps) in the summary of findings and conclusions.

With this approach, the AFMAs can be conducted more independently from the implementation of future financial instruments and reduce a perceived conflict of interest. At the EIF the two parts – AFMA and PIS – are managed by two different teams: Research & Market Analysis (RMA) for the AFMA, and a dedicated project team for the PIS in order to ensure a segregation of duties and independence of the market assessment from the operational proposals and activities.

In order to be capable to prepare a possibly high number of AFMA reports in parallel, EIF has conducted an open call for tender process through the Official Journal of the EU to select one or more

19 See for more information about the so-called "gap analyses" conducted by EIF and related to the previous programming period: European Investment Fund, *Executive Summaries of Evaluation Studies on SME Access to Finance in EU Member States/Regions carried out by EIF in the Context of the JEREMIE (Joint European Resources for Micro to Medium Enterprises) Initiative from 2006 to 2008*, 1 March 2009, available online at <http://ec.europa.eu/regional_policy/archive/funds/2007/jjj/doc/pdf/jeremie_sme_access.pdf>, accessed at 29 September 2014.

20 See Kraemer-Eis and Lang (fn. 7) p. 5.

21 Kraemer-Eis and Lang (fn. 7) pp. 44-45 show in more detail which parts of the CPR, Art. 37 (2), are covered in the AFMA and which parts are covered in the PIS.

Table 2: Building blocks of an ex-ante assessment

CPR Art. 37 paragraph / clause		EIF's approach: Covered in AFMA and / or PIS	*Ex-ante* assessment methodology
No.	Content		
2	Support of financial instruments shall be based on an *ex ante* assessment which has established evidence of market failures or suboptimal investment situations, and the estimated level and scope of public investment needs, including types of financial instruments to be supported. Such *ex ante* assessment shall include:	AFMA and PIS	
2 (a)	an analysis of market failures, suboptimal investment situations, and investment needs for policy areas and thematic objectives or investment priorities to be addressed with a view to contributing to the achievement of specific objectives set out under a priority and to be supported through financial instruments.	AFMA (and PIS)	market assessment
	That analysis shall be based on available good practices methodology;	AFMA and PIS	
2 (b)	an assessment of the added value of the financial instruments that are being considered for support from the ESI Funds, consistency with other forms of public intervention addressing the same market, possible State aid implications, the proportionality of the envisaged intervention and measures to minimise market distortion;	PIS	
2 (c)	an estimate of additional public and private resources to be potentially raised by the financial instrument down to the level of the final recipient (expected leverage effect), including as appropriate an assessment of the need for, and level of, preferential remuneration to attract counterpart resources from private investors and/or a description of the mechanisms which will be used to establish the need for, and extent of, such preferential remuneration, such as a competitive or appropriately independent assessment process;	PIS	
2 (d)	an assessment of lessons learnt from similar instruments and *ex ante* assessments carried out by the Member State in the past, (...)	AFMA	
	(2 (d) *continued*) (...)and how such lessons will be applied in the future;	PIS	
2 (e)	the proposed investment strategy, including an examination of options for implementation arrangements within the meaning of Article 38, financial products to be offered, final recipients targeted and envisaged combination with grant support as appropriate;	PIS	implementation and delivery
2 (f)	a specification of the expected results and how the financial instrument concerned is expected to contribute to the achievement of the specific objectives set out under the relevant priority including indicators for that contribution;	PIS	
2 (g)	provisions allowing for the *ex ante* assessment to be reviewed and updated as required during the implementation of any financial instrument which has been implemented based upon such assessment, where during the implementation phase, the managing authority considers that the *ex ante* assessment may no longer accurately represent the market conditions existing at the time of implementation.	Member State / region would need to make another request (unless covered under funding agreement)	

3.	The *ex ante* assessment referred to in paragraph 2 may be performed in stages. It shall, in any event, be completed before the managing authority decides to make programme contributions to a financial instrument.	n/a	
	The summary findings and conclusions of *ex ante* assessments in relation to financial instruments shall be published within three months of their date of finalisation.	AFMA and PIS Member State / region responsibility.	
	The *ex ante* assessment shall be submitted to the monitoring committee for information purposes in accordance with the Fund-specific rules.	Member State / region responsibility.	
	(More conditions related to financial instruments are in the regulation.)	PIS	

Sources: Ex-ante assessment methodology Vol. I General Methodology (fn. 3) p. 12 and Kraemer-Eis and Lang (fn. 7) pp. 44-45.

