



# Ex ante assessment

for Financial Instruments in the 2014 – 2020 programming period

The objective of the ex ante assessment is to **assess the rationale for a Financial Instrument (FI) against prevalent market failure or suboptimal investment** and to ensure that the FI will contribute to the **achievement of the Programme and ESIF objectives**. It will also help to **avoid overlaps and inconsistencies** between instruments implemented at different levels.

The ex ante assessment shall be completed before the MA decides to make programme contributions to a FI and shall be **submitted to the monitoring committee for information** purposes in accordance with Fund specific rules. The ex ante assessments **summary findings and conclusions shall be published** within three months from their date of finalization.

# Breakdown of the article 37 requirements

## **Article 37(2) of the Common Provisions Regulation (CPR)**

articulates the required content of an ex-ante assessment around seven main elements, namely:

- a) Analysis of market failures, suboptimal investment situations and investment needs;
- b) Assessment of the added value of the FI;
- c) Estimate of additional public and private resources to be potentially raised by the FI;
- d) Assessment of lessons learned from similar instruments and ex-ante assessments carried out in the past;
- e) Proposed investment strategy;
- f) Specification of expected results;
- g) Provisions allowing the ex ante assessment to be reviewed and updated.

# Breakdown of the article 37 requirements

## a) **Analysis of market failures, suboptimal investment situations and investment needs;**

- Analysis of the investment needs for the policy areas and thematic objectives or investment priorities of the Programme(s) vs. Union Priorities/focus areas;
- FI needs to contribute to the strategy and to the expected results of the relevant Programme(s);
- Identification of the main reasons of market failure and suboptimal investment situations with a best practice methodology to make sure the FI resources are used where they make a difference.

# Breakdown of the article 37 requirements

## **b) Added value of the financial instruments;**

- Check the value added of the FI and how the investment gap is addressed;
- Consistency with other forms of public intervention addressing the same market in order to limit overlapping and avoid conflicting targets;
- Possible state aid implications;
- Proportionality of the envisaged intervention to the identified market needs;
- Measures to minimize market distortion resulting from the FI.

# Breakdown of the article 37 requirements

## c) **Additional public and private resources;**

- Estimate of additional public and private resources to be potentially raised by the FI;
- Co-financing down to the level of the final recipient (expected leverage effect);
- If relevant, assessment of the need for, and level of, preferential remuneration to attract counterpart resources from private investors.

## d) **Lessons learned;**

- Analysis of lessons learnt from similar/considered relevant instruments in the past;
- Analysis of ex ante assessments carried out by the MS in the past;
- Future application of these lessons to make sure that the FI builds on existing and acquired knowledge.

# Breakdown of the article 37 requirements

## e) Investment strategy;

- Thematic and geographical coverage of the FI;
- Options for implementation arrangements within the meaning of Article 38, to make sure the most appropriate is chosen taking into account the country/regional situation;
- Financial products to be offered to ensure an adequate response to market needs;
- Final recipients targeted;
- If relevant, envisaged combination with grant support to maximize efficiency and ensure minimum intensity of subsidy.

# Breakdown of the article 37 requirements

## f) **Expected results;**

- Specification of the expected results and outputs of the FI within the programme(s);
- Definition of reference and target values based on the specific contribution of the FI to the programme results and outputs indicators.

## g) **Provisions allowing the ex ante assessment to be reviewed:**

- Rationale for the revision of the ex ante assessment;
- Practical and methodological procedures to update the market assessment;
- Steps to adapt the FI implementation.



## Consistency with the programme strategy

- **Consistency with Thematic Objectives**

The FI shall fit into the intervention logic established by each programme in order to contribute to the Europe 2020 priorities and the selected Thematic Objectives. The use of FI should be then consistent with the expected outputs and results of each applicable strategic axis, in line with the corresponding Thematic Objectives.

- **Financial consistency**

In case the FI is funded through contributions from multiple priority axes or Programmes, the balance between the different financial contributions has to be reflected in the investment orientations of the FI.

- **Governance consistency**

The governance of the FI has to be consistent with the Governance of the Programme and has to assess the relevance of the involvement of national and regional stakeholders. In the case of multi-funds FI, a strong collaboration between the different Managing Authorities involved is needed and the governance of the FI has to be adapted accordingly.

