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Employment, Social Affairs and Equal Opportunities

Summary report on the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds

**Programming period 2007-2013
Situation as at 31 December 2011**

DISCLAIMER:

This 'summary report' was prepared by the European Commission services based on the data reported by national managing authorities pursuant to Article 67(2)(j) of Council Regulation (EC) No 1083/2006. It aims to provide a broader understanding of the progress made in implementing financial engineering instruments, implemented by national managing authorities under "shared management" rules, with co-financing provided by the European Regional Development Fund and the European Social Fund.

The data provided in this report refers to the situation on 31 December 2011, as reported by national managing authorities in the context of the Annual Implementation Reports for 2011. Initial data was sent to the Commission electronically (via SFC2007) at the time of submission of annual implementation reports, i.e. 30 June 2011. This was subsequently completed and corrected with a final cut-off date of the beginning of November 2012.

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I. Executive summary

Introduction, methodology and process

Financial engineering instruments (FEIs) have become an increasingly important delivery tool of cohesion policy during 2007-2013. In view of this increased importance and of the significant share of cohesion policy resources delivered through these instruments it became necessary to enhance the transparency of the implementation process and ensure appropriate monitoring, by the Member States and by the Commission. Accordingly, Council Regulation (EC) 1083/2006 was modified to provide that annual implementation reports for the years 2011 onwards would include reporting data on the progress made in financing and implementing FEIs as defined in Article 44 of the Regulation.

This year therefore saw the first exercise in collecting, transmitting and aggregating the data. The necessary module was developed in SFC 2007 and guidance was provided to Member States in the form of COCOF notes in April and June. The monitoring data required under the Regulation concerned description of the FEIs and implementation arrangements, identification of the implementing entities, and amounts of assistance paid to and by the FEI. However, in order to get a fuller picture of implementation of FEIs under cohesion policy, the Commission also proposed that Member States provide data on a number of additional, optional elements, such as indicators.

The deadline for submission of the data foreseen by the Regulation was 30th June (same as for the other elements of the Annual Implementation Report). However, the replies from almost all Member States received by 30th June contained missing and anomalous data. In addition, only some elements of the optional data were provided. Member States were requested to complete and correct the data, and this process continued until the beginning of December 2012. Nevertheless, the final data set did not include sufficient submissions under the voluntary headings in order to allow for aggregation of the data for the purposes of this summary report.

Main findings

By the end 2011, a total of **592 FEIs (68 holding funds¹ and 524 specific funds)** had been set up through **178 operational programmes** in almost all Member States (except Ireland and Luxembourg) and in one region covered by a cross-border cooperation programme. The **total value of operational programmes (OP) contributions to all funds amounted to**

¹ Hereinafter referred to as the 'HF' or 'HFs'.

EUR 10 781, including EUR 7 078 million Structural Funds (ERDF+SF). Of this, just over a half (**EUR 5 629 million**) was allocated to holding funds, with the remainder (**EUR 5 151 million**) was allocated directly to specific funds set up without holding funds.

The majority of activity in FEIs supported through cohesion policy is for **support to enterprises**. This constitutes **EUR 8 903 million of operational programme contributions, including EUR 5 753 million of Structural Funds**. Products offered to enterprises include loans, guarantees, equity/venture capital and other products (such as interest rate and guarantee fee subsidies).

FEIs for **urban development** supported through cohesion policy constitute **EUR 1 533 million of OPs contributions in ten Member States, including EUR 1 075 million of Structural Funds**. These were delivered almost exclusively as loan funds for projects supporting brown field regeneration and development of sustainable urban infrastructure.

Cohesion policy also supported FEIs for **energy efficiency and renewable energies**, which constituted **EUR 345 million of OP contributions in five Member States, including EUR 250 million of Structural Funds**.

Cohesion policy support to FEIs included **EUR 388 million in contributions from European Social Fund Operational Programmes (including EUR 208 million in ESF contributions)**, through a variety of financial products, including micro-credit loans targeting specific populations, such as self-employed, long-term unemployed and women.

Management costs and fees were also reported. On the basis of the information provided, they accounted on average for 2,49% of OP contributions made in the period 2007-2011, with an average of 2,63 % for holding funds, 3,41% for specific funds operating under a holding fund and 2,03% for specific funds operating without a holding fund.

Lessons learned for 2013 exercise

Next year, the process of collection and transmitting the data in SFC 2007 should start as early as possible, to help identify gaps and errors and to correct them in good time, and to allow the Commission to produce the summary on the basis of the monitoring data with sufficient time to meet the deadline set by Article 67(5) of Council Regulation (EC) No 1083/2006.

Member States and managing authorities should be encouraged as much as possible to provide input on the optional data, as this is invaluable for providing a more complete picture

not only of the financial amounts allocated to financial engineering instruments, but also how they work in practice and the physical results produced.

If desired by Member States and managing authorities, the Commission could organise a technical session in early spring 2013 in order to provide information about the process, give examples of good practice and common errors from this year's exercise, and answer questions.

II. Introduction

Financial engineering instruments are an innovative form of contributing Structural Funds to Cohesion policy objectives, compared to traditional grants. The term "innovative" is used here to distinguish the instruments from pure grant funding, although in fact innovative instruments in the EU budget have existed for more than a decade.

In the context of the dynamic and investment character of European cohesion policy and the current uncertain economic climate, financial engineering instruments should be seen as a part of the strategy aiming at promoting long-term sustainable growth in European regions.

As such, the instruments form part of the implementation strategy of the Operational Programmes² agreed between Member States and the Commission, which contribute to the achievement of the goals set out under specific priorities axis. Therefore, they must be regarded as vehicles for:

- delivering new revolving forms of sustainable finance for investment at long-term;
- opening new markets to different forms of public-private partnership, bringing in the expertise of international financial institutions;
- promoting sustainability of Structural Funds' resources;
- pooling expertise and know-how between national and regional authorities, financial intermediaries and final recipients;
- building institutional capacity through partnerships between the public and private sector, and broader involvement of financial institutions/ financial intermediaries in the implementation of the EU regional policy.

In 2007-2013 the use of different models of financial engineering instruments, in addition to the more traditional grant assistance has become more widespread. Over the last years financial instruments have been rapidly growing in variety, scope and amounts paid to them.

