Assignment 29:
Strategic UDF Investing and Project Structuring

Appendix 1:

Financial Instruments Guide: Setting up and implementing Financial Instruments

Assignment 29 –
Strategic UDF Investing and Project Structuring

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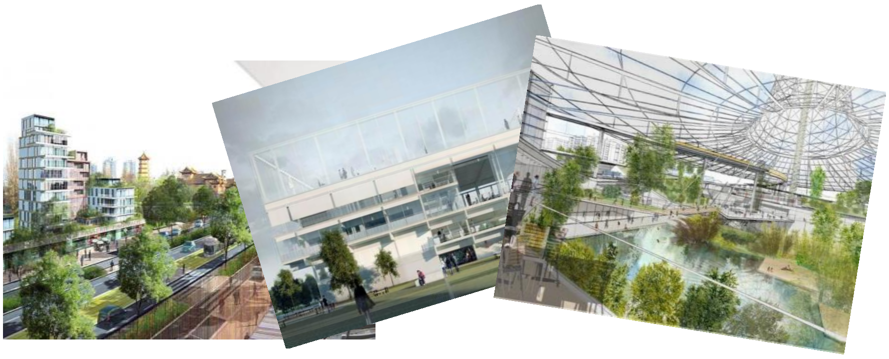

FINANCIAL INSTRUMENTS GUIDE:

Setting up and implementing Financial Instruments

European Commission

European Investment Bank The EU bank

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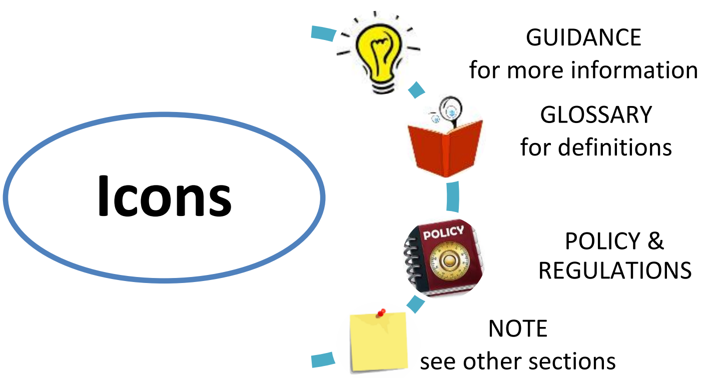


INTRODUCTION TO THE GUIDE

Purpose and objectives of the Guide

The Guide is primarily for Managing Authorities and other relevant stakeholders who are interested in setting up Financial Instruments using European Structural and Investment Funds (ESIF) in the programming period 2014-2020.

This Guide draws upon key lessons learnt from implementing Financial Instruments via the JESSICA (Joint European Support for Sustainable Investments in City Areas) initiative, including:

- Delays in establishing UDFs can be attributed to the 'newness' of Financial Instruments. As a relatively financing mechanism, the set-up of Financial Instruments took longer than anticipated, from 12 months to taken up to three years to set up;
- Partly to due to a lack of framework for strategic investing, putting together a portfolio of projects that generate financial returns and achieve social outcomes proved to be challenging. As a result, there was considerable time spent on identifying and structuring suitable projects before investment could be made;
- Lack of experience with using Financial Instruments in the public sector has necessitated a steep learning curve and cultural change. Similarly, there was a learning curve among the private sector fund managers in getting up to speed on EU regulations and policy; and
- In the early stages, it was difficult for Financial Instruments to attract the desired level of co-investments at the fund level or project level. Issues with State Aid have been an on-going challenge, which has resulted in delays in making investments in projects.

It on this basis that this Guide was envisaged to support stakeholders to navigate through these aforementioned lessons and aims to support in facilitating faster implementation of Financial Instruments in the next programming period.

The Guide is supported by the Financial Instruments Roadmap (Figure 1), developed to provide stakeholders with a strategic overview of the design and implementation of Financial Instruments.

At the end of this Guide, stakeholders should have a broad understanding of the following:

- The various phases of the Financial Instruments lifecycle and the different key steps involved in setting up Financial Instruments;

- The need to Integrate Financial Instruments into the ESIF Operational Programmes to address market failure/sub- optional market performance, as well as management of Financial Instruments including reporting and monitoring requirements;

- The importance of identifying and analysing projects for eligibility and suitability for investment by Financial Instruments;

- Building high-quality project portfolios that deliver financial returns and non-financial impacts (social, economic, and environmental impacts) is core to Financial Instruments.

Readers should refer to the Glossary for clarification of the meaning of any unfamiliar terms found within the Guide. There is also a list of detailed reference materials and guidance notes for more information. These can be found at the back of the Guide.

THE FINANCIAL INSTRUMENTS ROADMAP

The Financial Instruments Roadmap (Figure 1 overleaf) provides a high-level overview of the process involved in setting up and implementing Financial Instruments.

The Roadmap aims to provide a navigable path, highlighted by green arrows, of the three strategic and interlinked components of the Financial Instruments lifecycle. These strategic components should be considered in parallel when designing Financial Instruments, to ensure that Financial Instrument investments are aligned with Operational Programme objectives. The three components are:

- **Strategic Policy** - Managing Authorities at the ex ante assessment stage design the policy framework and set the high-level Investment Strategy (see section on ex ante assessment) including but not to limit to products, targeted final recipients, expected non-financial results and contribution to Operational Programme objectives within which Fund Managers identify suitable strategically-aligned projects for investment.

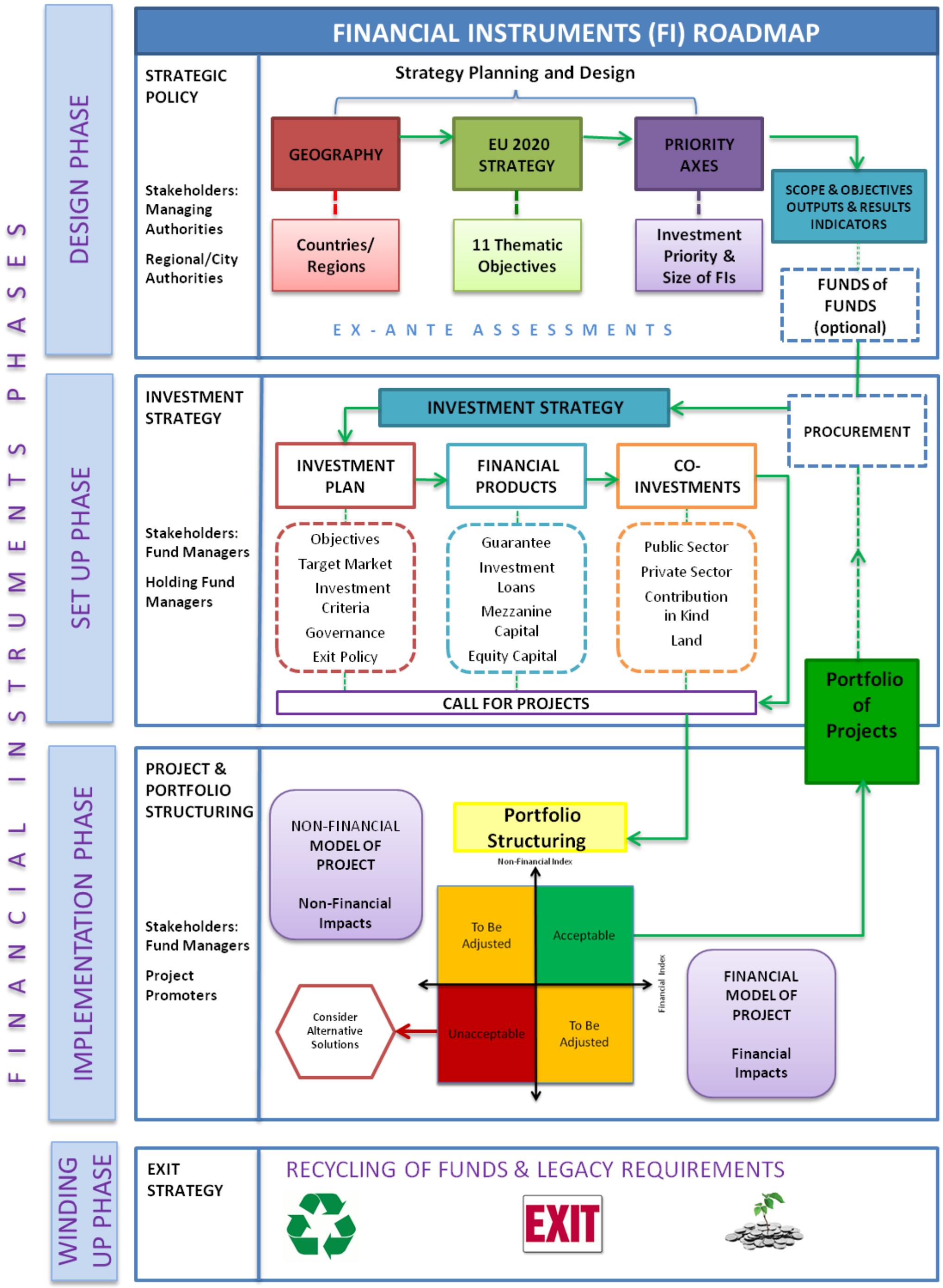
- **Investment Strategy** - Fund Managers and "Fund of Funds" Managers elaborate the business plan of the fund, and the mix of financial products offered to enable delivery of strategic policy objectives, financial return on investment, and alignment with private and public co-investment requirements.