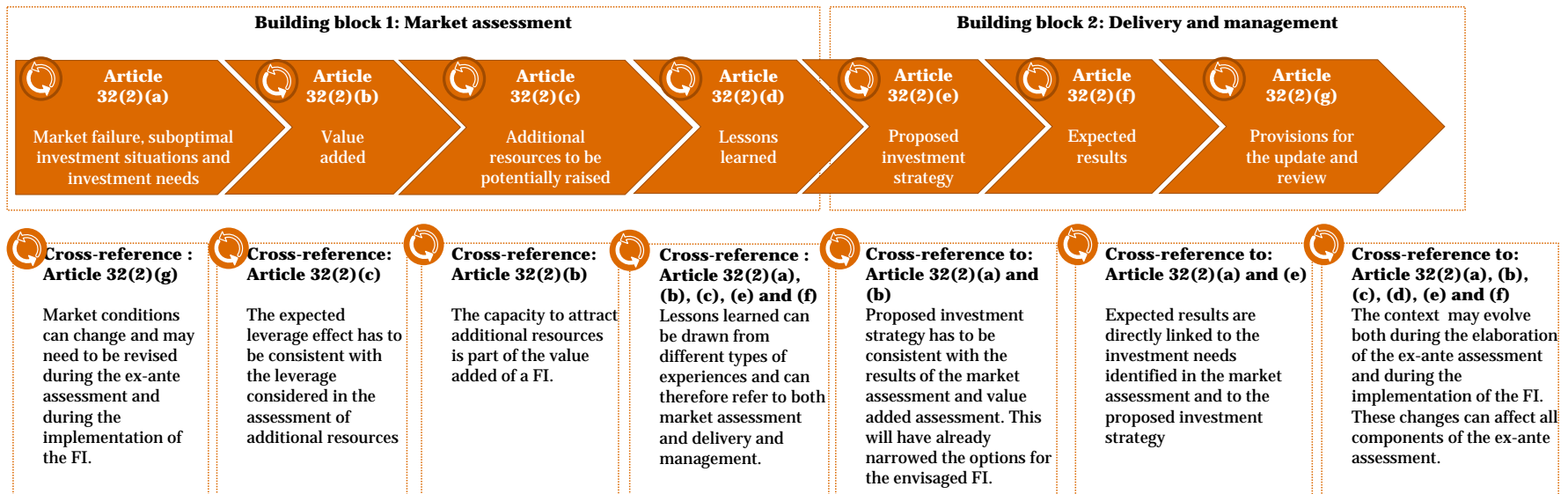
## Consistency with ESI funds ex ante evaluation guidelines

- The ex ante assessment of the FI should **build upon the ex ante evaluation of the corresponding Programme(s)**. As such, the tools and approaches of the general ex ante evaluation general methodologies for ESI Funds could be considered also for the ex-ante assessment.
- Furthermore **some outputs** of the related ex ante evaluation(s) should be **considered as relevant inputs** for the ex ante assessment of FIs.

# Iterative process of an ex-ante assessment

Article 37(2) of the Common Provisions Regulation (CPR) articulates the required content of an ex-ante assessment around seven main elements, namely:

- a) Analysis of market failures, suboptimal investment situations and investment needs;
- b) Assessment of the added value of the FI;
- c) Estimate of additional public and private resources to be potentially raised by the FI;
- d) Assessment of lessons learned from similar instruments and ex-ante assessments carried out in the past;
- e) Proposed investment strategy;
- f) Specification of expected results;
- g) Provisions allowing the ex-ante assessment to be reviewed and updated.



Publication of a guidance document:

«*Ex ante Assessment Methodology for Financial Instruments in the 2014-2020 Programming Period*»

- **General guidance**
- **Additional guidance** for:
  - **TO 1** strengthening research, technological development and innovation;
  - **TO 3** enhancing the competitiveness of SMEs;
  - **TO 4** supporting the shift towards a low-carbon economy;
  - Integrated territorial development, with a specific focus on sustainable **urban development**

## Purpose and preliminary considerations

### Scope and Value

1

Define the scope and the timeframe of the ex-ante assessment and recognise its value added in validating and justifying the setting-up of a FI as well as supporting its design.

### Consistency of Programme Strategy

2

Check the consistency with the Programme strategy.

### Information Gathering

3

Gather information from the ex-ante evaluation of the Programme, to ensure consistency and build on its conclusions.

## Analysis of market failures, suboptimal investment situations and investment needs

### Market problems

1

Identify the market problems existing in the country or region in which the FI has to be established.

### Market failure and suboptimal investment

2

Establish the evidence of market failure, by analysing the gap between supply and demand, and identify suboptimal investment situations.

### Investment gap

3

Quantify the investment gap to the extent possible.