The first instruments targeted a better access to finance for enterprises, but more recently instruments have been developed also in other areas such as urban development and energy efficiency/renewable energy. In the period 2007-2013, Structural Funds' resources used under the principle of shared management, can be contributed to financial engineering instruments which invest in enterprises, mainly SMEs, public private partnerships, implementation of

² Hereinafter referred to as the 'OPs' or 'OP'.

urban development projects, or in legal or natural persons carrying out specific investment activities in energy efficiency and renewable energies³.

The types of support provided through financial engineering instruments include loans, guarantees, equity/venture capital and other forms of assistance⁴.

As the use of financial engineering instruments in European cohesion policy has grown in prominence in the current programming period, the availability of data on these financial instruments and the Union funding allocated to them has become necessary.

This ‘summary report’ was prepared by the European Commission services to provide a broad understanding of the progress made in implementing financial engineering instruments, implemented by national managing authorities under ‘shared management’ rules, with co-financing provided by the European Regional Development Fund and the European Social Fund.

The report is based on the monitoring data provided by national managing authorities pursuant to Article 67(2)(j) of Council Regulation (EC) No 1083/2006. The monitoring data were sent to the Commission in the context of Annual Implementation Report for 2011 and therefore this report refers to the situation on 31 December 2011.

³ In this document reference is made to ‘Structural Funds Regulations’, specifically to the following provisions: Article 44 of Council Regulation (EC) No 1083/2006, hereinafter referred to as the ‘General Regulation’, Articles 3(2)(c), 4(1), 5(1)(d) and 6(2)(a) of European Parliament and Council Regulation (EC) No 1080/2006, hereinafter referred to as the ‘ERDF Regulation’, Article 11(1) of European Parliament and Council Regulation (EC) No 1081/2006 hereinafter referred to as the ‘ESF Regulation’ and Articles 43 to 46 of Commission Regulation (EC) No 1828/2006 hereinafter referred to as the ‘Implementing Regulation’.

⁴ Some of the FEIs provide support to interest rate subsidies and guarantee fee subsidies associated and combined with ERDF loans or guarantees in a single financial package.

II. Methodology of collecting and processing data

During 2011 a voluntary exercise was carried out whereby managing authorities submitted data on an optional basis to the Commission. This was aggregated by the Commission in the synthesis report published in December 2011. The amendment of Council Regulation (EC) No 1083/2006 in December 2011 introduced an obligation for the Member States to formally report on financial engineering instruments within the annual report on implementation of operational programmes.

2012 was therefore the first year that managing authorities were obliged to formally report on implementation of financial engineering instruments. This was carried out as a part of the annual implementation report, submitted by managing authorities by 30 June 2012. Consequently all the data on financial engineering instruments were presented in the context of the operational programmes under which they are implemented.

The process of gathering the requested data and information on FEIs by the Commission started in June 2012 when the electronic data collection (namely SFC2007 module for FEIs) became operational. By 30 June 2012, the Commission received only partial (75%) information on financial engineering instruments implemented under OPs. A first quantitative and qualitative analysis of the data provided by managing authorities revealed differences in terms of completeness and accuracy of the information provided in the annual reports on implementation.

The process of reporting and analyzing of the data in the context of the annual implementation report and in compliance with Article 67(2) (j) of Council Regulation (EC) No 1083/2006 required a significant investment by all stakeholders, at managing authority, Member States and Commission levels.

As required by Article 67(5) of the Council Regulation (EC) No 1083/2006⁵, the Commission produced by 1st October a summary of the monitoring data on the progress made in financing and implementing financial engineering instruments, which was presented at the COCOF meeting on 26 September 2011⁵. Despite best efforts, at the time of production of the ‘Summary of data’ significant data anomalies remained.

⁵ COCOF document ref. COCOF_12-0060-00-EN of 26/09/2012.

The 'Summary of data' issued in September presented a state of implementation of financial engineering instruments in a cumulative way, at the cut-off date of 31 December 2011. However, as the information provided until 30th June contained anomalous data, the 'Summary data' listed also the most frequent inaccuracies detected, with the aim to present afterwards a further report based on full and more accurate data. For this purpose, the Commission invited Member States and managing authorities to check and correct the remaining anomalies through SFC2007 until mid-October.

Following numerous requests received from many managing authorities, the Commission extended the correction exercise until 6 November 2012 and, as a result, more than 50 managing authorities (responsible for more than one third of the OPs implementing FEIs), took the opportunity to complete and correct their data initially reported in SFC2007. In spite of the extended correction exercise, some discrepancies in reported data still persisted. Therefore the Commission services continued to seek valid data from managing authorities until the beginning of December.

Following this long and laborious process, the corrected and completed data has been aggregated and are presented in this summary report. A lot of inaccuracies detected in the initial data provided by managing authorities, have been cleared and resulted in more plausible overall findings regarding the implementation and financing of the FEIs in 2007-2011.

Nevertheless, a number of observations need to be made in relation to the quantity and quality of the monitoring data presented in this report:

- This report contains information required by Article 67(2)(j) of Council Regulation (EC) No 1083/2006, namely:
 - description of the financial engineering instruments and implementation arrangements;
 - identification of the entities which implement the financial engineering instrument, including those acting through holding funds;
 - amounts of assistance from the Structural Funds and national co-financing paid to the financial engineering instrument; and
 - amounts of assistance from the Structural Funds and national co-financing paid by the financial engineering instrument.