- **Project & Portfolio Structuring** - Project Promoters structure their projects, and fund managers their project portfolio, to align with the fund's investment strategy, and correspondingly the strategic policy framework set by the Managing Authority.

An additional slightly separate component 'Winding Up of Financial Instruments' is also illustrated in the Roadmap, which should also be considered when designing Financial Instruments.

The components of the Roadmap are linked to the four phases of Financial Instruments described within this Guide: Design, Set-Up, Implementation, and Winding Up.

Figure 1: Financial Instruments Roadmap



Structure of the Guide

This Guide follows the four phases of the Financial Instruments implementation lifecycle: **Design, Set-Up, Implementation, and Winding-Up** providing an outline of the step-by-step tasks associated with each phase.

As each phase provides a building block for another phase, it is important that they are considered simultaneously when designing Financial Instruments, rather than separately and in sequence. Thinking about the broader picture upfront allows Financial Instruments to be established that are most likely to meet specific policy objectives.

Figure 2: Structure of the Guide

Financial Instruments Phases	Steps	Financial Instruments Roadmap
PRELIMINARY STEPS: OPERATIONAL PROGRAMMES		
DESIGN PHASE	• Ex Ante Assessments • Thematic Focus/Geographical Focus • Demand for FIs • Funds of Funds (Optional) & Governance	Strategic Policy
SET-UP PHASE	• Procurement of Fund Managers • Business Plans • Investment Strategy/Policy • Co-Investments/Co-Finance • Management Fees	Investment Strategy
IMPLEMENTATION PHASE	• Identify Projects • Analysis of Projects for Strategic Fit • Monitoring & Reporting • Audit	Project & Portfolio Structuring
WINDING UP PHASE	• Exit Strategy • Legacy Requirements • Recycling of Funds	Recycling & Legacy Fund

BACKGROUND

Europe 2020 Strategy

"Europe 2020 is the EU's growth strategy for the coming decade. In a changing world, we want the EU to become a smart, sustainable and inclusive economy. These three mutually reinforcing priorities should help the EU and the Member States deliver high levels of employment, productivity and social cohesion.

Concretely, the Union has set five ambitious objectives - on employment, innovation, education, social inclusion and climate/energy - to be reached by 2020. Each Member State has adopted its own national targets in each of these areas. Concrete actions at EU and national levels underpin the strategy."

José Manuel Barroso
President of the European Commission

Financial Instruments are designed to support the delivery of the Europe 2020 (EU 2020) Strategy.

Table 1: Europe 2020 Targets

The 5 targets for the EU in 2020	
Employment	• 75% of the 20-64 year-olds to be employed
R&D	• 3% of the EU's GDP to be invested in R&D
Climate Change & Energy Sustainability	• Greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990 • 20% of energy from renewables • 20% increase in energy efficiency
Education	• Reducing the rates of early school leaving below 10% • At least 40% of 30-34–year-olds completing third level education
Fighting poverty & social exclusive	• At least 20 million fewer people in or at risk of poverty and social exclusion

EUROPE 2020 Strategy

- Communications from the Commission: Europe 2020 – A Strategy for smart, sustainable, and inclusive growth (March 2010)
- Europe 2020 in a Nutshell

Common Strategic Framework

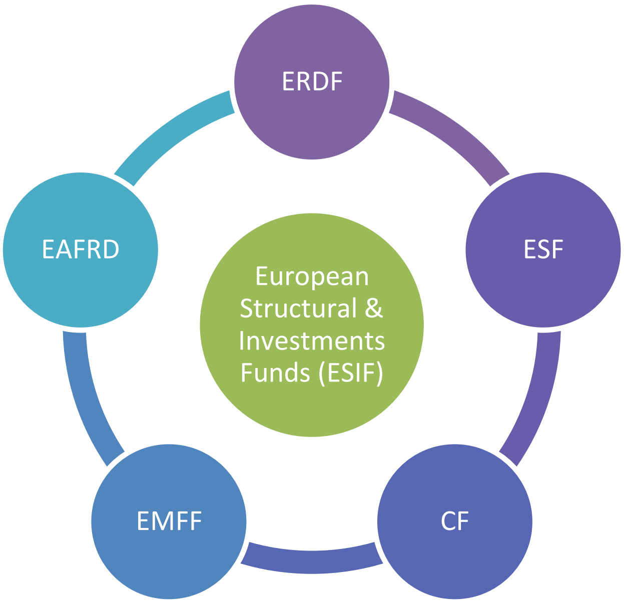
The Common Strategic Framework (CSF) establishes strategic guiding principles to facilitate the programming process and the sectoral and territorial coordination of Union intervention under the European Structural and Investment Funds (ESIF) and with other relevant Union policies and instruments, in line with the targets and objectives of the Union strategy for smart, sustainable and inclusive growth, taking into account the key territorial challenges of the various types of territories.

The CSF shall facilitate the preparation of the Partnership Agreement and programmes in accordance with the principles of proportionality and subsidiarity and taking into account national and regional competences, in order for the specific and appropriate policy and coordination measures to be decided. There are five European Social and Investment Funds (ESIF) to promote smart, sustainable and inclusive growth. These funds are:

1. European Regional Development Fund (ERDF)
2. Cohesion Fund (CF)
3. European Social Fund (ESF)
4. European Agricultural Fund for Rural Development (EAFRD)
5. European Maritime and Fisheries Fund (EMFF).

The Common Provision Regulation (CPR) sets out common rules in relation to Operational Programmes, thematic objectives, financial management, and monitoring and evaluation.

Figure 3: ESIF Structure



The 11 Thematic Objectives

The CPR defines 11 Thematic Objectives to deliver the Europe 2020 strategy. 2014-2020 Operational Programmes need to be aligned with these Thematic Objectives, which are:

Figure 4: 11 Thematic Objectives

Smart

- 1. Strengthening research, technological development and innovation
- 2. Enhancing access to, and use and quality of information and communication technologies
- 3. Enhancing competitiveness of SMEs

Sustainable

- 4. Support the shift to a low- carbon economy in all sectors
- 5. Promoting climate change adaptation, risk prevention and management
- 6. Protecting the environment and promoting resource efficiency
- 7. Promoting sustainable transport and removing bottlenecks in key network infrastructures

Inclusive

- 8. Promoting employment and supporting labour mobility
- 9. Promoting social inclusion and combating poverty
- 10. Investing in education, skills and lifelong learning
- 11. Enhancing institutional capacity and an efficient public administration

11 THEMATIC OBJECTIVES

- Title II: Strategic Approach, Chapter 1: Thematic Objectives

Financial Instruments in Programming Period 2014-2020

> *"One of the innovative ways to improve the effectiveness and efficiency of the EU's regional policy is the use of Financial Instruments. These support mechanisms which range from financial engineering techniques to technical assistance facilities can help attract further funding and bring on board additional expertise and know-how."*
>
> *Johannes Hahn, DG Regional and Urban Policy, Panorama Magazine, Fall 2012*

Financial Instruments are market-based tools aimed at supporting EU 2020 policy objectives. Financial Instruments invest ESIF and other public and private funds on a repayable rather than a grant basis. Financial Instruments aim to multiply the impact of the use of ESIF by attracting co-investment from other sources, and enabling ESIF funds to be invested on multiple occasions.

Financial Instrument investments are made by way of loans, guarantees equity or quasi-equity, and other risk-sharing instruments. Investments should support projects that have both the ability to repay the investment, and the potential to generate non-financial impacts i.e. contribute to economic, social, and environmental impacts. Investments should also contribute to the achievement of specific objectives set out under a priority, based on an ex ante assessment which has identified market failures or suboptimal investment situations, and investment needs as per Article 37.2 of the CPR.

There could also be further commercial financing viability concerns around the investment's innovative nature, long payback periods or their risk profile. Financial instruments can support all of the 11 Thematic Objectives provided there is a market need and subject to an Ex-Ante Assessment.

