European Structural and Investment Funds

Guidance for Member States on

Article 46 - reporting on financial instruments

and on

Article 37(2)(c) - leverage effect

DISCLAIMER

This is a working document prepared by the Commission services. On the basis of applicable EU law, it provides technical guidance for colleagues and bodies involved in the monitoring, control or implementation of the European Structural and Investment Funds on how to interpret and apply the EU rules in this area. The aim of this document is to provide Commission services’ explanations and interpretations of the said rules in order to facilitate the programme implementation and to encourage good practice(s). This guidance is without prejudice to the interpretation of the Court of Justice and the General Court or decisions of the Commission.
1. Introduction

The present guidance is intended for the European Structural and Investment (ESI) Fund managing authorities (MA). Its purpose is (i) to provide support when preparing reporting on financial instruments (FIs) operations, and (ii) to explain the main concepts and calculation methods of the leverage effect of ESI Funds supported FIs for the purpose of their set up, implementation and reporting.

2. Regulatory references and text

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<th>Regulation</th>
<th>Articles</th>
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3. Reporting on financial instruments (Article 46 CPR)

The part of the guidance dedicated to reporting on FIs addresses questions and issues raised by MA. It recalls the objectives of the reporting on FIs, obligations of the Member States (MS) and the Commission, provides an overview of the regulatory requirements and main changes as compared to the programming period 2007-2013, and explains the rationale for a number of technical adjustments in SFC2014\(^1\) to ensure a better electronic communication between the MS and the Commission.

3.1. Objectives of the reporting

The information reported in accordance with Article 46(2) CPR allows the Commission to assess progress made in financing and implementing FIs and to present it, once per year, in summaries of data pursuant to Article 46(4) CPR. The regular reporting on FIs and assessment of their progress ensures transparency of the implementation process and appropriate monitoring by Member States and by the Commission.

For the purposes of the specific reporting on FIs referred to in Article 46(1) CPR, the MA must use the model set out in Annex I of the Commission Implementing Regulation 2019/255 (further on "reporting model"). The reporting model ensures that the specific report covering the operations comprising FIs in the implementation reports\(^2\) includes all categories of information required in Article 46(2) CPR, the information is reported in a consistent and comparable way and can be consolidated and aggregated to allow the Commission to fulfil its obligations in line with Article 46(4) when preparing the summaries of data. This is why data on FI must be communicated to the Commission in a structured way through SFC2014.

\(^1\) SFC2014's main function is the electronic exchange of information system concerning shared Fund management between Member States and the European Commission. Information about FIs must be transmitted to the Commission in a structured way in an electronic format in the SFC2014 reporting module. The terms and conditions applicable to the electronic data exchange between the MS and the Commission are set out in the Commission Implementing Regulation (EU) No 2019/255.

\(^2\) The Fund specific rules and implementing acts adopted by the Commission contain sections for reporting on financial instruments in the content and structure of the annual and final reports when reporting to the Commission. These sections are as follows:

For ERDF, CF, ESF in section 8 of the Model for the annual and final implementation reports for the Investment for growth and jobs goal, Annex V of the Commission Implementing Regulation (EU) 2015/207;

For EAFRD in section 10 and Section 11 of the Structure and content of annual implementation reports (referred to in Article 50 of Regulation (EU) No 1303/2013 and Article 75 of Regulation (EU) No 1305/2013), Annex VII of the Commission Implementing Regulation (EU) No 808/2014;

For ETC in section 7 of the Model for the implementation reports for the European territorial cooperation goal, Annex X of the Commission Implementing Regulation (EU) 2015/207;

For EMFF in section 10 of the Model for the annual implementation report of the EMFF, Annex of the Commission Implementing Regulation (EU) no 1362/2014.
3.2. Main changes compared to the programming period 2007-2013

The reporting model has a similar structure to the one used for ERDF and ESF Operational Programmes as of 2011, which was developed to fulfil the reporting requirements under Article 67(2)(j) of Council Regulation (EC) No 1083/2006 under the programming period 2007-2013³.