- The above-mentioned categories of information have been transposed in two monitoring templates made available in SFC2007⁶. Almost half of the sections referred to the compulsory data required by the General Regulation.
- This data was sent to the Commission electronically (via SFC2007) at the time of submission of annual implementation reports, i.e. 30 June 2012 updated until 13 September 2012 and subsequently revised until the beginning of December 2012.
- The fact that reporting was done at Operational Programme level and not aggregated by the Member States at national level may have contributed to some discrepancies in the presentation of FEIs and the related figures (for example: some FEIs implemented under more than one OP were reported more than once with the same figures; some Holding Funds may have been presented together with specific funds, resulting in double-counting; some FEIs were presented as operations⁷ and some as individual funds; some specific funds which had not yet been officially established at 31/12/2011 may have been included in the reporting⁸).
- Any comparison of data between the Synthesis Report from 2011 and this report should be made with caution. In the absence of binding legal requirements, the 2011 exercise was done on a voluntary basis. Consequently, the data was not provided by all MS/MAs and could not be verified against the official reporting on operational programmes. This concerns especially some category of data like: additional and outside OP sources of funding and amounts committed to the FEIs or distinction between FEIs supported from ERDF and ESF which were not required by the Regulation and therefore were not reported⁸ by all Member States.
- Optional information i.e. amount committed to FEIs, number of investments made, type and number of final recipients supported by FEIs, number of jobs created or

⁶ SFC2007 is an IT tool through which the annual reporting from managing authorities takes place. A newly developed sub-module for FEIs became operational and available for managing authorities of Member States in June 2012.

⁷ Accordingly to section 1.2.5 of the Guidance Note on Financial Engineering Instruments (COCOF-10-0014-05 of 08/02/2011) and in respect of assistance implemented through financial engineering instruments, the operation is constituted by the financial contributions from an operational programme to financial engineering instruments (including holding funds) and the subsequent investments made by the financial engineering instruments, which ultimately constitute eligible expenditure in accordance with Article 78(6) of the General Regulation.

⁸ Namely funding agreement mentioned in Articles 43(3) and 44 of the Implementing Regulation 1828/2006, either between the Member State or the managing authority and the holding fund or between the Member State/managing authority/the holding fund (where applicable) and the individual FEI, have not been concluded.

safeguarded further to investments made by FEIs, represented more than 50 % of the data requested in the monitoring templates. Although the optional data was included in the reporting templates proposed by the Commission, after extensive discussions with Member States in the Coordination Committee of the Funds (COCOF), the majority of MS objected to provide optional data, and finally it was reported for a very limited number (on average 20%) of all FEIs. Due to this fact and to the low plausibility of figures, the optional information was not analyzed in this summary report, as it could lead to the erroneous conclusions.

- Finally, in those cases where the expected correction or explanation was not provided directly by MS/MA, the Commission sought to complete the missing information with the information on financial engineering instruments from other available sources⁹.

⁹ Other sources of information comprised among others: [Financial Engineering Instruments Implemented by Member States with ERDF contributions. Synthesis Report for 2011.](#), Geographic Units of DG REGIO, information available on public websites of the funds.

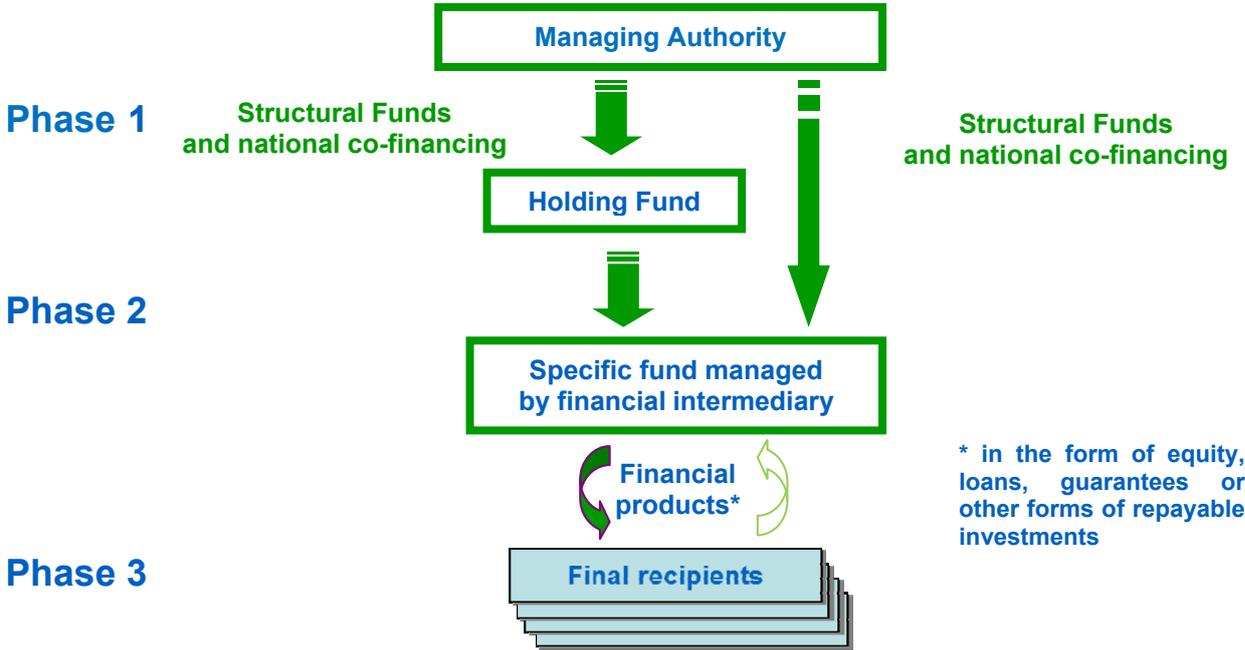
III. Summary of data collected on financial engineering instruments

1. Structure of financial engineering instruments

Financial instruments in cohesion policy follow the logic and legal framework of the policy, including shared management and subsidiarity principles. Therefore they contribute to the achievement of the goals set out under priority axes of the operational programme(s) agreed between the Member State and the Commission. However, the decision regarding implementation, financing and monitoring of performance of the specific instruments to be used falls within the competence of the managing authority concerned.

As part of the decisional process the managing authority must assess whether they want to implement the FEI operation through a holding fund or through a direct contribution from the operational programme to a financial engineering instrument.

When a financial engineering instrument is implemented with a holding fund then the managing authority contributes Structural Funds to a holding fund and the holding fund contributes these resources to the specific funds managed by financial intermediary(ies). If the implementation of financial engineering instrument happens without a holding fund then the Structural Funds are contributed directly to the specific fund(s) managed by financial intermediary(ies). National co-financing (public and/or private) comes at different levels, i.e. the level of holding funds, specific funds or/and final recipients. The graphic below illustrates two existing models of implementation of FEIs.



The financial engineering instruments presented in this report were set up as specific equity, loan or guarantee funds, directly by managing authorities /intermediate bodies, or indirectly through holding funds.