For detailed discussion at the European Commission, please see:

Delegated Acts, Implementing Acts and Guidance for the European Structural and Investment Funds 2014-2020 http://ec.europa.eu/regional_policy/what/future/experts_documents_en.cfm#1

Greater Use of Financial Instruments

"Result-orientation and optimisation of financial resources of 2014-2020 Cohesion Policy will be fundamental. The added value of Financial Instruments is recognised across the EU for their revolving character and leverage effect when (public) finance is a constraint for Member States." ~ Rudolf Niessler, DG REGIO, Warsaw, 2012

Financial Instruments in support of urban development, Small and Medium Sized Enterprises (SMEs), and energy efficiency/renewable energy have been in operation in many Member States in the 2007-2013 programming period. Based on the experience from 2007-2013, to encourage and increase the use of Financial Instruments in the 2014-2020 programming period, the European Commission:

- Has widened the scope of EU funds that can be used in Financial Instruments to include all five ESIF
- Has widened the scope of policy areas Financial Instruments can invest in to include all 11 Thematic Objectives where there is a demonstrated market failure
- Is offering greater flexibility to Member States and regions in implementation options, including new options to have:
    - Contributions to Financial Instruments set-up at the EU level and managed by the Commission
    - Financial Instruments set-up at the national/regional level using tailor-made or 'off-the-shelf' instruments
- Aims to provide a stable implementation framework and rules regarding the monitoring and reporting of Financial Instruments
- Is providing greater flexibility in relation to complementarity activities between Financial Instruments and other forms of support, such as traditional grant financing.

- For lessons learnt from implementing Financial Instruments in the 2007-2013 programming period, please see:

  Commission Staff Working Document - Financial Instruments

- Also see: Financial Instruments: Stocktaking Study (March 2013).

Benefits of using Financial Instruments

Financial Instruments are considered a resource-efficient way of using public funds to make strategic investments. Financial Instruments can have the following benefits:

- **Create a 'legacy fund'**: Whilst grant funding provides for a one off non repayable investment into a project, due to their 'recyclable' nature, by allocating ESIF to Financial Instruments Managing Authorities are able to maximise the impact of ESIF by enabling it to be invested multiple times in different projects. Managing Authorities can therefore create a sustainable 'legacy' fund from ESIF, allowing for greater flexibility and efficiency in using public monies over the long-term.
- **Attracting co-investment**: Financial Instruments seek to attract additional public and private resources for investment in projects through co-financing and co-investments at the fund or project levels. This increases the overall capital available for investments into projects to help meet EU2020 objectives.
- **Tapping into private sector expertise**: Private sector involvement with Financial Instruments enables the public sector to gain financial and managerial skills in identifying investments suitable for Financial Instruments (if applicable), and assessing both the financial and non-financial impacts of investments. These skills can help more broadly in efforts to increase the return on investment of public funds.
- **Making ESIF go further**: Financial Instruments can act as an incentive for better quality investments, because of the greater efficiencies that can be generated by the requirement to repay monies. This can enable Managing Authorities to achieve greater outcomes with fixed or limited resources.
- **Benefit to the Final Recipient**: Final Recipients can receive upfront payments via Financial Instruments as oppose to grants, which are reimbursed against proof of expenditure. Furthermore, Financial Instruments provide a greater range of financial products to meet different financing needs.

PRELIMINARY STEPS

Identifying a role for Financial Instruments within the Operational Programme

An Operational Programme sets out national and region's priorities for delivering the ESIF. The Operational Programme sets out the socio-economic circumstances, investment priorities, indicators, targets, partnership, and management arrangements.

Managing Authorities should set out if and how they intend to use Financial Instruments within their respective Operational Programmes. This should be done as part of the programme level Ex-Ante Evaluation.

- The Operational Programmes 2007-2013 for each region approved by the European Commission can be found here:

  European Commission - DG REGIO – Operational Programmes

Ex-Ante Evaluation for Operational Programmes

The Ex-Ante Evaluation aims to ensure:

- That resources are allocated optimally
- That the Operational Programmes demonstrate a contribution to the Europe 2020 strategy
- the adequacy of human resources and administrative capacity for management of the programme;
- the suitability of the procedures for monitoring the programme and for collecting the data necessary to carry out evaluations etc.

The Ex-Ante Evaluation assists in maximising the quality of plans and programme implementation.

In line with European Commission guidance, the Ex Ante Evaluation consists of eight themes, which follow the structure of the Operational Programme:

- Socio-economic analysis
- Programme Strategy and Priorities
- Contribution to Europe 2020 Strategy
- Financial Instruments
- Consistency of financial allocations
- Indicators, Monitoring and Evaluation
- Strategic Environmental Assessment
- Equality Impact Assessment.

- European Commission Ex-ante Evaluation guidance and Monitoring and Evaluation Guidance can be found here:

  - Guidance document on Ex-Ante Evaluation (January 2013)
  - Guidance document on Monitoring & Evaluation – ERDF & Cohesion Fund (October 2013)
  - Draft Template and Guidelines for the Content of the Operational Programme (May 2013)

DESIGN PHASE

If Managing Authorities decide to use Financial Instruments within their Operational Programme, then they also need to conduct the mandatory Ex-Ante Assessment for Financial Instruments to help design the Instruments.

In the CPR, Title IV (Articles 37 to 46) lays down provisions for ESIF. Article 37 stipulates that support from Operational Programme resources to a Financial Instrument shall be based *"on an Ex-Ante Assessment which has established evidence of market failures or sub-optimal investment situations, and the estimated level and scope of public investment needs, including types of financial instruments to be supported."*

The Financial Instrument Ex-Ante Assessment needs to be completed before the Managing Authority decides to make Operational Programme contributions to a Financial Instrument. It needs to be submitted to the Monitoring Committee for information purposes and be in accordance with the rules set out by the Commission in the CPR. The summary findings and conclusions of the Ex-Ante Assessment should be published within three months from their date of finalisation.

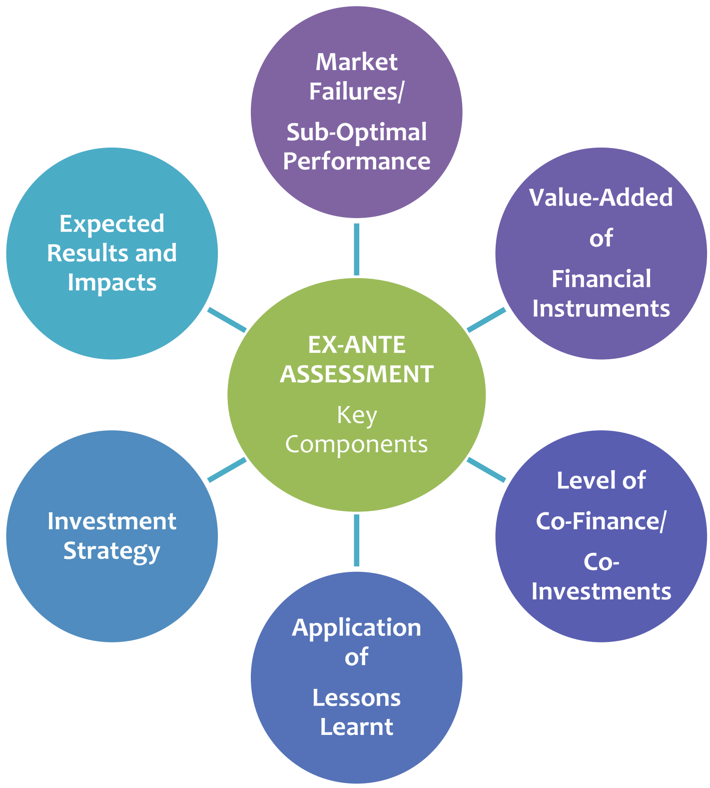
DESIGN PHASE OF FINANCIAL INSTRUMENTS

- conducting ex-ante assessments
- assessing market demand, policy fit, sector-specific investment strategies and products
- development of implementation structures
- identification of potential co-financing/co-investment sources
- state aid and procurement considerations
- features and economic viability of target final recipients.

Ex-Ante Assessments for Financial Instruments

The Ex-Ante Assessments for Financial Instruments are designed to enable Managing Authorities to understand the prospective demand for Financial Instruments, key relevant market players, the ability to attract private sector co-investments, and to help ensure that their introduction will not crowd out existing funds. The key components of the Ex-Ante Assessment are illustrated in Figure 5 below and discussed overleaf.

Figure 5: Key Components of the Ex-Ante Assessment



For more guidance, please see:

Presidency compromise on financial instruments:

Ex-Ante Assessment methodologies for financial instruments in the 2014-2020 programming period:

http://ec.europa.eu/regional_policy/thefunds/fin_inst/index_en.cfm

Key Components of the Financial Instrument Ex-Ante Assessment

- **Assessment of market failure**: Successful design and implementation of Financial Instruments hinges on a correct assessment of market gaps and needs. A mismatch between the demand and supply for financing – known as the financing gap – can constitute a rationale for public intervention in the market, where that intervention can help to address EU 2020 policy objectives. Demonstrating the existence of market failure is critical to ensure that Financial Instruments are in line with State Aid regulations within the European Union.

- **Investment strategy**: This should consider the financial products to be offered, Final Recipients to be targeted, and any envisaged combination with grant support as appropriate. Implementation arrangements should be considered in accordance with the requirements of Article 38 of the CPR.

- **Level of co-finance/co-investment:** An estimation of additional public and private resources to be potentially raised by the Financial Instrument should be undertaken. There should also be an assessment of what might be needed to attract co-investment from private investors.