Compared to the previous programming period, in 2014-2020 there is only one reporting model for FIs implemented under all five ESI Funds (ERDF, CF, ESF, EAFRD and EMFF) programmes. This model may be further adapted to the needs of EAFRD and EMFF, in line with the specific rules of those Funds and communicated to the MA accordingly.

The main changes concern the introduction of new elements as set out in Article 46(2) CPR and are coherent with the Financial Regulation i.e.:

- reporting on FIs that are implemented according to Article 38(4)(d) CPR;
- reporting by priority axis or measure from which support from the ESI Funds is provided to the financial instrument;
- additional information on implementing arrangements (ex-ante assessment, selection etc.);
- information on interest and other gains generated by support from the ESI Funds to the FIs;
- resources paid back to FIs from investments or from the release of resources committed;
- reporting on amounts used for differentiated treatment;
- the value of equity investments;
- total amounts re-invested by the FI;
- progress in achieving the expected leverage;
- total amount of investment mobilised through investments made by ESI Funds FIs; and
- contribution of the FI to the achievement of the indicators of the priority axis or measure concerned.

3.3. Reporting to the Commission

All parts and sections in the reporting model are mandatory, however:

- the information required in paragraphs (h) and (j) of Article 46(2) CPR concerning the achievement of leverage effect and the contribution of FI to the achievement of the indicators respectively, may be provided only twice during the programming period: in the annual implementation reports submitted in 2017 and 2019, as well as in the final implementation report⁴.

- the categories of information defined in data fields 18, 19, 20 and 21 of the section IV of the reporting model has to be provided only in the final implementation report.

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³ Reporting instructions for the Financial Engineering Instruments (EGESIF_15-0015-01)

⁴ The possibility to report the information on the progress of achieving the leverage effect (46(2)(h) CPR) and contribution of the financial to the achievement of the indicators of the priority or measure concerned (Article 46(2)(j)CPR) is available in SFC2014 reporting module every reporting year. The respective data fields are active to be filled in.
A few additional optional data fields are described in section 3.4 of this guidance.

The reporting model contains indications on the format of the information required (i.e. text, number or date). Detailed technical characteristics of the requested information (for example, input method, format and length of each data field and links to the other information already available in the programme, drop-down list of the names of the priority axes or measures, drop-down list of indicators) are included in the electronic reporting module in SFC2014.

It is obligatory to report on FI commencing with the first report following the year during which the implementation of the FI has started, using SFC2014. This is understood as the year in which the ex-ante assessment has been completed and the MA has taken a positive decision to implement an FI. In cases when no FI has been envisaged in the programmes or the outcome of the ex-ante assessment was that no FI is going to be set up, it is not obligatory to fill out the section on FI in SFC2014.

For FIs set-up under Rural Development Programmes 2014-2020 (RDPs) supported with EAFRD, in order to ensure a better monitoring of the process leading up to their set-up, an indication on the advancement of ex-ante assessment is required for all programmes, regardless of whether FIs were planned in the programmes from the start. It means that in addition to the date of completion of the ex-ante assessment, the information on whether an ex-ante assessment has been launched should be provided in the introductory panel of the reporting module in SFC2014. The introductory panel is optional for the MA to provide the requested information.

The information required according to the reporting model has to be provided separately for each FI, including, where applicable, for fund of funds. The reporting obligations, as set out in Article 46(2)(a)-(j) CPR, do not apply at the level of the final recipient.

If the FI, including fund of funds, receives contributions from more than one ESI Fund and/or programme, the MA must report only on the information relative to the programme under its responsibility and priority axes or measures.

Amounts related to FI generally have to be reported on a cumulative basis.

### 3.4. Rationale for technical changes and additional data fields

A limited number of optional additions in relation to the reporting model have been made in the SFC2014 module. As the SFC2014 module cannot create new reporting obligations, the relevant data fields have been marked as optional:

- **Amount of ESI Funds committed in funding agreements from the individual thematic objectives chosen in data field 3 (3.1) (optional):** Information by thematic objective allows the MS and the Commission to assess the contribution of the FIs to the key investment areas as per the specifications in the evaluative framework.