In 2007-2011 almost all Members States (except Ireland and Luxembourg) and one region covered by a cross-border cooperation programme implemented financial engineering instruments through 178 operational programmes.

At the end of 2011 a total of 524 specific funds (loan, guarantee, equity/venture capital and other funds) were set up, out of which: 484 (92,37%) for enterprises, 28 (5,34%) for urban development and 12 (2,29%) for energy efficiency/renewable energies.

Out of all specific funds, 353 were implemented without a holding fund and 171 were implemented through 68 holding funds. Holding funds received contributions from 1 to 10 operational programmes and made contributions to between 1 and 13 specific funds.

Most of the currently operating holding funds were set-up in 2009 (32) and 2010 (17). Six new holding funds were established in 2011, including three of them in cooperation with the European Investment Bank (as a HF manager) in the area of urban development.

Holding funds were managed either by the European Investment Bank or the European Investment Fund (31), or by other financial institutions or bodies (37). They were set up either as a separate block of finance within a financial institution (two thirds) or as an independent legal entity governed by agreement between the co-financing partners and shareholders (one third). Additionally, managing authorities awarded direct contracts to the EIB (18 cases reported) or to the EIF (13 cases reported) to manage OP contributions allocated to FEIs¹⁰.

¹⁰ The numbers reported for EIB and EIF present a state of play as of 31/12/2011.

2. Financial engineering instruments for enterprises

The legal framework for financial engineering instruments for enterprises is established in Article 44(a) of the General Regulation which states that *"as part of an operational programme, the Structural Funds may finance expenditure in respect of an operation comprising contributions to support the following: (a) financial engineering instruments for enterprises, primarily small and medium-sized ones, such as venture capital funds, guarantee funds and loan funds"*.

In light of the above, this chapter summarises information on financial engineering instruments for enterprises implemented with or without a holding fund, pursuant to Article 44 of Council Regulation (EC) 1083/2006. Financial engineering instruments for enterprises represent the highest percentage (nearly 90%) of all financial engineering instruments implemented in 2007-2011. At the end of 2011 a total of 484 specific funds for enterprises offering all types of financial products (namely: loans, guarantees, equity/venture capital and other products¹¹) were set up. The majority (341) of those specific funds were implemented without a holding fund. The remaining 143 specific funds were implemented through a holding fund. Structural Funds assistance was paid to support financial engineering instruments for enterprises in 25 Member States (except Ireland and Luxembourg) and by one cross-border co-operation programme.

There are substantial differences among Member States as regards geographical coverage, total number, type and size of specific funds for enterprises, namely:

- In 8 Member States and 1 cross-border co-operation region 42 specific funds have been implemented without a holding fund;
- In 6 Member States 16 specific funds have been implemented through national and regional holding funds;
- In 11 Member States 426 specific funds were implemented with both modes of implementation i.e. with holding fund and without holding fund;
- Almost all (47) of holding funds set up to implement specific funds for enterprises were operational, namely they selected financial intermediary(ies) and made contributions to specific funds. Only one holding fund (in SK) did not set up any specific funds for enterprises by the end of 2011;

¹¹ For example: interest rate subsidies, guarantee fee subsidies, interest rate rebates and equivalent measures.

- 13 holding funds in 10 Member States were managed by the EIF, thus the majority (34) of holding funds were managed by financial institutions and bodies other than the EIF;
- According to the information received, funding agreements between managing authorities and specific funds and/or between holding funds and specific funds were all concluded between 2007 and 2011: almost a half of the funding agreements were signed in 2009 – 2010. In 2011, 76 new specific funds were established, with most new funding agreements signed in Poland, France and Italy;
- Out of 484 specific funds, 18 were set-up under ESF Operational Programmes in 6 Member States (DE, DK, EE, IT, LT and LV). Although the number of ESF co-financed financial instrument and corresponding paid amounts remain modest, five new funding agreements were signed in 2011.

The table below presents the aggregated data in relation to FEIs for enterprises at year end 2011.

N°	Member State	N° of FEIs*	OP contributions paid to FEIs** (in EUR million)	out of which Structural Funds (in EUR million)	OP contributions paid to specific funds*** (in EUR million)	OP contributions remaining in HFs (in EUR million)
1	BE	9	264.04	106.95	264.04	
2	BG	3	199.00	169.15	1.12	197.88
3	CZ	2	285.48	203.46	285.48	
4	DK	6	19.52	7.01	19.52	
5	DE	37	1291.65	813.28	1291.65	
6	EE	5	132.04	105.69	132.04	
7	EL	10	710.00	597.27	2.03	707.97
8	ES	5	339.30	230.78	149.99	189.31
9	FR	111	261.25	116.22	214.08	47.17
10	IT	74	1972.17	963.46	1860.61	111.56
11	CY	4	20.00	17.00	2.54	17.46
12	LV	9	239.07	186.41	164.19	74.88
13	LT	24	283.65	283.65	125.56	158.09
14	HU	3	398.02	338.32	270.59	127.43
15	MT	2	10.00	8.50	1.34	8.66
16	NL	5	43.22	11.01	43.22	
17	AT	2	22.89	8.41	22.89	
18	PL	128	821.73	693.52	364.59	457.13
19	PT	15	248.65	166.08	244.70	3.95
20	RO	3	100.00	86.00	2.15	97.85
21	SI	10	99.21	84.33	98.09	1.11
22	SK	1	100.00	85.00	0.00	100.00
23	FI	1	90.83	42.85	90.83	
24	SE	11	150.63	70.72	150.63	
25	UK	50	796.17	356.95	402.77	393.40
26	CBC	1	4.12	1.12	4.12	
	Total	531	8 902.65	5 753.16	6 208.78	2 693.87

* including: holding funds and specific fund implemented with and without a holding fund;

** paid to holding funds and directly to specific funds implemented without a holding;

*** paid to specific funds implemented with and without a holding fund.

3. Financial engineering instruments for urban development

Article 44 (b) of the General Regulation states that financial engineering instruments can also take the form of actions which make repayable investments (or provide guarantees for repayable investments) in public private partnerships or other urban projects included in integrated plans for sustainable urban development.