- **Expected results and impacts**: How the use of Financial Instrument is expected to contribute to the achievement of the specific Operational Programme objectives, priorities or measures within a Programme should be set out, along with indicators i.e. unemployment, GDP, carbon reduction, etc. to monitor such contribution to support economic growth and prosperity.

- **Value Added:** An assessment of the value added Financial Instruments would make should be undertaken. This should consider any overlap with other forms of public intervention addressing the same market, possible state aid issues, whether the introduction of Financial Instruments is proportionate to the market need, and measures that may be undertaken to reduce any market distortion.

- **Application of lessons learnt**: There must be an assessment of lessons learned from similar Instruments or Ex-Ante, Interim, and Ex-Post Assessments or review exercises in the past to help maximise the success of Financial Instruments in the future.

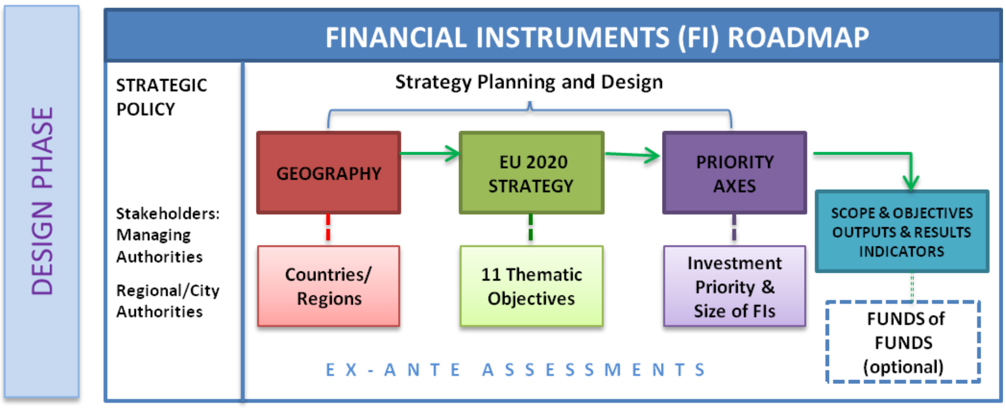
Setting the Strategic Policy Framework

The Financial Instrument Ex-Ante Assessment is integral to defining the strategic policy framework for the introduction of Financial Instruments. The Ex Ante Assessment process should allow Managing Authorities to define:

- The geographical area the Financial Instrument(s) will cover;
- The scope and objectives of the Financial Instrument(s) and its contribution to meeting the Operational Programme objectives;
- The size of the Financial Instrument(s);
- The target outputs and indicators to measure progress and results which should be clearly defined in order to seek suitable propositions; and
- The implementation structure for the Financial Instrument(s).

These are described overleaf.

Figure 6: Financial Instruments – Setting the Strategic Policy



It may be useful to review the Common Strategic Framework published by the European Commission

[Commission Staff Working Document: Elements for a Common Strategic Framework 2014-2020](#) (March 2012)

Geography

The geographical area or boundaries in which the Financial Instruments can make investments must be clearly defined, and could be at the following levels:

1. National
2. Regional
3. Local
4. Transnational and Cross Border.

Geographical areas of coverage can also be defined according to by size of town/cities by population i.e. small, medium, and large; they could cover the entire geographical boundary of the Managing Authority; or cover a sub-regional level where multiple Managing Authorities pull together resources in order to reach the critical mass of resources required to make a Financial Instrument viable.

The Investment Strategy will need to conform to any geographical restrictions set down in the contributing Operational Programme or Programmes.

Scope

The scope of the Financial Instruments is important to determine, and provides the link to the Operational Programme priorities. Informed by the Ex Ante Assessment, Managing Authorities need to determine which Thematic Objectives the Financial Instrument (s) will support. This is core to the Investment Strategy of the Financial Instrument.

- See the Background section on Europe 2020 Strategy and the 11 Thematic Objectives.

Size of the Financial Instruments

The size of the Financial Instrument is a key consideration. The amount committed from Operational Programmes for Financial Instruments should correspond to the market gaps identified in the Ex-Ante Assessment. The amount will also vary depending on the product type, region, and policy.

For more detailed reading on setting up the Investment Strategy, see the Urban Development Fund Handbook (July 2012)

Implementation Structure

As part of the design of Financial Instruments, Managing Authorities need to decide on the desired implementation structure.

This should be informed by the Ex-Ante Assessment, and should consider issues such as: knowledge, skills and expertise of the Managing Authority, local and national organisations in setting up and managing Financial Instruments; market capacity for setting up and managing Financial Instruments; the importance or otherwise of local vs. regional, national, or cross border networks and connections to build a robust project pipeline; and the number and diversity of Financial Instruments proposed. This is not an exhaustive list, and Managing Authorities may wish to seek advice on the pros and cons of different options. Implementation options include establishing Financial Instruments directly, using 'off the shelf' templates, using EU wide Instruments, and a "Fund of Funds" approach.

A "Fund of Funds" (in 2007-2013 known as "Holding Fund") is a fund with the objective to contribute support from programmes to several bodies implementing Financial Instruments. The purpose of the "Fund of Funds" is an umbrella fund set up to invest in more than one Financial Instruments via financial intermediaries to allow for flexibility and balancing risk and rewards of the funds, in addition to the set up, management and supervision of the Financial Instruments.

This can assist in reaching the desired size of fund to attract co-investment and achieve efficiencies of size and scope, allow for flexibility, and provide greater opportunities for portfolio diversification to achieve the desired financial and non-financial returns and manage risks. The pros and cons of a 'Fund of Funds' structure is found overleaf.

Different structures will be more or less appropriate in different areas, but are crucial to determine prior to the set up of Financial Instruments. Soft market testing is recommended to help Managing Authorities decide on appropriate structures.

For more information on the Implementation Structure, please see Article 38 of the Common Provision Regulations

http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0246:FIN:EN:pdf

Pros and Cons of "Fund of Funds" Structure

A summary of pros and cons of the "Fund of Funds" structure is provided below:

Pros:

- Robust financial structure to ensure independent and professional management of funds, overseeing key tasks including: treasury management, risk management, monitoring and reporting
- Allows for greater flexibility and diversification of investments
- Provides technical, managerial, and financial expertise
- If there are multiple funds, "Fund of Funds" allows for economies of scale.

Cons:

- Establishing a "Fund of Funds" can be complex and potentially time-consuming in order to reach an agreement. However, if the structure and governance is well designed, then this itself could accelerate investments into projects at a later stage
- Potentially requires an additional layer of reporting and monitoring
- Where there is considerable in-house, financial and fund management expertise within public sector organisations, then the added value of having a "Fund of Funds" could be minimal.

Moving from Design to Set-up

The Ex-Ante Assessment should enable Managing Authorities to be able to articulate any market failures and how Financial Instruments could address these within their Operational Programmes. The Ex-Ante Assessment informs the strategic policy framework for the introduction of Financial Instruments, by identifying the investment priorities for the Instruments, their size, and thematic and geographical focus. This links to and informs the design of the Financial Instrument(s) and the Investment Strategy.

Setting out a clear policy framework linked to how Financial Instruments can be invested ensures that prospective propositions for investment can be checked against both:

- Eligibility: Assurance that prospective investments contribute to impacts whether these are social, economic, or environmental, and that they comply with EU regulations.

- Suitability**:** Prospective propositions are in line with the policy aims and objectives of the Financial Instruments i.e. thematic focus, geography, types of Final Recipients, and non-financial impacts resulting from the investments. The indicators should be clearly defined from the onset and be aligned with the Operational Programme objectives.

The policy framework is one half of the Investment Strategy, the other half needs to set out the technical aspects such as financial products, delivery, governance, and operational arrangements (procedures and processes) which is discussed in more detail in the Set Up Phase section of this Guide.

SET-UP PHASE

Setting up Financial Instruments involves finalising the technical detail of the Investment Strategy, and selecting suitable financial intermediaries to implement and manage the Financial Instruments, usually referred to as Fund Managers.

This Set Up section of the Guide provides information on: financial products to finalise the Investment Strategy; the selection process for Fund Managers; business plans; co-investments; and governance arrangements.