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5 In order to ensure consistency with the model in Annex I of the Commission Implementing Regulation 2019/255 the numbering from the model is kept in SFC2014.
Communication on the Investment Plan for Europe, i.e. SME-support, energy efficiency, Information and Communication Technology, transport and R&D support.

However, in cases where one priority axis contributes to several thematic objectives, further data are useful for reporting per thematic objective. The commitment per thematic objective needs only to be provided at the level of priority axis. For other data sets representing progress of implementation, for example, commitments and disbursements to final recipients, the amounts will be calculated pro-rata based on the breakdown of commitments per thematic objectives.

Under the EAFRD, it is required to provide an indicative breakdown by rural development focus areas (which will be translated into thematic objectives by SFC) at measure level in order to ensure consistency with the reporting principles under the EAFRD and to allow for comprehensive evaluation of the rural development programmes including where support is provided through Fl.

- **ESI Fund committed in funding agreements (14.1):** To facilitate aggregation by the Commission of amounts planned in FIs per ESI Fund, optional data fields 14.1.1 to 14.1.5 have been added.

- **Investment mobilised through investments made by ESI Funds financial instruments for loan/guarantee/equity and quasi-equity investment by product (39.3) (optional):** The Financial Regulation provides a definition of leverage of the FI which however does not capture the total amount of investment mobilised through ESI Funds FIs but rather the reimbursable financing provided. In order to report on the wider impact of the FI, it is useful to have additional information to capture the overall impact of the investment. The total size of the project supported by the ESI Funds FI should be reported in this data field.

  The total amount of the project, in addition to the financing provided by the FI, may include own contributions of the project promoter or other means of financing raised outside the FI. The amount may also include other support, for example, a national grant or a grant from ESI Funds.

Additionally, the following technical changes were introduced in SFC 2014:

- **Date of signature of the funding agreement for the financial product (23) is already available at the level of FIs (13).**

- **Date of completion of the ex-ante assessment (30) and Has selection or designation process already been launched (31.1) have been moved to section I, in order to capture instruments for...**

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6 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: An Investment Plan for Europe: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2014:903:FIN](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2014:903:FIN): Member States were recommended to deliver through FIs a percentage of the allocations made in their Partnership Agreements to each of “the key investment areas” as follows: 50% in the field of SME support; 20% in the field of CO2 reduction measures; 10% in the field of Information and Communication Technology; 10% in the field of sustainable transport; 5% in the field of support for Research Development and Innovation; and 5% in the field of environmental and resource efficiency. The use of micro-finance facilities to provide preferential loans was also deemed to be helpful to promote self-employment, entrepreneurship and develop micro-enterprises.

which the ex-ante assessment(s) have been completed or selection procedures have been
launched, but no FI has been set up yet. The number of selection procedures launched can be
derived from the information reported in the data field 31.1.

- **Total value of new debt finance created by the SME Initiative (Article 39 (10)(b) CPR) (26.1)** is
  added to fulfil the reporting requirements of Article 39(10)(b) CPR where MA have chosen to
  implement the SME Initiative.

- **Number of funding agreements already signed (31.2)** can be derived from the data available in
  the data field "Date of signature of the funding agreement with the body implementing the
  financial instrument (13)".

- **Achieved leverage effect for other support combined with financial instruments (39.2):** In order
to ensure consistency of the reporting on leverage, this number is not entered by the users in
SFC, but provided by the system, based on the formula of "Achieved leverage effect" presented
in section 4.2 of this guidance.

- **Value of equity investments with respect to previous years (in EUR) (40)** has been moved to
  section VII to ensure consistency between the requirement in Article 46(2)(i) CPR and the
  reporting model. MA have to report the book value of equity investments and participations.
  Changes of value on a year-by-year basis will be calculated with reporting tools.