Country Assessment Service Providers (CASPs) and a Report Editor Service Provider (RESP). The call for tenders was published in August 2012. The contract award notice was published in February 2013. The CASP performs the analyses and produces the AFMA reports. The RESP, reporting to RMA, has a coordination/control function (consistency and quality assurance). CASP and RESP work according to the standards established by RMA. RMA supervises the process, performs the final quality checks and instructs/advises the RESP and the CASP as necessary.[22]

This process is in line with the European Commission's guidance that "(t)he MA has the choice between carrying out the work itself and externalising it, although it would seem that generally a consultant will be needed for reasons of administrative capacity, expertise and independence of assessment."[23]

2. The Guidelines for AFMAs (GAFMA)

a. The Purpose of the GAFMA

The GAFMA provides guiding principles and typical approaches for AFMAs from our perspective. These guidelines have been prepared as a benchmark for EIF's own use and for service providers conducting AFMAs on behalf of EIF, thereby ensuring a consistent structure and quality of the analyses. It can also provide guidance to market analysts who perform assessments outside the EIF framework. However, it has to be underlined that the GAFMA "has been prepared taking into consideration the requirements of the Common Provisions Regulation (Article 37(2)) (...), but the guidelines cannot guarantee that the AFMA reports, using them as a basis, finally fulfill these requirements."

The GAFMA explains the AFMA framework, its structure and its various analytical tools and it provides many relevant information sources. The GAFMA is not to be seen as the assumption of the only way, but as a pragmatic approach, to analyse SMEs' access to finance.[24] It has benefited, inter alia, from EIF's experience in producing evaluation reports to assess SMEs' financing needs in many EU Member States and regions during the JEREMIE evaluation phase, and has taken into account the related reports of the European Court of Auditors and of an EIB evaluation.[25]

EIF's approach to *ex-ante* assessments and the GAFMA are to a large extent related to the *ex-ante* assessment methodology described in the previous chapter. The EIF was deeply involved in the project to establish the *ex-ante* assessment methodology:

22 See, also for more details, Kraemer-Eis and Lang (fn. 7) pp. 45-46.

23 European Commission, *Financial instruments in ESIF programmes 2014-2020* (fn. 1) p. 9.

24 See Kraemer-Eis and Lang (fn. 7) p. 3.

25 See for more information Kraemer-Eis and Lang (fn. 7) pp. 5-7, European Court of Auditors, *Special Report No 2/2012 : Financial instruments for SMEs co-financed by the European Regional Development Fund,* available online at <www.eca.europa.eu/Lists/ECADocuments/SR12_02/SR12_02_EN.PDF>, accessed at 29 September 2014, and B. De Laat, S. Richards, and I. Yong-Prötzel, *Ex Post Evaluation of JEREMIE 'Evaluation Phase' as it relates to the EIF,* Operations Evaluation, Synthesis Report, April 2011, available online at <www.eib.org/infocentre/publications/all/ex-post-evaluation-of-the-jeremie-evaluation-phase-as-it-relates-to-eif.htm>, accessed at 29 September 2014.