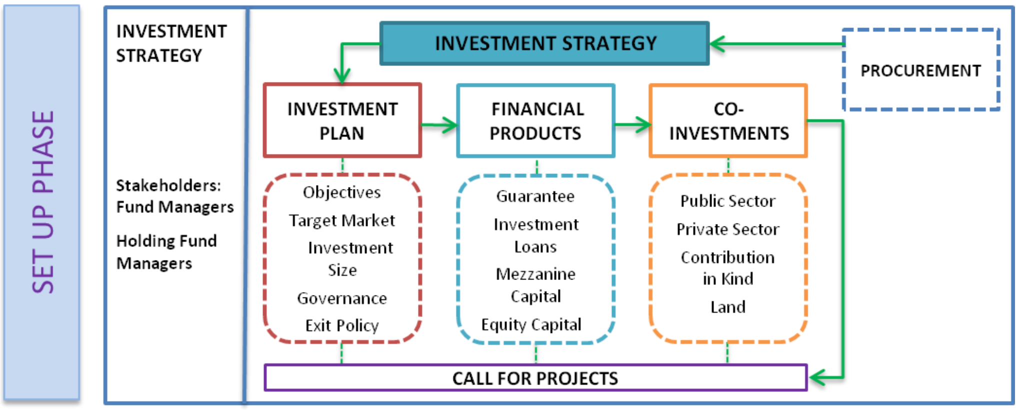
SET-UP PHASE OF FINANCIAL INSTRUMENTS

- selection and appraisal of bodies implementing Financial Instruments
- management costs and fees
- development of business plans of Financial Instruments
- drafting and conclusion of funding agreements.

Finalising the Investment Strategy

The Investment Strategy should incorporate the policy framework in the Strategic Policy Pathway informed by the Ex-Ante Assessment in the design phase, and include the financial products offered overleaf.

Figure 7: Investment Strategy



The delivery mechanisms for the Investment Strategy are set out in the Business Plan. These are developed by the Fund Manager as part of their selection process, and an outline of their contents are contained in this Set Up Phase of the Guide.

Co-investments are key to delivering on the Investment Strategy, and are the responsibility of the Fund Manager.

As soon as the parameters of the Investment Strategy have been defined, it is advisable for the Managing Authority to start a marketing campaign to publicise the forthcoming Financial Instruments to help identify suitable projects for investments. This will assist Fund Managers in identifying indicative pipelines of projects.

Financial Products

Financial products refer to loans, equity or quasi-equity, guarantees, and other risk-sharing instruments. The products selected to be offered should be informed by the Ex-Ante Assessment which should provide an indication of the types of products required to address sub-optimal performance/market failures. The financial products will depend on the sectors targeted as well as regional economic context.

- **Investment Loans**: Loans are often the most important external source of financing for projects. Consideration needs to be given to the term of the loan and its intended purpose, the required interest rates and likely losses from default.

- **Equity Capital**: By taking an equity stake, Financial Instruments play a very active role in project management. The eventual role will depend on whether the Financial Instrument provides equity capital in the development phase or the operational phase of a project's life cycle.

- **Mezzanine Capital**: Financial Instruments can offer a 'blend' of capital mixing debt and equity. The mezzanine 'investor' does not participate actively in the project management, and the capital provided does not bear full liability in case of insolvency. However, other investors still regard mezzanine capital as "quasi-equity" and therefore it can be used to provide increased leverage.

- **Guarantees**: Financial Instruments can support projects by providing guarantees, a legally binding commitment given by a third party to pay the remaining balance of a loan, including unpaid interest, in the event of default by the main borrower. Guarantees could be issued to project companies in order to facilitate access to external finance in return for a processing fee to cover both the risk exposure and the administrative and processing costs.

Establishing Financial Instruments

Article 38.4 of the CPR outlines the following in relation to establishing Financial Instruments:

a) Managing Authorities can invest in the capital of existing or newly created financial institutions, which will implement Financial Instruments

b) Managing Authorities can entrust implementation tasks to:

- The European Investment Bank Group
- National or international public financial institution where Member States are shareholders
- Any other public or private body following a tender process

c) Managing Authorities can undertake implementation tasks directly where Financial Instruments consist solely of loans and guarantees.

The process of selecting a public or private body to implement Financial Instruments is found overleaf.

- If you are interested about using Financial Guarantees, please see: Financial Guarantees Study for JESSICA Operations
- Please see: Section 2.2. UDF Financial Products in the UDF Typology and Governance Structure Handbook

See the background section on Financial Instruments in 2014-2020.

Procurement Options for Fund Managers of Financial Instruments

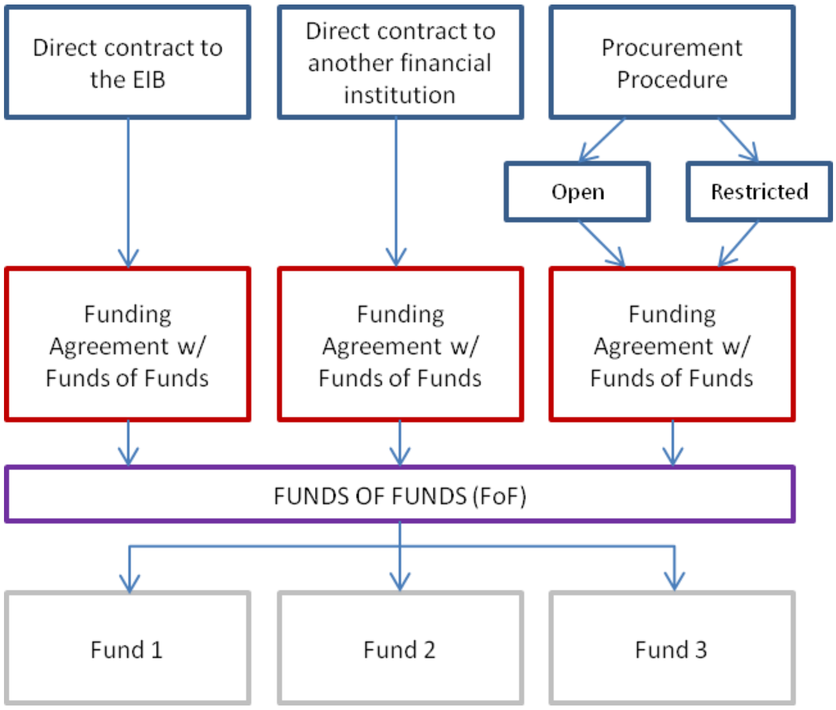
Managing Authorities have several procurement options with respect to selecting Fund Managers(s) to select Fund Manager(s), whether to make direct investments in projects, or to manage a 'Fund of Funds' to invest in individual Financial Instruments. These include:

- Entrusting the European Investment Bank (EIB) Group as the "Fund of Funds" Manager;
- Appointing an international financial institutions (IFI) in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority, selected in accordance with applicable Union and national rules;

Managing Authorities have also the option of procuring a financial institution via a competitive procurement process.

If this is the case, Managing Authorities will need to conduct a public procurement exercise. Applications from Fund Managers are invited through a published 'Call for Proposals'. Managing Authorities score the applications from Fund Managers against a set of criteria to decide who is their preferred bidder. Subsequently, the Managing Authorities and Fund Manager(s) negotiate and finalise a Funding Agreement between each other.

Figure 8: Procurement Options



Adapted from the JESSICA Holding Fund Handbook

Using a “Fund of Fund” model is optional. Where a Managing Authority wishes not to use this model, then the Funding Agreement is directly with the individual Financial Instrument.

Public Procurement Options

Under EU law, there are different options that Managing Authorities can follow when selecting Fund Managers through a competitive public procurement process:

- **Open Procedure** – This provides that all those interested in the matter advertised in the Official Journal of the European Union (OJEU) may respond to the advertisement by tendering for the contract.
- **Restricted Procedure** – This process selects an initial list of applicants through a review of pre-qualification questionnaire ("PQQ") responses. The opportunity will need to be initially advertised on OJEU and only the selected entities from the PQQ stage are invited to submit a tender for the contract. The benefit of this approach is that it avoids the need to deal with a large number of tenders.
- **Competitive Dialogue Procedure** – Following the issue of an OJEU Contract Notice and a selection process based on PQQ responses, a dialogue with selected potential bidders commences. The purpose of the dialogue is to develop one or more suitable solutions for required services, and to select a final set of bidders who are invited to tender.
- **Negotiated Procedure** – Here the purchaser of the services may select one or more potential bidders with whom they will then negotiate with respect of the contract. An advertisement in the OJEU is usually required but, in certain circumstances described in the regulations, the contract does not have to be advertised in the OJEU.

For more guidance on the procurement process, see the JESSICA Holding Fund Handbook.

Business Plan

As part of the tendering process, potential Fund Managers should propose an outline Business Plan, which should be finalised as part of the Funding Agreement.

The Business Plan is essential because it defines the scope and objectives, investment strategy, size, and outputs measured by indicators of the Financial Instrument. The Business Plan should include the following:

- **Investment Policy**: outlines the investment objectives, summarises the portfolio of potential projects including the methodology of selecting projects for investments. It should clearly articulate elements such as the performance objectives, eligibility of final recipients, risk profile, time horizon, financial and regulatory constraints.
- **Investment Period**: outlines the proposed life span of the Financial Instruments, which informs the timescales for investment.
- **National Co-finance**: outlines contribution in cash or in-kind.
- **Public and Private Co-Investment**: outlines expected levels of co-investments at the level of the “Fund of Funds”, at the level of the Financial Instrument or at the level of Final Recipients.