### 3.5. Compliance and quality check of the FI information

In accordance with Article 50(6) CPR, the Commission must, within 15 working days of the date of
receipt of the report, assess the admissibility of the implementation report, including the information
on FI where applicable according to Article 46(1) and (2) CPR. In the absence of such information, the
report is considered inadmissible and MA are informed accordingly.

The Commission examines the quality of the information reported, including the information on FI
under Article 46 CPR and, in accordance with Article 50(7) CPR, informs the MA of its observations
within two months from the date of receipt of the report. MA have to ensure that the information
with respect to FI provided in the annual and final reports on implementation is consistent with the
information on FI reported under Article 46(2) CPR.
4. Leverage

4.1. Background
The ability to attract additional resources is a key characteristic of FIs and one of the main arguments for promoting their use to deliver ESI Funds policy objectives.

Evidence from the 2007-2013 programming period shows that FIs supported by the Structural Funds attracted, under certain circumstances, significant levels of additional public and private funding, although the legislative framework for that period did not request a full set of quantitative data on the leverage effect, nor a qualitative assessment of the conditions for its achievement.

In the 2014-2020 programming period, a reference to the leverage effect is included in the CPR at the stages of establishment and implementation of FIs. This section provides guidance on how to calculate the leverage effect of ESI Funds-supported FIs for the purposes of their set-up, implementation and reporting.

4.2. Main concepts and calculation methods
The leverage effect is defined in Article 2(38) of the Financial Regulation (FR): 'leverage effect’ means the amount of reimbursable financing provided to eligible final recipients divided by the amount of the Union contribution’. This is coherent with Article 209(2)(d) FR, which states that financial instruments shall achieve a leverage and a multiplier effect, with a target range of values based on an ex ante evaluation8 for the corresponding FI, by mobilising a global investment exceeding the size of the Union contribution, including, where appropriate, the maximisation of private investment. In the CPR, the ‘expected leverage effect’ is referred to in Article 37(2)(c) as 'an estimate of additional public and private resources to be potentially raised by the financial instrument down to the level of the final recipient (expected leverage effect)’.

In the light of the above, this section aims to ensure a uniform methodology for the calculation of leverage effect and its use by MA. This methodology is also to be applied when reporting to the Commission under Article 46 CPR.

The leverage effect as referred to in the CPR is taken into the account at the following stages of establishment and implementation of FIs.

- **at the stage of the preparation of the ex-ante assessment** - an analysis and estimate of the expected leverage effect as a result of the additional public and private resources expected to be raised by the FI (Article 37(2)(c) CPR);

- **at the subsequent signature of the funding agreement with the body implementing the FI** - the agreed expected leverage effect needs to be included in a business plan or equivalent documents for the financial instrument to be implemented, including the expected leverage (Annex IV, section 1 point (b) CPR);

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8 Ex-ante assessment for ESI Funds.
after launching the FI and at the stage of monitoring and reporting on its implementation - monitoring the progress in achieving the expected leverage as part of the mandatory reporting for the years 2017, 2019 and in the final implementation report (Article 46(2)(h) CPR).

The leverage indicated above should be established per financial product for the FI (i.e. not at the level of each individual transaction). For the reasons of simplicity and comparability, it should also be calculated in nominal terms (i.e. not in real terms). This means that there will be no discount rate applied to the forecasted future cash flows of the ESI Funds contribution and the total amount reaching final recipients.

Resources re-used pursuant to Articles 44 and 45 CPR should not be taken into account for the calculation of leverage, as they no longer constitute ESI Fund.

Own contributions from final recipients should not be taken into account for the calculation of the leverage effect, because such own contribution is not "additional public and private resources" raised by the FI and provided to final recipients.

For other forms of support combined within the FI in a single operation in accordance with Article 37(7) CPR, no separate leverage is to be reported because such other forms of support are established to facilitate equity, guarantee or loan instruments and are part of the FI operation.