# Methodological guidance - preview

<b>(Main) type of gap</b>	<b>Examples</b>	<b>(Main) type of market failure</b>
<b>Viability gap</b>	Under-utilised city space (non-excludability)	Public good
	Long amortisation time for sustainable investment (e.g. sustainable public transport)	Externalities
	Necessity of grant-loan combination for water-infrastructure	Externalities
	Non-excludability for climate adaption investment (e.g. protection of river sides and sea sides)	Missing market
	Shortage of investment in new industries (e.g. in areas with industrial history)	Allocative inefficiency
	High sunk costs of project development	Missing market
	High sunk costs in brownfield development (e.g. decontamination where polluter pays principle not enforceable)	Information failure
	High risk of catalytic investment to foster economic revival of an (deprived) area	Allocative inefficiency
	Energy efficiency investment in historical monuments	Public good
	Energy efficiency investment in apartment buildings with tenants	Allocative inefficiency, coordination failure
	Shortage of public investment due to budgetary constraints (e.g. modernisation of public lighting)	Government failure

# Methodological guidance - preview

## **Box 1: Example of bottom-up approach to determine investment needs**

A multi-region multi-purpose study of 2013 provides an example of a bottom-up approach to determine the investment needs for specific areas:

- Step 1: four sectors of investment have been defined, namely (i) urban regeneration, (ii) social infrastructure, (iii) energy and (iv) business environment;
- Step 2: all potential projects are collected from local stakeholders or identified from national or regional actions or support schemes;
- Step 3: all potential projects are mapped to one Thematic Objective;
- Step 4: for each of the four sectors the probability for successful project development is assessed. Typical figures were found in the range from 15-60%. A 'bonus' for regions currently involved in FI was established, mirroring the experience already collected;
- Step 5: for each of the four sectors the probability of using FI<sup>1</sup> is assessed. As it is a multi-region study the probabilities may be different in the different regions. Typical figures are 10% for urban regeneration and 50 - 75% for energy. These figures could be adjusted taking into account the readiness of the region in using FIs;
- Step 6: for each of the four sectors a breakdown in financial products (equity, loans, guarantees), grants and the private resources raised by the FI is assessed. Typical figures for the private resources are 40-50%, for guarantees 5-10%, for loans 20-27%, and for equity 12-15%.

Once this is done, the investment needs are assessed and the share of those needs to be covered by the envisaged FI will have been identified