"The *Ex-ante* assessment methodology was written by the consultancy company PwC in a project with shared supervisory responsibilities of the European Commission, the EIB and the EIF. The lead responsibilities for preparing the above-mentioned documents were with all three parties for Volume I and with the EIF for Volume III."[26] Moreover, chapter 3 ("Analysis of market failures, suboptimal investment situations and investment needs") is not only covering the AFMA part of EIF's approach, but it "is based on the logic and the tools of the (...) GAFMA".[27] Chapter 3 and the GAFMA are "consistent with the approach presented in the General Methodology" and the operational tools proposed in the *ex-ante* assessment methodology are similar to those mentioned in the GAFMA.[28]

b. The Content of the GAFMA

Similar to the *ex-ante* assessment methodology, the GAFMA is "a toolbox encompassing good practices and providing practical guidance to perform *ex-ante* SME finance market assessments". The application of the toolbox depends, inter alia, on the focus of the analysis (e.g. national versus regional), data availability, time and resources.[29]

The GAFMA provides, inter alia, a standard structure for an AFMA report and analytical tools that are recommended to be used for an SME access to finance market assessment. As the purpose of the AFMA is to be the basis for a proposal of one or more financial instruments in the PIS document, the market analysis part of the AFMA standard structure is ordered by the different financial products that can typically be provided to SMEs. The AFMA standard structure, as per the GAFMA, is presented in Table 3 (see Annex).

The purpose of an *ex-ante* market assessment following the GAFMA is to identify and, if and where possible, quantify the market failures or suboptimal investment situations, and investment needs. To this end, the GAFMA proposes two good practice concepts: (a) assessing financing gaps for different segments of the markets for SME financing, and (b) an analysis of market weaknesses and the application of peer group analyses (PGA).[30] For the assessment of an SME financing gap, there exist different concepts that could be applied. The GAFMA proposes an analysis of supply and expected demand, which is then followed by an assessment of bankable (or eligible or viable) demand. In the *ex-ante* assessments that so far have been conducted on behalf of EIF, the quantification of demand has been calculated, for most of the SME financing instruments, based on the results of a survey among SMEs. In addition, an assessment of financing gaps for "viable companies" has been applied, using positive turnover growth as a viability proxy, following the methodology applied by the European Commission in the recent *ex-ante* assessment of the EU SME Initiative.[31]

However, there are various theoretical, conceptual and practical problems in assessing an SME financing gap. Therefore, the GAFMA recommends that an AFMA report should also provide, in addition to the identification and possibly quantification of potential financing gaps, qualitative information on SME finance market weaknesses, which go beyond the presentation of a pure gap figure.[32]

As regards operational tools for the analysis of SME access to finance market gaps and weaknesses, the *ex-ante* assessment methodology proposes a triangulation which includes a literature review and data gathering, stakeholder interviews and online surveys addressed to SMEs.[33] Similarly, the GAFMA

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26 Kraemer-Eis and Lang (fn. 7) p. 47.

27 *Ex-ante assessment methodology Vol. III Enhancing the competitiveness of SME* (fn. 17) p. 16.

28 See Kraemer-Eis and Lang (fn. 7) p. 47-49 for a more detailed overview of how the GAFMA and EIF's approach to offer *ex-ante* assessment services fit into the structure and content of the *ex-ante* assessment methodology.

29 See, also for more information, Kraemer-Eis and Lang (fn. 7) p. 3 and p. 6.

30 In the context of an AFMA report, a PGA is meant as "a comparison of relevant indicators (…) for the country/region under consideration and the values of the same indicators for other countries (or regions) in a comparable economic and financial situation." See Kraemer-Eis and Lang (fn. 7) p. 20. Please note, that the "benchmarking" and "comparison of indicators between countries and/or regions" approach, which is described in the *ex-ante* assessment methodology, "is similar to the Peer-Group-Analysis (PGA) approach mentioned in the GAFMA." See *Ex-ante assessment methodology Vol. III Enhancing the competitiveness of SME* (fn. 17) p. 29.