Over 2007-2011, Operational Programmes contributions supported 28 specific funds in the area of urban development in 10 Member States (BG, CZ, DE, EL, ES, IT, LT, PL, PT, UK). The majority (25) were implemented through 18 holding funds. Only in two Member States (Germany and the United Kingdom) were financial engineering instruments for urban development implemented both with and without holding funds.

In most of the ten Member States concerned there was only one holding fund established, however, four Member States (ES, IT, PL, UK) reported two or more holding funds. Holding funds for urban development were established mostly in 2009 (8) and 2010 (7), with only 3 set up in 2011.

18 holding funds were managed by the European Investment Bank¹² and only one (in Germany) was managed by a financial institution other than the EIB.

The table below presents the aggregated data in relation to FEIs for urban development.

N°	Member State	N° of FEIs*	OP contributions paid to FEIs** (in EUR million)	out of which Structural Funds (in EUR million)	OP contributions paid to specific funds*** (in EUR million)	OP contributions remaining in HFs (in EUR million)
1	BG	2	33.00	28.05	0.00	33.00
2	CZ	1	20.58	17.49	0.00	20.58
3	DE	3	30.00	20.00	30.00	0.00
4	EL	2	258.00	211.32	0.00	258.00
5	ES	6	207.96	152.77	207.96	0.00
6	IT	2	170.00	77.45	0.00	170.00
7	LT	5	149.41	127.00	28.00	121.41
8	PL	11	256.04	213.64	217.90	38.13
9	PT	4	58.02	45.02	0.00	58.02
10	UK	10	350.14	181.97	92.84	257.30
	Total	46	1 533.15	1 074.71	576.70	956.44

* including: holding funds and specific fund implemented with and without a holding fund;

** paid to holding funds and directly to specific funds implemented without a holding;

*** paid to specific funds implemented with and without a holding fund.

¹² According to the most recent data from EIB, 5 national and 13 regional JESSICA holding funds were managed by the EIB at the end of 2011.

4. Financial engineering instruments for use of renewable energy and energy efficiency

Structural Fund Regulations, namely Article 44 (c) of the General Regulation, foresee also the possibility for financing investments in energy efficiency and use of renewable energy in buildings (including in existing housing), through funds or other incentive schemes providing loans, guarantees for repayable investments or equivalent instruments.

At the end of 2011 there were 15 specific funds for energy efficiency and renewable energies supported by 12 Operational Programmes in five Member States: Estonia (1), Germany (1), Greece (6), Italy (2) and the United Kingdom (2). Out of 12 specific funds implemented through a holding fund, 9 were set-up in 2009-2010 without a holding fund and remaining 3 were implemented through a holding fund set up in 2010-2011.

N°	Member State	N° of FEIs*	OP contributions paid to FEIs** (in EUR million)	out of which Structural Funds (in EUR million)	OP contributions paid to specific funds*** (in EUR million)	OP contributions remaining in HFs (in EUR million)
1	DE	2	20.00	15.00	15.00	5.00
2	EE	1	41.74	17.00	41.74	0.00
3	EL	2	241.00	200.26	4.66	236.34
4	IT	4	21.50	8.39	21.50	0.00
5	UK	6	20.63	9.63	20.63	0.00
	Total	15	344.87	250.28	103.54	241.34

* including: holding funds and specific fund implemented with and without a holding fund;

** paid to holding funds and directly to specific funds implemented without a holding;

*** paid to specific funds implemented with and without a holding fund.

IV. Presentation of specific topics related to data on financial engineering instruments

1. Financing of financial engineering instruments

Operational Programme contributions to financial engineering instruments

As a part of an operational programme, Structural Funds may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments for enterprises (primarily small and medium-sized ones), urban development funds or funds or other incentive schemes providing loans, guarantees for repayable investments, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing.

Two main conditions should be met to qualify the contributions from the operational programmes as financial engineering instruments under the Structural Regulations: (1) the contributions should be targeted to the specific final recipients or specific type of above-mentioned investments and (2) the contributions should take the form of repayable investments, namely equity, loans and/or guarantees, micro-finance and other forms of revolving assistance.

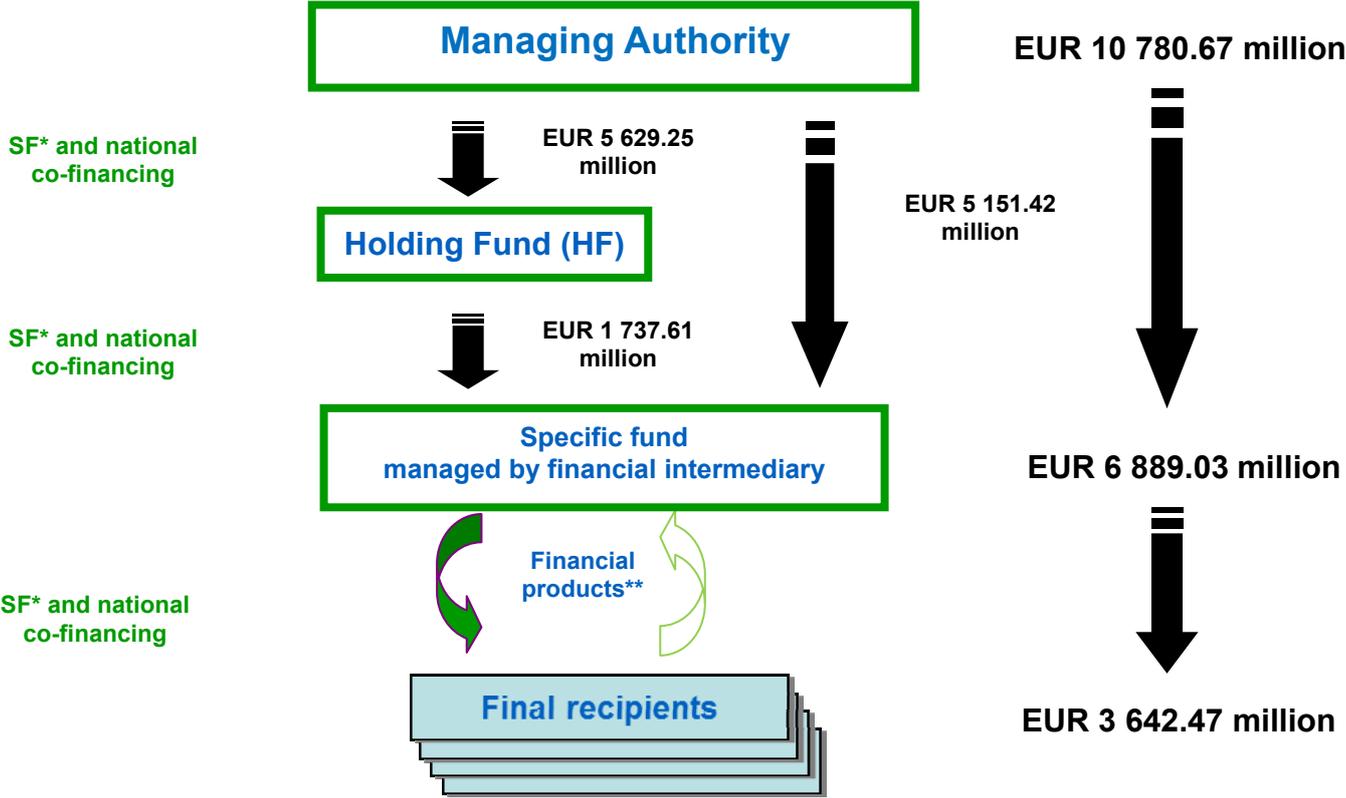
At the end of 2011 the total value of OP contributions paid by managing authorities to financial engineering instruments (either to the holding funds or directly to the specific funds) amounted to 10 780.67 EUR million, out of which EUR 7 078.15 million of Structural Funds.