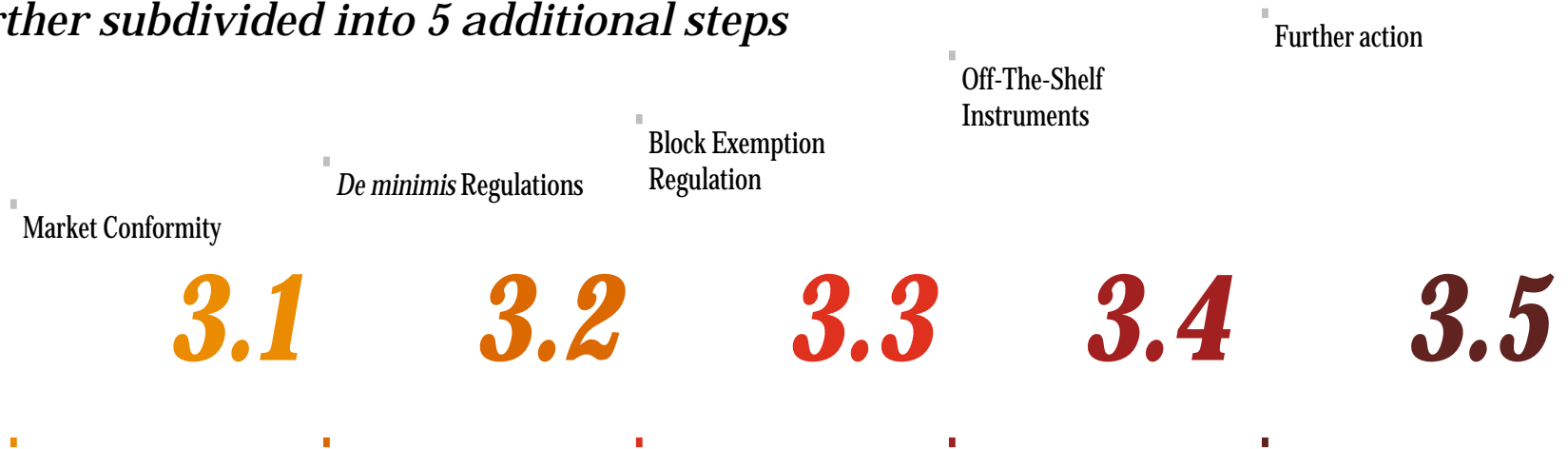


## Assessment of the value added of the FI

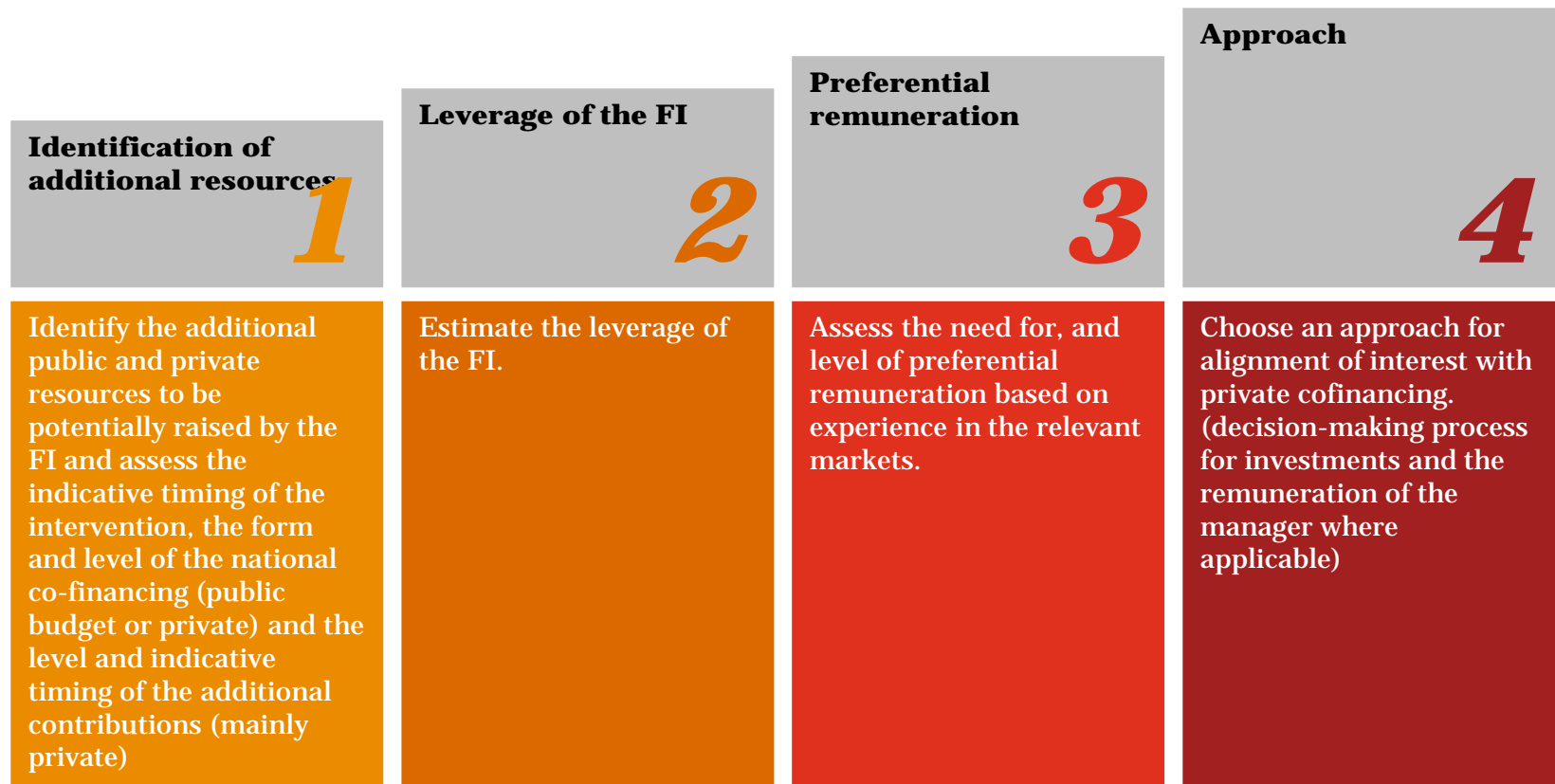


## Assessment of the value added of the FI

*The consideration of State Aid implications (step 3) can be further subdivided into 5 additional steps*



## Additional public and private resources to be potentially raised by the FI



# Methodological guidance - preview

## Lessons learned



## Proposed investment strategy

### Level of Detail

**1**

Define the level of detail for the proposed investment strategy maintaining a certain degree of flexibility.