4.2.1. Calculation of the expected leverage effect

The expected leverage effect should be estimated before the effective implementation of the instrument. It is an obligatory element of the funding agreement between the MA and the body implementing the FI\(^9\) (Annex IV, section 1 point (b) CPR) and will become an agreed target. Except in duly justified cases\(^10\), it should remain constant throughout the duration of the FI.

It should be calculated as follows:

\[
\text{Expected leverage effect} = \frac{\text{Total expected amount of finance to eligible final recipients}}{\text{ESI Funds amount committed to the financial instrument}}
\]

\(^9\) Or the strategy document in the case of implementation according to Article 38(4)(d) CPR.

\(^{10}\) For example, an unexpected significant change in the market conditions that could not have been envisaged at the time of drafting the funding agreement, but has occurred subsequently and has an impact on the performance of the FI, thus leading also to an update of the ex-ante assessment.
Total expected amount of finance to eligible final recipients: This corresponds to an estimate/forecast of the total amount of investments which are expected to reach final recipients that are eligible for support under the IFI and mobilised by the investment from the IFI, excluding own contributions from final recipients. The amounts reaching final recipients are understood as follows, depending on the specific instrument:

- **for equity instruments**, the total amount of finance (equity/quasi-equity) expected to be provided to eligible final recipients by the financial intermediaries and other co-investors at the level of the final recipients (if any);

- **for guarantee instruments** covering loans, the total amount of underlying loans to eligible final recipients which are guaranteed;

- **for loan instruments**, the total amount of loans expected to be paid to eligible final recipients by the IFI.

This estimate/forecast should be equal to the overall volume of finance expected to be mobilised and provided by the IFI, notably:

- **for loans and equity**, the sum of: (1) the expected ESI Funds contribution to the IFI\(^{11}\)*; (2) the expected national co-financing (public or private)*, i.e. within the programme; (3) the expected contribution by other investors, i.e. outside the programme contributions;

- **for guarantees**, the value of the loan portfolio for eligible final recipients expected to be guaranteed by the ESI Fund programme.

**Management costs and fees** expected to be paid for managing the IFI are excluded, as these amounts do not reach the final recipients.

**Amount of ESI Funds contribution:** the expected leverage effect in the ex-ante assessment is calculated in relation to the total amount of ESI Funds resources which the ex-ante assessment considers necessary for the IFI (while the ultimate decision about this amount will be taken by the MA, after having consulted the monitoring committee, subject to the availability of resources and the policy choices made).

The expected leverage effect in the funding agreement or the strategy document is calculated in relation to the total ESI Funds contribution to the IFI as indicated in the funding agreement or the strategy document\(^{12}\), committed to cover the IFI expenditure for individual transactions and inclusive of support combined with the IFI in a single operation and management cost and fees during its entire duration.

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\(^{11}\) * Including the expected amount of other forms of support (including technical support, interest rate subsidies, and guarantee fee subsidies) combined in a single IFI operation (pursuant to Article 37(7) CPR), if any.

\(^{12}\) As referred to in Article 38(8) and Annex IV, section 2 CPR.
Example 1:

The ex-ante assessment for the ERDF-financed operational programme A of Member State B recommends the setting up of a Loan Fund to address the difficult access to financing for SMEs. After having looked at the market gap and analysed the investment needs, including the availability of other forms of support targeting the SME sector, the ex-ante recommends (also mirrored in the funding agreement) that EUR 10 million ERDF resources are allocated from priority axis 1 of operational programme A to the Loan Fund. The rate of ERDF co-financing for this priority axis is 50%, therefore another 50% (EUR 10 million) is planned to be provided as national co-financing from the state budget of Member State B. It is estimated that 3 local commercial banks will also be interested to participate in the Loan Fund, adding another EUR 15 million on pari-passu conditions. No additional financing at the level of final recipients (SMEs) is expected.

The applicable State aid framework to be respected is Article 21 of Commission Regulation (EU) No 651/2014 (GBER) on risk finance aid to SMEs, and notably the requirement that at least 40% additional finance from independent private banks (the 3 commercial banks in this case) should be leveraged.