The total value of operational programme contributions paid to the holding funds amounted to EUR 5 629.25 million, including 4 143.55 million of Structural Funds assistance.

Out of EUR 5 629.25 million of OP contributions paid to the holding funds, EUR 1 737.61 million were subsequently paid by the holding funds to specific funds. This means that EUR 3 891.64 million of OP contributions remained at the level of holding funds at the end of 2011.

In addition, EUR 5 151.42 million of OP contributions, including EUR 2 934.60 million of Structural Funds, were paid directly from managing authorities to the specific funds set up without a holding fund.

In total, EUR 6 889.03 million of OP contributions reached specific funds and were available to support final recipients by the end of 2011, out of which EUR 3 642.47 million was already invested in final recipients.



*SF = Structural Funds

** in the form of equity, loans, guarantees or other forms of repayable investments

The highest share, namely EUR 8 902.65 million, went to **FEIs for enterprises** (either to holding funds or directly to specific funds). Of this, an aggregated amount of EUR 5 753.16 million was paid from the Structural Funds, out of which more than 96% (EUR 5 545.55 million) from the ERDF. The ESF operational programmes contributed to financial engineering instruments for enterprises a total amount of EUR 388.28 million, including EUR 207.61 million from ESF.

Operational Programme contributions paid to FEIs for enterprises							
N°	Member State	N° of FEIs*	OP contributions paid to FEIs** (in EUR million)	OP contributions paid to specific funds*** (in EUR million)	OP contributions paid to final recipients (in EUR million)	OP contributions remaining in HFs (in EUR million)	OP contributions remaining in specific funds (in EUR million)
1	BE	9	264.04	264.04	100.24	0.00	163.80
2	BG	3	199.00	1.12	1.12	197.88	0.00
3	CZ	2	285.48	285.48	252.21		33.27
4	DK	6	19.52	19.52	8.37		11.15
5	DE	37	1291.65	1291.65	625.27	0.00	666.38
6	EE	5	132.04	132.04	103.77		28.27
7	EL	10	710.00	2.03	5.53	707.97	(*)
8	ES	5	339.30	149.99	215.07	189.31	(*)
9	FR	111	261.25	214.08	137.26	47.17	76.83
10	IT	74	1972.17	1860.61	743.72	111.56	1116.89
11	CY	4	20.00	2.54	2.52	17.46	0.02
12	LV	9	239.07	164.19	158.64	74.88	5.55
13	LT	24	283.65	125.56	144.40	158.09	(*)
14	HU	3	398.02	270.59	222.70	127.43	47.89
15	MT	2	10.00	1.34	1.34	8.66	0.00
16	NL	5	43.22	43.22	35.95		7.27
17	AT	2	22.89	22.89	0.95		21.94
18	PL	128	821.73	364.59	212.68	457.13	151.92
19	PT	15	248.65	244.70	139.56	3.95	105.14
20	RO	3	100.00	2.15	2.15	97.85	0.00
21	SI	10	99.21	98.09	64.03	1.11	34.06
22	SK	1	100.00	0.00	0.00	100.00	0.00
23	FI	1	90.83	90.83	54.77		36.06
24	SE	11	150.63	150.63	44.06		106.57
25	UK	50	796.17	402.77	307.14	393.40	95.63
26	CBC	1	4.12	4.12	0.39		3.73
	Total	531	8 902.65	6 208.78	3 583.85	2 693.87	2 624.93

* including: holding funds and specific fund implemented with and without a holding fund;

** paid to holding funds and directly to specific funds implemented without a holding;

*** paid to specific funds implemented with and without a holding fund;

(*) figures not provided as the amounts reported by managing authorities, primarily in lead to the unrealistic results at the level of aggregated data

OP contributions paid to the **funds in the area of urban development** amounted to EUR 1 533.15 million at the end of 2011. Most of this (EUR 1 460.59 million, including EUR 1 030.33 million of ERDF) was paid to 18 holding funds. The holding funds paid less than one third of the OP contributions received from managing authorities, namely EUR 504.15 million to the specific urban development funds. EUR 956.44 million (with EUR 628.07 million of ERDF) remained at the level of holding funds at the end of 2011.

In 5 Member States (BG, CZ, EL, IT and PT) OP contributions have not been distributed to specific urban development funds. In addition, EUR 72.56 million of OP contributions were paid directly from managing authorities to 3 specific funds implemented without holding funds in Germany (1) and the United Kingdom (2).