### Scale and Focus of FI

**2**

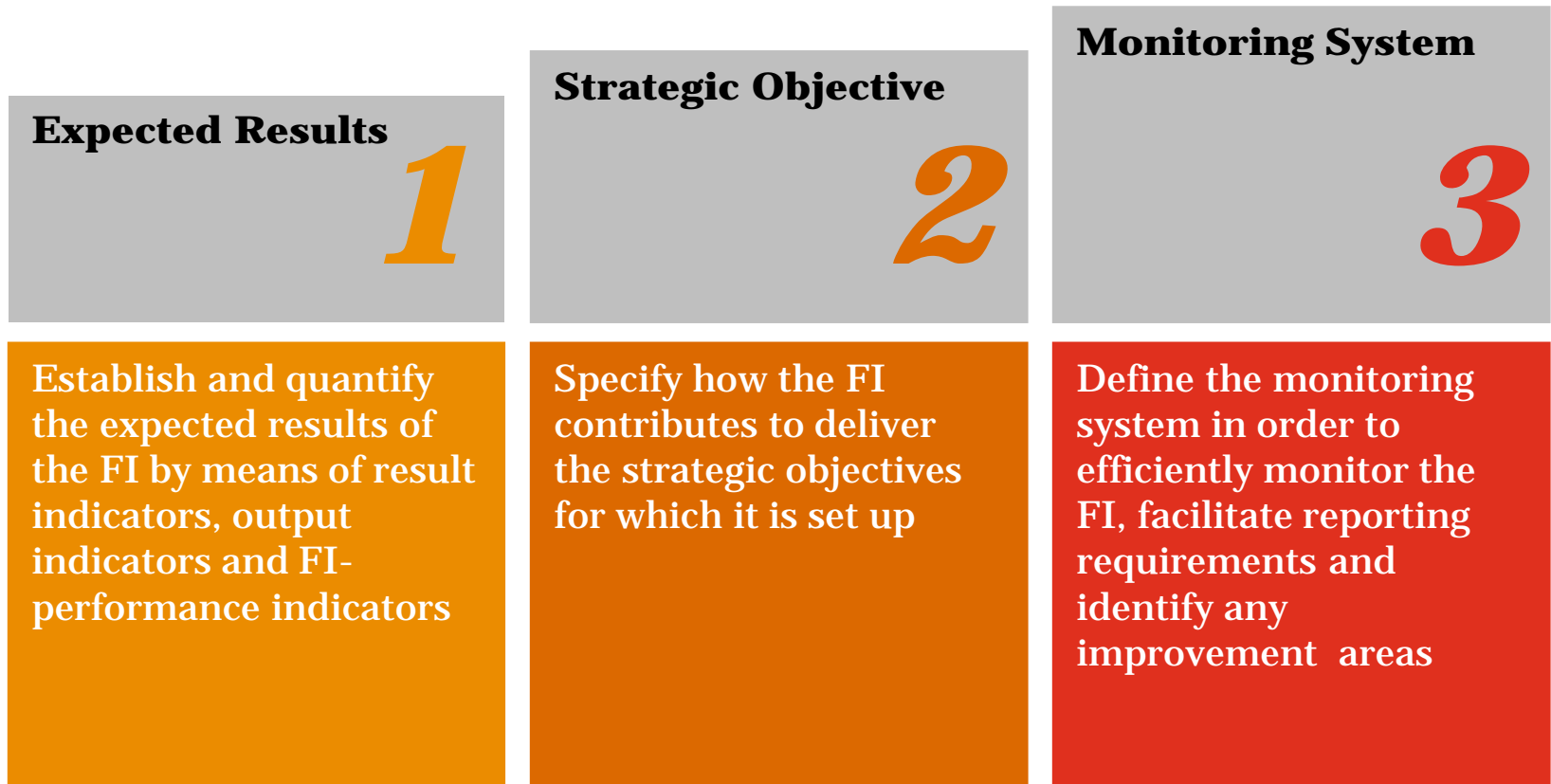
Define scale and focus of the FI consistently with the results of the market assessment and the value added assessment, in particular by selecting the financial product to be offered and the target final recipients.

### Additional Analysis

**3**

Define the governance structure of the FI, by selecting the most appropriate implementation arrangements and the envisaged combination with grant support.

## Specification of expected results consistent with the relevant Programme



## Provisions for the update and review of the ex-ante assessment methodology

### Trigger Values

**1**

Define the conditions and/or the timing in which a revision or an update of the ex-ante assessment is needed.

### Data Enclosure

**2**

Enclose this information in the monitoring and reporting provisions established in the previous step of the analysis.

# Thank you!

Pieter Coppens  
Municipal and Regional Unit  
Advisory Services Department  
[p.coppens@eib.org](mailto:p.coppens@eib.org)  
+352 4379 88270