As regards the ESI Funds portion of management costs and fees, thresholds in Article 13 CDR will be applied (8% of the total amount of the programme contribution (to be) paid to the Loan Fund to be applied in this particular case (equal to EUR 1.6 million overall, of which EUR 0.8 million for the ESI Funds contribution).

On the basis of the above estimates, the expected leverage effect is 3.34 and is calculated as follows:

\[
\text{Total expected amount of finance to eligible final recipients (excluding MCF)} \\
\text{ESI Funds amount committed to the financial instrument (including MCF)}
\]

\[
\text{EUR 33.4 million} \\
\text{[out of which: EUR 10 million ERDF + EUR 10 million co-financing +} \\
\text{EUR 15 million private resources – EUR 1.6 million MCF]}
\]

\[
= 3.34
\]

\[
\text{EUR 10 million (including EUR 1.6 million MCF)}
\]

4.2.2. Calculation of the progress in achieving the expected leverage

The progress in achieving the expected leverage effect should be calculated throughout the implementation of the FI. Contrary to the initially calculated expected leverage effect, progress will vary during implementation. Both expected and achieved leverage effect should be compared in order to assess the progress of the FI in meeting its objectives.

During implementation, at the end of a particular reporting year, part of the ESI Funds contribution may have been paid into the FI but without reaching final recipients. This part of the ESI Funds contribution must be excluded from the leverage calculation, in order to provide for comparability of data and a correct presentation of the leverage effect.
Intermediate progress in achieving the expected leverage effect reached during implementation should therefore be calculated as follows:

\[
\text{Achieved leverage effect} = \frac{\text{Total amount of finance which reached eligible final recipients as of the end of a reporting year}}{\text{Eligible ESI Funds support which effectively contributed to the total amount of finance indicated in the numerator}}
\]

Total amount of finance which reached eligible final recipients as of the end of a reporting year, depends on the type of specific instrument and should be understood as follows:

- for **loan instruments** - the total amount of loans paid to eligible final recipients by the FI.
- for **guarantee instruments** covering loans - the total amount of the underlying and disbursed loans to eligible final recipients.
- for **equity instruments** - the amount invested in eligible final recipients (equity, quasi-equity) by the financial intermediaries and co-investors at the level of the final recipients (if any).

This should be equal to all resources invested in eligible final recipients, irrespective of whether they are private or public, as of the end of a reporting year for the calculation, namely:

- for **loans and equity**: the sum\(^{13}\) of (1) the ESI Funds contribution which reached the final recipients*; (2) the national public or private co-financing (i.e. within the programme), which reached the final recipients*; (3) the contribution by other investors, i.e. outside the programme, which reached the final recipients; (4) for the final implementation report: interest and other gains generated from treasury management (Article 43 CPR) and invested in final recipients.
- for **guarantees** the value of the loan portfolio made available to eligible final recipients actually guaranteed by the ESI Funds programme.

**ESI Funds support which contributed to the total amount of finance reaching final recipients**

During implementation, this will be the portion of ESI Funds support paid into the FI which effectively contributed to the total amount of finance reaching the final recipients as of the end of a reporting year, and to management cost and fees.

At closure, this will be the ESI Funds support paid into the FI and considered eligible expenditure under Article 42(a), (b) and (d) CPR.

\(^{13}\) * Including the amount of other forms of support (including technical support, interest rate subsidies, and guarantee fee subsidies) combined in a single FI operation, if any.
**Example 2:**

Using again the previous example for the Loan Fund, as of the end of reporting year X the MA claimed to the Commission and received reimbursement for two tranches of 25% each already paid into the Loan Fund (i.e. EUR 5 million from the ERDF contribution committed). However, only EUR 4 million of these actually reached eligible SMEs by the end of the reporting period.

The Member State is using the possibility provided in the CPR to provide the national co-financing later within the eligibility period, therefore as of the end of the reporting year X no national co-financing was yet paid into the FI or yet reached final recipients.

The body implementing the FI selected by the MA is one of the commercial banks referred to in the previous example. It has added own resources equal to EUR 7 million into the Loan Fund. EUR 3 million of these were invested in final recipients as of the end of year X.