- **Legal and Ownership Structure**: describes the legal and ownership structure including the rationale for the structure.
- **Management Costs and Management Fees**: outlines the proposed level of fees payable, including a proposed fee structure and calculations.
- **Monitoring and Reporting**: procedures for monitoring and reporting are required to ensure regulatory compliance with EU regulations.
- **Audit procedures:** Fund Manager(s) will receive regular control reports from the appointed auditors designated in the agreements when setting up the Financial Instrument(s).
- **Winding-Up Provisions** and Re-utilisation of Resources: discusses plans for first and follow-on investments, as well as exit strategies.

> - For more detailed guidance, please see:
>
>   2.1.1 The UDF Business Plan in the JESSICA UDF Handbook.

Co-Investments

One of the key characteristics of Financial Instruments is the ability to attract private sector co-investments, either at the project or fund levels, alongside other public investment. The Fund Managers will need to consider the different conditions required in order to attract private investors (level of interest rate, liquidity risks, public and private initiative conditions, level of public aid). The Fund Manager should determine the 'financial effectiveness' of an investment, and in doing so, identify the risk areas and the intervention, if possible, which is most suitable for private investors.

Regardless of the financial products on offer, using Financial Instruments should adhere to the principle of risk sharing with private/public co-investors.

Governance Structure

The role of governance is a key factor in the structure and on-going management of the Financial Instruments and before the Funding Agreement if finalised, the governance rules and processes need be clear. These:

- Set the parameters for the Financial Instruments operation
- Provide clarity around the decision-making process (e.g. investment decisions)
- Establish governance principles (investment policies, and any approvals processes)
- Outline any additional management and control procedures (e.g. management of risk strategies, and the process for escalating issues that arise in the delivery of Financial Instruments operations by the Fund Manager to the Managing Authority and "Fund of Funds" Manager)
- Identify clear roles and responsibilities on approval of investments; supervision and performance review; and decision-making with the appropriate checks and balances in place.

IMPLEMENTATION PHASE

The Implementation Phase seeks to identify and make investments into a suitable portfolio of projects. Investments should contribute to Operational Programme objectives, as well as achieving adequate financial returns. Projects and funds will need to be monitored and audited regularly in line with the financial regulations requirements of the European Commission.

IMPLEMENATION PHASE OF FINANCIAL INSTRUMENTS

- Outline the investment process (identification, evaluation and selection of final recipients or projects)
- Assessing and appraisal projects for investments
- Finalise financing agreements with final recipients
- Financial management (treasury, disbursement, repayment, follow-on investments)
- Detection and settlement of irregularities
- Monitoring, auditing, reporting, etc.

Identifying Projects for Investment

Fund Managers should actively build a pipeline of projects as soon as all investment agreements have been finalised. This process is perhaps the most time intensive, and stakeholders should seek to identify possible project promoters at an early stage, even if projects are at the conceptual phase.

Projects that have high economic-social impacts are frequently not adequately structured to fulfil the requirements for investments via Financial Instruments. These projects often take a long time to become ‘investment ready’. Whilst Fund Managers can provide technical support to assist project promoters in financially structuring projects to make them suitable for investment, the earlier they are identified and informed of the requirements of Financial Instruments, the more likely they are to be ready when a Fund Manager initiates a ‘Call for Projects’.

The aim of the ‘Call for Projects’ is to construct a portfolio of suitable projects for investments that meets EU regulations and are in line with Investment Strategy.

A ‘Call for Projects’ will involve marketing the Financial Instruments to help stakeholders understand what eligible activities the UDF can invest in, and how that investment can be made (by Loan, Equity or Guarantee). The aim is to engage potential Project Promoters to determine if the Financial Instruments can invest in their projects.

Interested promoters then submit an Expression of Interest. The Fund Managers will collate the project information to produce an initial portfolio of projects potentially eligible for investment. These will then be reviewed to identify projects which may be eligible according to the relevant regulations and Investment Strategy.

See the JESSICA UDF Handbook for more detailed discussion. Below provides some ideas of how stakeholders can market the fund.

Investment Decisions

Once a list of eligible potential projects for investment has been identified, to help determine which projects should be invested in, Fund Managers will assess:

- **Risk**: The level of risk present within any given investment opportunity
- **Returns**: The potential financial return that opportunity offers
- **Impacts**: The economic, social, and environmental outcomes resulting from the investment.

To assess risk, returns and impacts, Fund Managers use different tools, which are described within this Implementation Phase section of the Guide.

Financial Modelling

Financial modelling is the task of building an abstract representation (a model) of a real world financial situation, and assess the performance of a financial asset or portfolio of business, projects, or other investments.

The Financial Models enable Fund Managers to understand the financial viability of potential investments as well as the risk/reward profile. Models help to understand the cash flow (revenues and costs), internal rate of return (the rate of return used in capital budgeting to measure and compare the profitability of investments), and the net present value (NPV) of an investment. NPV compares the value of a Euro today to the value of that same Euro in the future, taking inflation and returns into account. If the NPV of a prospective project were positive, it would normally be acceptable for investment. However, if NPV is negative, the project will likely be rejected because cash flows will also be negative.

A Financial Modelling Tool was developed to assist stakeholders with the initial high-level assessment of project viability

Project Business Plans

Project business plans set out the purpose and nature of the project, the financing requirements, and how they will be delivered. These inform the development of a financial model and should include:

- **Project detail** – This provides context for the Fund Manager to assess the projects for strategic fit with the Operational Programme and Investment Strategy.
- **Source and type of financing** – This allows the Fund Manager to understand the scale of the investment sought from the Financial Instrument, contributions from other funders, the timing of those investments, and type of financial product most suitable to project needs – e.g. Loan, Equity, Guarantee
- **Revenue and Costs** – This allows the Fund Manager to understand the sources of revenue to repay investment and undertake an initial assessment of the risks associated with those sources. This information will also help the Fund Managers understand timing of repayment of the investment to ensure the projects can be supported through Financial Instruments resources
- **Repayment plan** – This should illustrate the position of the investment in financing the project and outline how that investment will be repaid alongside the other investors. The analysis should also help the Fund Manager understand the Project IRR and general profitability to compare with any objectives set in the Investment Strategy
- **Delivery structure** – This allows the Fund Manager to understand how the project will be delivered, the organisations involved in its delivery, and the governance and oversight mechanisms. This will enable an initial assessment of the credibility of the project delivery team, and establish if any risks around their reputation or competency need to be addressed in any Investment Agreements.

Project promoters used to commercial financing may be more familiar with these types of business plans than those which have previously sought ESIF grant funding, who may require some assistance with the financial aspects of their proposals.

Impact Analysis of Projects

Investments from Financial Instruments must deliver positive non - financial (economic, social, and/or environmental) impacts alongside financial returns, in line with the Investment Strategy. As discussed earlier in the Design Phase, a common set of output indicators will be critical to measure non-financial impacts. These results indicators will be compulsory for all Programmes and all Priorities, in which the impacts will be evaluated against the broader objectives and targets of the Europe 2020 strategy.

The proposition's business plans should set out what impacts they will achieve, how, and the mechanism by which this will be monitored and quantified. Project should propose clear outputs as a result of the investment, e.g. jobs created, number of homes to be retrofitted with energy efficient insulation, square metres of brownfield land remediated etc, which are in line with the Investment Strategy set out by the Fund Managers.

These outputs should be designed to enable broader outcomes as a result of the project, which will help to achieve the broader strategic objectives of the Operational Programmes, and in turn the overall Europe 2020 objectives, e.g. economic growth, action to address climate change, alleviate poverty, etc.

Project promoters which have previously received ESIF grant funding will be familiar with the need to quantify and monitor impact outputs. Others, who are more used to commercial financing, but whose projects nevertheless achieve broader objectives, may require assistance in this area.

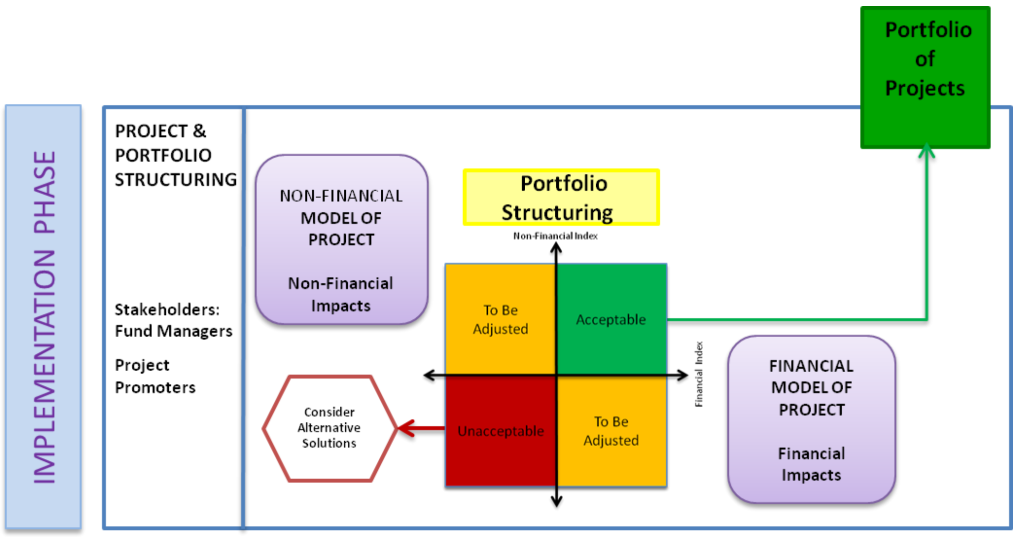
Please see the Portfolio Structuring Concept Paper for further discussion on this topic.