Operational Programme contributions paid to FEIs for urban development							
N°	Member State	N° of FEIs*	OP contributions paid to FEIs** (in EUR million)	OP contributions paid to specific funds*** (in EUR million)	OP contributions paid to final recipients (in EUR million)	OP contributions remaining in HFs (in EUR million)	OP contributions remaining in specific funds (in EUR million)
1	BG	2	33.00	0.00	0.00	33.00	0.00
2	CZ	1	20.58	0.00	0.00	20.58	0.00
3	DE	3	30.00	30.00	4.06	0.00	25.94
4	EL	2	258.00	0.00	0.00	258.00	0.00
5	ES	4	207.96	207.96	0.00	0.00	207.96
6	IT	2	170.00	0.00	0.00	170.00	0.00
7	LT	5	149.41	28.00	2.11	121.41	25.89
8	PL	11	256.04	217.90	0.00	38.13	217.90
9	PT	4	58.02	0.00	0.00	58.02	0.00
10	UK	12	350.14	92.84	0.00	257.30	92.84
	Total	46	1 533.15	576.70	6.17	956.44	570.53

* including: holding funds and specific fund implemented with and without a holding fund;

** paid to holding funds and directly to specific funds implemented without a holding;

*** paid to specific funds implemented with and without a holding fund.

Cohesion policy support **to funds in the area of energy efficiency** reached a total amount of EUR 344.87 million of OP contributions at the end of 2011. Out of which EUR 267.50 (including EUR 217.65 million of ERDF) was paid to holding funds set up in Germany, Greece and Italy. Only a small part of OP contributions (EUR 26.16 million, including EUR 18.87 million of ERDF) was afterwards transmitted from holding funds to specific funds. A further EUR 77.37 million of OP contributions (with EUR 32.63 million of ERDF) went directly to specific loan funds set-up without a holding fund in Estonia, Italy and the United Kingdom. Altogether OP support paid to specific funds for energy efficiency and renewable energies amounted to EUR 103.54 million, including EUR 51.50 million of Structural Funds' assistance.

Operational Programme contributions paid to FEIs for energy efficiency and renewable energies							
N°	Member State	N° of FEIs*	OP contributions paid to FEIs** (in EUR million)	OP contributions paid to specific funds*** (in EUR million)	OP contributions paid to final recipients (in EUR million)	OP contributions remaining in HFs (in EUR million)	OP contributions remaining in specific funds (in EUR million)
1	DE	2	20.00	15.00	2.32	5.00	12.68
2	EE	1	41.74	41.74	29.92	0.00	11.82
3	EL	2	241.00	4.66	3.41	236.34	1.25
4	IT	4	21.50	21.50	0.00	0.00	21.50
5	UK	6	20.63	20.63	16.80	0.00	3.83
	Total	15	344.87	103.53	52.45	241.34	51.08

* including: holding funds and specific fund implemented with and without a holding fund;

** paid to holding funds and directly to specific funds implemented without a holding;

*** paid to specific funds implemented with and without a holding fund.

Management costs and fees

Regarding eligible management costs and fees¹³, a total of EUR 312.06 million OP contributions (Structural Funds assistance and national co-financing) were reported as paid by managing authorities.

At the level of holding funds the managing authorities reported EUR 148.29 million paid in management costs and fees, while at the level of specific funds operating with a holding fund, they amounted to EUR 59.26 million and at the level of specific funds implemented without a holding fund EUR 104.51million. Out of the total amount of EUR 163.77 million reported as eligible management costs and fees paid at the level of specific funds, EUR 153.53 million were paid to FEIs for enterprises, EUR 8.64 million to FEIs for urban development and EUR 1.60 million to FEIs for energy efficiency/renewable energies.

In relation to the OP contributions paid to the funds over the period 2007-2011, the management costs and fees represented:

- per level of implementation: 2,63% for holding funds, 3,41% for specific funds operating under holding fund and 2,03% for specific funds operating without a holding fund;
- per type of FEIs: 2,42% for funds for enterprises, 3,20% for funds for urban development and 0,47% for fund for energy efficiency/renewable energies.

¹³ Management costs and fees in the meaning of Article 78(6) of the General Regulation comprise any and all fees, costs, expense and other proceeds paid from the OP to the managers of HFs or of FEIs, as reimbursement or compensation for managing the funds provided from OPs for effective investment in final recipients and which can be declared as eligible expenditure for reimbursement from Structural Funds. Management costs refer to cost items reimbursed against evidence of expenditure, management fees refer to an agreed price or compensation for services rendered. Thresholds of management costs and fees for each category of funds or instruments on a yearly average, are established as a percentage of the capital contributed from the operational programme, are set out in Article 43(4) of the Implementing Regulation. These rates are maximum rates which should not be exceeded for unless a competitive tendering procedure reveals that higher rates are necessary.

2. Investments made by financial engineering instruments in final recipients

In total, managing authorities reported EUR 3 638.86 million of Operational Programme contributions as being disbursed by specific funds to final recipients.

Most of these disbursements i.e. EUR 3 583.85 million were reported for FEIs for enterprises. Regarding specific urban development funds, only in two Member States (Germany and Lithuania) investments took place at the level of final recipients, for a total amount of EUR 2.56 million disbursed through loans.

Specific funds for energy efficiency/renewable energies invested EUR 52.45 million at the level of final recipients, i.e. more than half of the amounts available at the level of specific funds. The structural funds contribution amounted to EUR 29.42 million.

The tables below illustrate the number of repayable investments made in final recipients, as well as the amount of OP resources paid (or amount of guarantees committed) to those product.

Number of products offered to final recipients (per type of FEI)

	All FEIs	FEIs for enterprises	FEIs for urban development	FEIs for energy efficiency and renewable energies
Loans	46 179	38 997	61	7 121
Guarantees	24 414	24 414	0	0
Equity/ venture capital	1 357	1 357	0	0
Other products	3 225	3 225	0	0
TOTAL	75 175	67 993	61	7121

Amounts disbursed to final recipients (in EUR million)

	All FEIs	FEIs for enterprises	FEIs for urban development	FEIs for energy efficiency and renewable energies
Loans	1 553.57	1 494.95	6.17	52.45
Guarantees	1 129.63	1 129.63	0.00	0.00
Equity/ venture capitals	580.27	580.27	0.00	0.00
Other products	379	379	0.00	0.00
TOTAL	3 642.47	3 583.85	6.17	52.45

2.1 Investments in enterprises

The data provided in the Annual Implementation Reports for 2011 indicated that investments in enterprises were realised by FEIs through loans, guarantees, equity/venture capital and other investments. Most of the specific funds offered to enterprises offered only one financial

product, but 73 of them offered two or more types of financial products to final recipients. This was the case for funds offering both loans and guarantees or offering also interest rate subsidies or guarantee fee subsidies.