The ESI Funds portion of the management costs and fees effectively paid to the body implementing the Loan Fund at the end of year X equals EUR 0.2 million.

The progress in achieving the expected leverage as of the end of year X is 1.67 and is calculated as follows:

\[
\text{Achieved leverage effect} = \frac{\text{Total amount of finance which reached eligible final recipients as of the end of a reporting year}}{\text{ Eligible ESI Funds support which effectively contributed to the total amount of finance indicated in the numerator}}
\]

\[
\text{EUR 4 million ERDF + EUR 0 million national co-financing} \\
+ \text{EUR 3 million private resources} \\

\text{EUR 4 million + EUR 0.2 million MCF} = 1.67
\]
4.3. Assessing a reasonable leverage effect

FI should generate a reasonable leverage effect. However, while a situation of not attracting any additional resources to the FI is to be considered exceptional, the leverage performance of each individual FI will directly depend on the market gap/sub-optimal investment situation it addresses, its type, location and type of final recipients, as well as on choices made by programme authorities regarding the trade-off between leverage and revolving effect.

It is helpful to note that:

- Leverage varies between products (for guarantees it is usually higher), between types of investment (could be lower for research and innovation and other high risk investments or for investments in micro enterprises), between regions (in richer regions a priori there is more readiness of private sector to co-invest), and between the development stages of final recipients supported (seed and start-up capital are more risky as compared to expansion investments).

- Depending on the objectives which the FI is meant to support, MA may consciously opt for long-term impact and sustainability of EU support through products which imply lower leverage but bring higher revolving amounts, i.e. a high leverage effect may be intentionally waived. EU funds in FI with very high leverage usually cover the highest risk share of the investment, and are consequently the first to be lost (first loss piece). The impact of EU funds will in this case be very high in the short term (significant leverage), but as a result of the high risk involved there could be little or no revolving effect of the EU contribution over time. On the other hand, products may have a relatively low leverage in the short term but a high impact and significant probability of bringing in returns in the long run.

- Attracting additional private resources is an important source for achieving leverage, but this should be looked at correctly in the specific context of the ESI Funds, which intervene in cases where public support is really needed, in order to avoid deadweight and to address a suboptimal market situation/fill in a market gap. It is therefore unreasonable to expect that such interventions will always attract massive private capital, but rather that the public resources can help attract private funds, by acting as a catalyst, in sectors/areas which otherwise may not have been considered at all.

- In 2014-2020, MA take decisions on ESI Funds programme contributions to FIs on the basis of a mandatory ex-ante assessment. This will examine evidence of market failures or sub-optimal investment situations and estimated level and scope of public investment needs, as well as the expected leverage effect and financial products to be offered.
5. Questions and answers

1) Is it obligatory to achieve a leverage effect of more than 1?

The CPR does not prescribe targets or minimum leverage to be achieved by the FI (except in the case of the SME Initiative, where a minimum leverage needs to be set).

However, the following also needs to be considered:

- ESI Funds available for public policy are often limited and additional resources are needed to pursue public objectives more effectively. The ability of FIs to attract such private and public funds (by sharing some of the financing risks or intervening where other actors do not wish to intervene alone) is therefore a key characteristic promoting their use;

- A number of legal provisions in the CPR (related to the ex-ante assessment, reporting, etc.) imply the presence of leverage. The ability of the body implementing FIs to raise resources for investments in final recipients which are additional to the programme contribution is one of the selection criteria to be used by MAs when selecting such bodies (Article 7 CDR);

- In terms of the leverage calculation, as a minimum, the national (private or public) co-financing to be provided alongside the ESI Funds resources will count for the calculation of leverage.

2) Are there any sanctions or penalties imposed if the achieved leverage is less than the expected leverage (as set out in the ex-ante assessment)?