31 See Commission Staff Working Document SWD(2013) 517 final, 05.12.2013, Part 1/2 available online at <http://edz.bib.uni-mannheim.de/edz/pdf/swd/2013/swd-2013-0517-1-en.pdf>, Part 2/2 available online at <http://www.parlament.gv.at/PAKT/EU/XXV/EU/00/60/EU_06000/imfname_10426876.pdf>, both accessed at 29 September 2014. See also Kraemer-Eis and Lang (fn. 7) pp. 50-51 for an overview of the methodology used in the *ex-ante* assessment of the EU SME Initiative.

32 See Kraemer-Eis and Lang (fn. 7) pp. 8-13 for a more detailed description and discussion of the methodological concepts proposed in the GAFMA, including their limitations.

33 *Ex-ante assessment methodology Vol. III Enhancing the competitiveness of SME* (fn. 17) p. 28.

recommends using the tools indicators, surveys, stakeholder interviews, and PGAs.

V. Practical Experiences

EIF has so far conducted or is currently conducting AFMAs in Romania, Bulgaria, Malta, Slovakia, and in the French regions of Rhône-Alpes, Languedoc-Roussillon and Lorraine; in addition, EIF has received interest from additional MAs. Until now, we can already summarise several experiences:

Experience 1: Standardisation is Helpful (Even If Possible to a Certain Extent Only)

In order to streamline the process of managing AFMA projects for several MAs at the same time, EIF tried to standardise the approach to perform an AFMA as far as possible, e.g. by setting up the GAFMA. However, in the process of offering AFMA services to various MAs in Europe, each MA typically had its own view of how the market assessment should look like and what should be included in it. However, these views typically went beyond the requirements set out in the CPR (see Experience 2). Of course, each country/region in Europe differs from the others, and this has to be reflected in the AFMA analysis. However, the basic structure of the analysis and the report should be in line with a good practice approach that has been set up explicitly taking into consideration the requirements of Article 37 (2) of the CPR. Following an approach that has already been applied before can also speed up the process of performing the AFMA (and the preparatory works to set-up the related contracts).

Experience 2: The Purpose of an AFMA Is an AFMA

As said above, in the discussions with EIF, each MA typically had its own opinion of how the market assessment should look like and what should be included in it. However, these views often went beyond the legal requirements for an *ex-ante* assessment and were more of a "what we always wanted to know" type. For example, some MAs asked for including analyses that would have had the character of an *ex-post* evaluation. Even if "an analysis of market failures, suboptimal investment situations, and investment needs", which is required according to Article 37 (2) (a), certainly benefits from a look at experiences with existing financing instruments, and Article 37 (2) (d) asks for "an assessment of lessons learnt from similar instruments", this does not mean that the service provider can include a detailed *ex-post* evaluation of existing instruments into the *ex-ante* assessment.

Experience 3: An SME Survey Cannot Cover Everything

As mentioned above and as stated in the *ex-ante* assessment methodology and the GAFMA, surveys among SMEs are a good practice tool to explore the situation and needs of the (potential) final beneficiaries of financial instruments. However, one precondition to achieve a satisfactory number of responses is the restriction of the length of the survey questionnaire. Therefore, it is necessary to limit the questions to those that are essential to obtain the information that is really needed for the AFMA analysis.

In addition, the often limited number of responses of SME surveys can lead to restrictions in terms of representativeness if statements are made for SMEs with several characteristics at the same time (e.g. in terms of sector, size, and geography, such as the average size of loans obtained by micro-enterprises in the health service sector in a specific sub-region).

Experience 4: Quantification Results Should Be Interpreted with Care

An AFMA includes the identification of market failures or suboptimal investment situations, and investment needs, but also their quantification – if and where possible. This is in line with the European Court of Auditors statement that "(w)hen proposing financial engineering measures, the managing authorities should make sure that their proposal is duly justified by an SME gap assessment of sufficient quality, including a quantified analysis of the financing gap."[34]

However, the quantification of an SME financing market gap will always only be possible as a rough

34 European Court of Auditors Special Report No 2/2012 (fn. 25) pp. 10 and 42.

estimation or indication, and the size of the estimated gap will always depend on reasonable assumptions.[35] If different assumptions are applied, the size of the gap estimation might change substantially. Therefore, it is necessary to make transparent the assumptions, on which the gap estimation is based and how the change of the assumption might impact the gap estimation (sensitivity analysis). Moreover, it is advisable to apply different analytic tools when assessing a financing gap.