Investments through loans

FEIs for enterprises offering loans started to sign funding agreements with managing authorities or HF in 2007 (with 12 funding agreement signed) and progressively increasing in 2008-2011. As of 31 December 2011, there were 304 specific funds for enterprises supported by Structural Funds assistance (including 6 loan funds supported from ESF) offering loans. Some (4) specific funds supported from ESF Operational Programmes have also offered a combination of loans and guarantees as financial products.

In the period 2007-2011, a total of 38 997 loans was reported for an amount of EUR 1 494.95 million of OP contributions, including EUR 1 067.04 million as the Structural Funds part. On average, OP contributed EUR 0.04 million of (EUR 0.03 million of SFs) per loan disbursed to enterprises.

Investments through guarantees

The first FEIs for enterprises offering guarantees as a financial product were set up in 2007-2008. The number of funding agreements signed between financial intermediaries and managing authorities or HF offering guarantees grew progressively, reaching a peak in 2009 with 51 specific funds set up. As of 31 December 2011, there were 134 funds for enterprises offering guarantees as a financial product.

In the period 2007-2011, managing authorities reported 24 414 guarantees committed for disbursed loans with an OP contribution of EUR 1 129.63 million, including EUR 452.51 million of Structural Funds. On average EUR 0.05 million of OP contributions, including EUR 0.02 million from Structural Funds support was provided per guarantee committed for disbursed loan for enterprises.

Investments in equity/venture capital

In 2007-2011, FEIs for enterprises signed also funding agreements with managing authorities or holding funds in order to make equity and quasi-equity investments in enterprises. Most of

the funding agreements for equity and venture capital funds were signed during in 2009-2011, reaching 127 specific funds for enterprises offering this type of funding as a financial product by the end of 2011 with two specific funds which provided a combination of loans and equity as financial products.

As of 31 December 2011, FEIs for enterprises reported 1 357 equity and quasi-equity investments in enterprises representing a total of EUR 580.27 million of OP contributions, including EUR 316.83 million from Structural funds assistance. The OP contribution paid to one equity investment was of range of EUR 0.43 million, out of which EUR 0.23 from Structural Funds.

Investments in other products

Other products in the sense of Articles 44 and 78(6) of the General Regulation include interest rate subsidies, guarantee fee subsidies and equivalent measures, which can be considered to be a part of the financial engineering instrument and of the repayable investment when they are associated and combined with loans or guarantees co-financed from Structural Funds in a single financing package. In the context of ERDF assistance, pure interest rate subsidies or pure guarantee fee subsidies are not considered as FEIs, as they are not repaid and do not support risk-sharing as such. Measures such as loan discounts or capital rebates can be assimilated to interest rate subsidies provided that the overall amount reimbursed by the final recipients until maturity is not expected to be lower than the principal of the loans on which interest was calculated. In 2007-2011 this type of financial product was offered by one specific fund in Latvia supported from the ESF Operational Programme.

In 2007-2011, 37 funds for enterprises offered other financial products falling under these categories. The total number of investments in other products offered to final recipients amounted to 3 225 representing EUR 379.00 million of OP contributions, out of which EUR 220.26 million from Structural Funds. It means that each investment benefited on average from EUR 0.12 million of OP contributions and EUR 0.07 million of Structural Funds.

2.2 Investments in urban development projects

The scope of the projects supported by FEIs in 2007-2011 included, *inter alia*, brown field regeneration and development of sustainable urban infrastructure. Investments at the level of final recipients made by specific funds in Germany and Lithuania have been realised through loans. The average OP contribution invested per project was EUR 0.10 million.

2.3 Investments in energy efficiency/renewable energy projects

Almost all specific funds (except 3 in Italy) were operational by the end of 2011 and had invested between 1,4% and 80% of their contributions received from Operational Programme(s). Managing authorities reported disbursement of 7 121 loans, which means that on average OP contributed EUR 0.01 million per loan.

V. Conclusions

In view of the different context and legal basis of last year's synthesis report, it is not possible to draw definitive comparisons with the data received for 2010. Overall, however, the 2011 data appears to confirm the previous year's message that the amount of Structural Funds implemented through FEIs has continued to increase over the period 2007-2013, in particular for instruments targeting enterprises.

Financial engineering instruments for urban development and energy efficiency/renewable energies reached 17% of the amount paid to all FEIs (expressed as the total amount of OP contributions paid to these funds) at the end of 2011, but the flow to concrete urban projects remained slow.

Out of the 592 financial engineering instruments operating at the end of 2011 more than 90% account for FEIs for enterprises, 8% for urban development projects and 2% for funds for energy efficiency/renewable energies. More than 90% of the amounts actually disbursed to final recipients went to enterprises (mainly through loans and guarantees which made up over 94% of allocated amounts). Management costs and fees reported by managing authorities on average account in the entire period 2007-2011 for 2.49% of OP contributions made.

The following main lessons can also be learned with regard to current year's reporting exercise:

- The process of collecting the data by managing authorities and transmitting them to the Commission, should start as early as possible in order to identify gaps and errors in good time and MAs to adapt their monitoring systems data in the AIR SFC2007 for 2012 and the Commission to produce the summary based on the most complete and accurate monitoring data.
- Member States should be encouraged as much as possible to provide input also on the optional data requested in the monitoring templates (as amounts committed to the funds, number and type of final recipients), as this is invaluable for providing a more complete picture on how the FEIs work in practice.
- The reporting exercise in 2011 and analysis of the data received on FEIs has required a significant investment by all stakeholders, both at Member State and Commission level. Building on this experience, the Commission will make the necessary effort to make the reporting exercise understandable for managing authorities and coherent with the Annual Implementation Report process. For this purpose guidance documents will be provided and, if desired by Member States, technical sessions about the reporting process could be organised