Project and Portfolio Structuring

Financial Instruments are designed to achieve both financial return on investment, and broader impacts to society, the economy, and/or the environment. Assessing both the financial and non-financial aspects of projects in tandem, can assist Fund Managers in achieving both of these objectives through viable investments, provided that the non-financial objectives are clearly articulated in the Investment Strategy.

Furthermore, if project investments are considered as part of a portfolio investment approach, rather than individually, this provides an opportunity to optimise the achievement of both financial and non-financial objectives across a portfolio. This may enable some projects with low financial returns but high non-financial returns to be funded, which may not otherwise be, as they could be combined with other projects which achieve higher financial returns as part of the portfolio. Fund Managers are recommended to proactively structure their projects and portfolios to achieve the optimum balance of financial and non-financial outcomes from the onset of designing the Financial Instruments.

Figure 9: Project and Portfolio Structuring



Monitoring and Reporting

During the Implementation Phase, regular monitoring and reporting is required. These will also be a mid-term review to review the performance of the Financial Instrument. Depending on the results of the evaluation, the Financial Instruments may need to be adjusted to reflect changes in the market; additional funds may be contributed to meet unexpected market demand; or funds may be reduced if analysis suggested that the funds would not be able to invest the entire sum by 2023. At the end of the implementation period, all capital, including interest, should have been invested as otherwise; it will need to be repaid.

Managing Authorities will report on all instruments under their responsibility or management, including Financial Instruments set-up at national, regional, transnational or cross-border level. Managing Authorities shall submit to the Commission monitoring information on Financial Instrument(s) as an integral part of the annual report on implementation of the programme by 31 May 2016 and by 31 May each subsequent year until and including 2023. The report submitted in 2016 shall cover the financial years 2014 and 2015, as well as the period between the starting date for eligibility of expenditure and 31 December 2013.

Please the Implementing Act on the Monitoring of Financial Instruments and Provision of Monitoring Information to the Commission.

WINDING UP PHASE

The Winding-up phase of Financial Instruments includes the reutilisation of resources returned fund from investments. It could also include remaining funds left over after all guarantees have been honoured. Winding up and exit policy should be included in the funding agreement of each Financial Instruments in line with the CPR.

During the closure of Financial Instruments, the settlement of accounts should be completed and shareholders are paid out their share of the initial investment and returns on investments, if applicable.

Ex-post evaluation analyses the impact of Financial Instruments and identifies points of improvement. The results of ex-post evaluation will determine the further use of the remaining funds after the closure of the Financial Instruments. The returns from investments after the closure of the fund may be used by the Operational Programme for the same Financial Instruments, for another Financial Instruments or in other forms of support.

WINDING UP PHASE OF FINANCIAL INSTRUMENTS

- Exit strategies
- Legacy Requirements
- Situtations of Default
- Ex-Post Evaluations

GLOSSARY

Specific Terms	Definition / Explanation
Beneficiary	A public or private body responsible for initiating or initiating and implementing operations; in the context of State aid, the term 'beneficiary' means the body which receives the aid; in the context of Financial Instruments, the term 'beneficiary' means the body that implements the Financial Instrument or the fund of funds as appropriate
Co-financing	All Structural Fund resources are required to be co-financed by other public or private resources for Managing Authorities to be able to disburse Operational Programme (OP) resources. The OP sets out how the Structural Fund and its co-financing should be delivered, either as Grant or through Financial Instruments. Both the Structural Funds and the co-financing must be administered and spent in line with the applicable European Union regulations.
Common Provisions Regulation	Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013
Common Strategic Framework	The Common Strategic Framework (CSF) establishes strategic guiding principles to facilitate the programming process and the sectoral and territorial coordination of Union intervention under the European Structural and Investment Funds (ESIF) and with other relevant Union policies and instruments, in line with the targets and objectives of the Union strategy for smart, sustainable and inclusive growth, taking into account the key territorial challenges of the various types of territories
Equity	Equity investment means the provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the Equity investor may assume some management control of the firm and may share the firm's profits.
European Structural and Investment Funds (ESIF)	For the 2014-2020 programming period European Structural and Investment funds are: European Regional Development Fund, Cohesion Fund, European Social Fund, European Agricultural Fund for Rural Development, and European Maritime and Fisheries Fund.
Ex-Ante Assessment	In line with the CPR Article 37, ESIF may be used to support Financial Instruments on the basis of an Ex-Ante Assessment which has established evidence of market failures or sub-optimal investment situations and investment needs before the

	deployment of Financial Instruments.
Ex-Ante Evaluation	Prior to approval of OPs within the 2014-2020 programming period, the CPR proposes that an Ex-Ante Evaluation be carried out in the course of preparing the OP which will evaluate whether the proposed OP will address the identified needs in the appropriate manner.
Exit policy/strategy	A policy/strategy for the liquidation of holdings by a Venture Capital or private Equity fund according to a plan to achieve maximum return, including trade sale, write-offs, repayment of preference shares/Loans, sale to another Venture Capitalist, sale to a financial institution and sale by public offering (including initial public offerings).
Expiry date of repayment term	A Loan of a specific amount has a specified repayment schedule and specified maximum term (maturity). The expiry date refers to a date in the future upon which the borrower has to fulfil its last and final repayment obligation.
Final Recipient	A legal or natural person that receives financial support from a Financial Instruments.
Financial Instruments	Financial Instruments is the term used in preference to Financial Instruments for the next programming period. Financial Instruments eligibility covers the 11 Thematic Objectives as well as the Common Strategic Framework Funds.
Financial Intermediary	Financial Intermediary refers to the body acting as an intermediary between the supply and demand of financial products.
Financial Regulation	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
Fund Manager	The individual(s) or entity(ies) responsible for implementing the investment strategy and managing the portfolio of investments related to the Financial Instruments (being Equity funds, Loan funds, Guarantee funds), in accordance with the stated goals and provisions as set out in the Funding Agreement.
Funding Agreement	Level I – between the Member State or the Managing Authority and the Fund of Funds. Level II – between the Member State or the Managing Authority (or the "Fund of Funds" where applicable) and the individual

	Financial Instruments. Level II Funding Agreements are also referred to as an Operational Agreements. Funding Agreements must ensure the correct implementation of the strategy, including goals to be achieved, target sectors and Final Recipients to be supported, as set out in the Operational Programme, through a coherent investment strategy, range of products, likely project types and targets to be achieved through the Financial Instruments. Moreover, the Funding Agreements must also contain a corpus of rules, obligations and procedures, to be observed by the parties concerned, regarding the financial contributions made by the Operational Programme.
"Fund of Funds"	Means a fund set up with the objective of contributing support from a programme or programmes to several financial instruments. Where financial instruments are implemented through a fund of funds, the body implementing the fund of funds shall be considered to be the only beneficiary.
Guarantee	A Guarantee is a commitment by a third party, called the guarantor, to pay the debt of a borrower when the latter cannot pay it themselves. The guarantor is liable to cover any shortfall or default on the borrower's debt under the terms and conditions as stipulated in the agreement between the guarantor, the lender and/or the borrower.
Intermediate Body	Any public or private body which acts under the responsibility of a managing or certifying authority, or which carries out duties on behalf of such an authority vis-à-vis beneficiaries' implementing operations.
Investment Strategy	The strategy outlines the mission, objectives and investment policy of Financial Instruments and how the funds invested following ex ante assessment. It should be aligned with Operational Programme objectives and investment principles.
Leverage Effect	As per Article 140 of the Financial Regulation and Article 223 of the Rules of Application, leverage effect: "*the Union contribution to a financial instrument shall aim at mobilising a global investment exceeding the size of the Union contribution according to the indicators defined in advance. 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.*"*.
Loan	Loan means an agreement which obliges the lender to make available to the borrower a sum of money for the agreed amount and time. The borrower is obliged to repay the Loan after a certain period. Usually the borrower is obliged to pay interest on