Experience 5: A Combination of Different Tools Should Be Applied

As quantification has to be interpreted with care, it is recommended to also apply other tools, e.g. those proposed in the "toolboxes" of the GAFMA and of the *ex-ante* assessment methodology, in order to substantiate the results and policy recommendations. For example, information gathered from previous studies and evaluation reports could support the findings of the AFMA analysis. PGAs can provide additional hints to identify a market weakness or a financing gap, if strong deviations in the performance of a particular SME financing market segment in a given country/region compared to its peer countries/regions are detected. Finally, interviews with relevant stakeholders can help to confirm the views derived from a purely indicator- and/or survey-based gap assessment. The combination of different tools reduces the dependence of the market assessment on only one instrument of the analysis; otherwise, the results might be highly sensitive to the underlying assumptions.

VI. Summarising Conclusions and Recommendations

In this article it is summarized the framework for *ex-ante* assessments in the 2014-2020 programming period and presented several experiences that EIF has made so far in conducting *ex-ante* assessments on behalf of MAs in Europe. These experiences can also be taken as practical recommendations which might be helpful for other MAs.

Ex-ante assessments have effectively become a mandatory prerequisite for the support of financial instruments in the 2014-2020 programming period. The main elements that are required by the regulation are described in Article 37 (2) of the CPR. Further guidance to MAs is available through the *ex-ante* assessment methodology which was recently published by the European Commission. The EIF has already performed SME-related *ex-ante* assessments for MAs in Europe. Both, the *ex-ante* assessment methodology and EIF's approach split the *ex-ante* assessment into two building blocks. For the market analysis part, the GAFMA was published as an EIF Working Paper; it is consistent with the related part of the *ex-ante* methodology, but provides a more detailed description and discussion of several methods, tools and literature. However, both guidance documents are to be seen as a toolbox of good practices rather than the only approach to *ex-ante* assessments, as MAs could also use other high quality methods which are in line with the regulation.

In order to identify and, if and where possible, quantify the market failures or suboptimal investment situations, and investment needs, the GAFMA proposes two good practice concepts: (a) assessing financing gaps for different segments of the markets for SME financing, and (b) an analysis of market weaknesses (including the application of PGAs). Both, the *ex-ante* assessment methodology and the GAFMA propose to apply a triangulation of tools, including a literature review and data gathering/indicator analysis, stakeholder interviews and online surveys addressed to SMEs, and benchmarking/PGA.

In conducting SME-related *ex-ante* assessments the EIF has so far made several key experiences: It is helpful to follow a standardised approach that is in line with good practice and has taken into consideration relevant legal requirements, such as outlined by the *ex-ante* assessment methodology and, as regards access to finance of SMEs, EIF's approach. Therefore, it is not recommended to include a "wish list" type of elements into an *ex-ante* assessment that are not required by the regulation. If surveys are performed in the market analysis, it is useful to limit the number of questions to those that are essential to obtain the information needed for the analysis. Whenever a financing gap quantification is applied, the assumptions, on which the estimations are based, should be made transparent and the results should be interpreted with the necessary care. In addition,

35 Kraemer-Eis and Lang (fn. 7) p. 7.

different tools should be applied when assessing a financing gap, e.g. as described in the *ex-ante* assessment methodology and in our GAFMA.

VII. Annex

Table 3: Standard Structure of an AFMA as per the GAFMA

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Source: Kraemer-Eis and Lang (fn. 7) pp. 25-26.

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