Except in the case of the SME Initiative, the CPR does not impose requirements for achieving certain leverage per product, Member State/region etc. Therefore, the Commission cannot impose penalties or sanctions on the MA for not achieving the expected leverage as defined in the ex-ante assessment. In the relationship between the MA and the body implementing a FI, which is regulated by their bilateral funding agreement, the MA may decide however to impose sanctions or penalties on such a body, if the latter does not reach a leverage which was envisaged and agreed in the funding agreement. This is without prejudice to the rules on eligibility of expenditure at closure.

As regards the SME Initiative, Article 39(5) CPR requires that there is a minimum leverage set up in the dedicated operational programme/priority axis, which can vary between participating Member States. In the case that the minimum leverage is not achieved by the financial intermediary, the latter shall be contractually bound to pay penalties in accordance with the terms and conditions set in the relevant funding agreement. If however, the multiplier ratio is not achieved, this will have an impact on eligible expenditure, see (3) below.
3) What is the link between the leverage effect and the multiplier ratio?

In the specific case when Fls under Article 38(1)(b) and (c) CPR provide guarantees, a multiplier ratio must be calculated and applied (Article 8 of Commission Delegated Regulation (EU) No 480/2014). It is calculated as the ratio between 1) the value of disbursed loans or other risk sharing instruments, and 2) the amount of the programme contribution set aside/committed to cover expected and unexpected losses from new loans/other risk sharing instruments to be covered by the guarantees.

Compared to leverage, the multiplier ratio takes into account the programme contribution (ESI Funds + national co-financing), while in the case of leverage only ESI Funds are counted in the denominator. A proportional reduction of eligible expenditure is to be applied if the multiplier is not achieved (see Article 8 of CDR 480/2014 clarifying Article 42(1)(b) CPR).

Example 3:

In addition to the Loan Fund referred to above, Member State B has also set up a Guarantee Fund with EUR 2 million ERDF resources and EUR 2 million national co-financing (i.e. EUR 4 million programme contribution in total). The total amount of underlying loans disbursed to eligible final recipients and guaranteed by the instrument is EUR 20 million.

The multiplier ratio and leverage for this Guarantee Fund will be calculated as follows:

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<tr>
<th>Multiplier ratio</th>
<th>The value of the disbursed new loans/other risk-sharing instruments</th>
<th>The programme contribution set aside to cover expected and unexpected losses from new loans/other risk-sharing instruments to be covered by the guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR 20 million</td>
<td>EUR 4 million [out of which EUR 2 million ERDF and EUR 2 million co-financing]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expected leverage effect</th>
<th>Total expected amount of finance to eligible final recipients</th>
<th>ESI Funds amount committed to the financial instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR 20 million</td>
<td>EUR 2 million ERDF</td>
</tr>
</tbody>
</table>
4) In certain cases the support from a FI is only a small portion of the total project investment. Will this be captured for the calculation of the leverage? Further, will own resources of the final recipient (e.g. entrepreneur’s self-financing) also count for the calculation of leverage?

Own contributions of final recipients neither count as programme resources nor into leverage. Nevertheless, information about the total size of the project to which the FI support has also contributed can be reported by MS to demonstrate the overall impact of the ESI Funds (please see an optional data field 39.3 in the reporting module on FI in SFC2014, see also explanation in section 3.4, p. 6 of this Guidance Note).

5) How will the Commission calculate the leverage in the case of an implementation structure with a Fund of Funds, and several specific funds underneath (loans, guarantees, equity)?

The leverage should be calculated per financial product i.e. separately for the loan, guarantee and/or equity funds within the Fund of Funds structure. Leverage is not calculated at the level of the fund of funds.

6) How will the Commission calculate the leverage for ESIF in case of combination of an ESIF FI with EFSI?

In case of combination, the leverage for the ESIF should be calculated on a pro rata basis, in proportion to the ESIF and the corresponding national co-financing contributed to the instrument. Similarly, the EFSI Eligible Investment Mobilised will be reduced by a pro-rata amount corresponding to the ESIF and the related national co-financing; and only the EIB contribution will be taken into account for the calculation of the EFSI external multiplier.