	the Loan amount.
Managing Authority	The detailed management of Operational Programmes which receive support from the ESIF is the responsibility of the Member State of the European Union. For every programme, they designate a Managing Authority (at national, regional or another level) which select the operation and monitor implementation. This can also be delegated to Intermediate Bodies, e.g. for a specific sub-region or city.
Mezzanine	Mezzanine financing consists of a mix between debt financing and equity. It can be distinguished between equity mezzanines. Mezzanine financing is usually unsecured and subordinate (or "junior") to normal debt financing ("senior loans").
Micro Credit	Small Loans, usually up to €25,000, granted either by institutions specialising in microcredit or by other Financial Intermediaries. In the context of this report the purpose of the micro-credit needs to be related to economic activities.
Programme	Means 'Programme' as described in Article 2 (6) of the CPR
Partnership Agreement	Means a document prepared by a Member State with the involvement of partners in line with the multi-level governance approach, which sets out that Member State's strategy, priorities and arrangements for using the ESI Funds in an effective and efficient way so as to pursue the Union strategy for smart, sustainable and inclusive growth, and which is approved by the Commission following assessment and dialogue with the Member State concerned;
Principal	The amount of a Loan borrowed, or the part of the amount borrowed which remains unpaid (excluding interest).
Public Private Partnership	means forms of cooperation between public bodies and the private sector, which aim to improve the delivery of investments in infrastructure projects or other types of operations, delivering public services through risk sharing, pooling of private sector expertise or additional sources of capital
Resources returned	Resources returned to the Financial Instruments from investments in Final Recipients can be categorised as 'capital receipts' and 'income receipts'. Capital receipts tend to mean payments or distributions or other amounts received or to be received by the relevant Financial Instruments (or "Fund of Funds") representing the repayment or return of all or part of the Principal or capital element of any investment. Income receipts tend to mean payments to, distributions to or other receipts by the relevant Financial Instruments representing the payment of

	income, or the earning of revenue by, the relevant Financial Instruments in respect of its investments other than capital receipts, which could include: (i) interest (including any capitalised interest) (ii) dividends (iii) capital gains.
Risk Assessment	Risk Assessment is a step in a risk management procedure and relates to the determination of the quantitative or qualitative value of the credit risk ("valuation"). This exercise is specifically (but not only) relevant for the issue of Guarantees. Quantitative credit Risk Assessment requires the estimation and calculation of risk (including "expected loss" and "unexpected loss"), the magnitude of the potential loss and the probability that the loss will occur.
Risk Sharing Instrument	Risk-sharing instrument means a Financial Instruments which allows for the sharing of a defined risk between two or more entities, where appropriate in exchange for an agreed remuneration.
Seed Capital	Seed Capital is the financing provided to study, assess and develop an initial concept. The seed phase precedes the start-up phase. The two phases together are called the early stage.
Start-up Capital	Provided to enterprises for product development and initial marketing. Enterprises may be in the process of being set up or may exist but have yet to sell their product or service commercially.
State Aid	'State aid' means aid falling under Article 107 (1) of the Treaty, which shall be deemed for the purposes of this Regulation, to also include de minimis aid within the meaning of Commission Regulation (EC) No 1407/213 of 18 December 2013 on the application of Articles 87 and 88 of the Treaty to de minimis aid[1], Commission Regulation (EC) No 1408/2013 of 18 December 2013 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid in the sector of agricultural production[2] and Commission Regulation (EC) No 875/2007 of 24 July 2007 or its successor Regulation on the application of Articles 87 and 88 of the EC Treaty to de minimis aid in the fisheries sector and amending Regulation (EC) No 1860/2004[3].

[1] OJ L 379, 28.12.2006, p. 5.
[2] OJ L 337, 21.12.2007, p. 35.
[3] OJ L 193, 25.7.2007, p. 6.

Structural Funds	EU Structural Funds include the European Regional Development Fund and the European Social Fund.
Technical Assistance	In the context of this report this term is to be intended as comprising technical and financial advisory support required to successfully implement Financial (Engineering) Instruments
Thematic Objectives	The Thematic Objectives for 2014-2020 are: 1. Strengthening research, technological development and innovation 2. Enhancing access to, and use and quality of, information and communication technologies 3. Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector 4. Supporting the shift towards a low-carbon economy in all sectors 5. Promoting climate change adaptation, risk prevention and management 6. Protecting the environment and promoting resource efficiency 7. Promoting sustainable transport and removing bottlenecks in key network infrastructures 8. Promoting employment and supporting labour mobility 9. Promoting social inclusion and combating poverty 10. Investing in education, skills and lifelong learning 11. Institutional capacity and efficient public administration
Venture Capital	Investment in unquoted enterprises by Venture Capital firms who, acting as Principals, manage individual, institutional or in-house money. In Europe, the main financing stages included in Venture Capital are early-stage (covering seed and start-up) and expansion. Strictly defined, Venture Capital is a subset of private Equity. Venture capital is thus professional Equity co-invested with the entrepreneur to fund an early-stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of a higher-than-average return on the investment.
Winding-up	A process that entails selling all the assets of a fund, paying off creditors, distributing any remaining assets to the Principals, and then dissolving the fund. Essentially, "Winding up" is to be understood as "liquidation".

GUIDANCE NOTES

GENERAL READING ON FINANCIAL INSTRUMENTS	• Factsheet – Financial Instruments in Cohesion Policy 2014-2020 http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/financial_instruments_en.pdf • Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 http://ec.europa.eu/regional_policy/thefunds/instruments/doc/fls_stocktaking_final.pdf • Commission Staff Working Document - Financial Instruments in Cohesion Policy http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/financial/financial_instruments_2012_en.pdf • The Use of Innovative Financial Instruments For Financing EU Policies and Objectives http://www.ceps.eu/book/use-innovative-financial-instruments-financing-eu-policies-and-objectives-implications-eu-and-n • DG REGIO Summary Report on Financial Instruments (December 2012) http://www.europarl.europa.eu/document/activities/cont/201212/20121219ATT58253/20121219ATT58253EN.pdf • General Presentation on Financial Instruments for 2014-2020 http://urbact.eu/fileadmin/Projects/CSI_Europe/events_media/Reg_Conference_Presentation_-_Dev_on_Financial_Instruments_2014__Programme.pdf • URBACT – CSI Europe: City Sustainable Investment http://urbact.eu/en/projects/metropolitan-governance/csi-europe/homepage/ http://urbact.eu/fileadmin/Projects/CSI_Europe/outputs_media/URBACT_CSI_A4_booklet_WEB.pdf • Overview for Financial Instruments 2014-2020 http://www.europarl.europa.eu/committees/en/studiesdownload.html?languageDocument=EN&file=73151
2014-2020 Regulations & Strategy	• EU 2020 Strategy http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index_en.htm • Common Provision Regulations (2013) http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1303&from=EN http://ec.europa.eu/regional_policy/what/future/index_en.cfm#4 • Commission Staff Working Document - CSF 2014-2020 Part I: http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part1_en.pdf Part II: http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part2_en.pdf

STATE AID GUIDANCE & NOTIFICATIONS	• Revision of the State aid rules for SME access to risk finance (Nov 2012) http://ec.europa.eu/competition/state_aid/modernisation/risk_capital_issues_paper_en.pdf • Common principles for an economic assessment of the Compatibility of state aid under article 87.3 http://ec.europa.eu/competition/state_aid/reform/economic_assessment_en.pdf • State Aid SA.32835 (2011/N) - United Kingdom - JESSICA Northwest Urban Investment Fund http://ec.europa.eu/competition/state_aid/cases/240234/240234_1247477_97_2.pdf • State aid SA.32147(2011/N) – Spain: Jessica Holding Fund Andalucía http://ec.europa.eu/competition/state_aid/cases/240808/240808_1295596_79_2.pdf • State aid SA.35040 (2012/N) –Bulgaria: JESSICA Holding Fund Bulgaria http://ec.europa.eu/competition/state_aid/cases/245216/245216_1413580_104_2.pdf • State aid SA. 34405(2012/N) – Greece: JESSICA Holding Fund Greece http://ec.europa.eu/competition/state_aid/cases/245450/245450_1413581_122_2.pdf • Guidelines on regional State Aid for 2014-2020 (23 July 2013) http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:209:0001:0045:EN:PDF http://ec.europa.eu/competition/state_aid/regional_aid/regional_aid.html
EX-ANTE EVALUATIONS	• Draft Guidance on Ex-Ante Conditionalities for ESIF Part I: http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/eac_guidance_esif_part1_en.pdf Part II: http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/eac_guidance_esif_part2_en.pdf • Guidance document on ex-ante evaluation http://ec.europa.eu/regional_policy/information/evaluations/guidance_en.cfm#1 http://ec.europa.eu/regional_policy/sources/docoffic/2014/working/ex_ante_en.pdf • Programming Process 2014-2020: Practical Paper (Interact) http://www.interact-eu.net/downloads/7723/INTERACT_HARMONISED_IMPLEMENTATION_TOOLS_Practical_paper_for_programme_preparation_final_.pdf
JESSICA GUIDANCE	• JESSICA Holding Fund Handbook http://www.eib.org/attachments/documents/jessica_holding_fund_handbook_en.pdf • JESSICA UDF Typologies and Governance Structure http://ec.europa.eu/regional_policy/archive/funds/2007/jjj/doc/pdf/jessica/udf_typologies.pdf • JESSICA UDF Handbook http://ec.europa.eu/regional_policy/thefunds/instruments/doc/jessica/jessica_udf_handbook_final_report_120712_en.pdf