MINISTERUL FONDURILOR EUROPENE

Romania

Ex-ante assessment for financial instruments for SMEs in the 2014-2020 programming period

2015

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This ex-ante assessment has been coordinated by the Ministry of European Funds with input from the Ministry of Regional Development, the Ministry of Education, the National Guarantee Fund for SMEs (FNGCIMM), the European Investment Fund (EIF), GEA Strategy & Consulting and Eurom Consultancy & Studies.

A. EXECUTIVE SUMMARY

The purpose of the SME ex-ante assessment for Romania is to provide **reliable inputs for the decision of using financial instruments as implementing tool for ESIF funds**, by establishing an *"evidence of market failures or suboptimal investment situations, and the estimated level and scope of public investments needs, including types of financial instruments to be supported*", as required by article 37 (2) of the Common Provisions Regulations ("CPR")[1].

A preliminary analysis of the mismatch between demand and supply on financial instruments for micro, small and medium-sized enterprises (SMEs) across Romania was initially performed for the period 2010-2012 within the document *SME Access to Finance Preliminary Study for Romania* (2013 SME Study), enclosed as Annex 1. *T*he present ex-ante assessment goes further with the analysis based on more recent data (including 2013/2014, whenever it was possible). The ex-ante evaluation is further based on two others documents, developed especially for the purpose of this assessment, which update on the specific sections focused on: microfinance (2014 microfinance study enclosed as Annex 3) and RDI (based on the third-party study contracted separately by the Romanian Government enclosed herein as Annex 2).

As indicated in the SME ex-ante methodology, this analysis process provides **a snapshot of market conditions at the time of the ex-ante assessment and does not cover projections on future changes to market conditions throughout the programming period, nor the effect of the revolving funds in future cycles**.

The ex-ante assessment requirements established by Article 37 (2) of the CPR are covered in the following chapters of this report[2]:

	Article 37 (2) requirements	Relevant Chapter
Building Block 1: MARKET ASESSMENT	a) Analysis of market failures	C
	b) Value added of the financial instruments	F
	c) Additional public and private resources	G
	d) Lessons learnt	E
Building Block 2: DELIVERY AND MANAGEMENT	e) Investment strategy and implementation arrangements	D
	f) Expected results	H
	g) Provisions allowing the ex-ante assessment to be reviewed	I

[1] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

[2] The structure of the report complies with the items listed in Art. 37 (2) of the CPR; to be noted that the chapters are presented in the logical sequence of introducing firstly the proposed investment strategy in Chapter D and then, only for the specific instruments proposed, presenting the value added and other detailed features.

The following financing gaps were evidenced through the assessment exercise undertaken herein, as detailed in Chapter C of the present report:

Type of instrument	Financing gap (mEUR) up to 2020
Bank financing (guarantees, risk sharing loans)	Up to 1,893[3]
Microfinance	Up to 940[4]
Equity investments	Up to 544[5]
Total	**Up to 3,377**

In order to **identify the financial instruments** the most appropriate for each Operational Programme, the following steps were performed:

- **Identification of market failures or suboptimal investment situations and the specific market issues** related to each thematic objective.
- **Analyses of the possible financial products taking into account their characteristics** for better filling the market gap.
- **Consultation** with the main stakeholders.

An analysis of **the specific market issues** related to each thematic objective was performed and led to the identification of the most appropriate financial instruments, as follows:

- ***For the lack or limited collaterals to gain access to debt finance*** it was identified as the best suited the **guarantee** instrument, which has as **main advantages**:
  - Addresses specific risk capacity constraints for SMEs.
  - Disbursement takes place only in case of default.
  - Cost reduction for SMEs, in case the guarantee is provided at reduced fees.
  - Significant leverage on resources allocated, in the case of the portfolio guarantee.
- ***For outdated or lack of physical infrastructure and insufficient or unpredictable cash flow*** there were identified two financial instruments: **loan or equity**.

  The loan instrument addresses specific liquidity and risk capacity constraints in a given market segment which provide a company with liquidity but which have some disadvantages: increases the company's risk level, has to be re-paid and assets may be taken as collateral.

[3] Debt financing gap estimate for NACE sectors B-N (excluding notably Agriculture) for year 2020. For detailed methodology, see Chapter B.3.3.
[4] Figure represents the Sum of microcredit gaps for the years 2013-2020. For detailed methodology, see Chapter B.3.3. and the 2014 microfinance study in Annex 3.
[5] For detailed methodology see Chapter B.3.3.

Equity investments provide capital to a company, invested directly or indirectly in return for partial ownership of that firms equity investors may assume some management control of the firm and share the firm's profits. The main advantages are: capital injections in SMEs which normally are not considered eligible for bank financing and do not have to be repaid, the risks and liabilities of company ownership are shared with the new investors and there is a know-how-transfer from the professional fund manager.

The instrument is appropriate for SMEs without necessary collateral to secure the level of financing required to start their businesses and for the companies in advanced stage of development, attaining a low debt-to-equity ratio.

- ***For low employment rate, underdeveloped entrepreneurial culture and limited access to finance***, the main instruments taken into account were **guarantees and microcredits.**

The analysis concerning the relation between **business stage of development** and **the most appropriate financial instruments** was also performed. Below are presented the results of analysis, specifying how these are reflected in the Operational Programmes which will use financial instruments as implementation tools:

- **For seed and start-up phase:**
  - Equity Funds for start-ups and early stage: accelerators & seed funds SMEs will be financed through Competitiveness OP.
  - Microcredits and guarantees for seed and start-up enterprises financed through Human Capital OP
- **emerging and growth stage**
  - Portfolio Risk Sharing Loan (PRSL) funded through OP Competitiveness and Regional OP .
  - Uncapped Guarantee for SMEs in emerging and growth stage through the SME Initiative.
  - Equity Fund for SMEs in emerging and growth stage funded through Regional OP.

The matrix of the proposed financial instruments to be used in the programming period 2014-2020 is presented below.

The leverage is calculated as the amount of financing catalysed divided by the OP contribution (EU funds + national budget), without considering the revolving features and the impact of management costs, which will be assessed at a later stage.

Proposed ESIF Financial Instruments 2014-2020 in Romania

Financial Instrument	Rationale for instrument	Proposed allocation EURm (EU contribution) (1)	Proposed allocation EURm (EU funds + national contribution) (up to) (2)	SME financing supported EURm (estimate) (3)	Leverage effect (estimate) (4)= (3)/(2)
COMPETITIVENESS OPERATIONAL PROGRAMME *Thematic Objective 1 "Strengthening research, technological development and innovation"*					
Equity Funds for start-ups and early stage (Accelerators & seed funds)	Investments in start-up and early stage innovative SMEs	34.0	40.3	44.3	1.1x
Portfolio Risk Sharing Loan for Innovative SMEs	Provide 50% cost reduction and partial risk coverage to innovative SMEs	16.0	19.0	38.0	2x
Total Competitiveness Operational Programme		**50.0**	**59.3**	**82.3**	**1.38x**
Regional Operational Programme *Thematic Objective 3 "Enhancing the competitiveness of SMEs"*					
SME Portfolio Risk Sharing Loan	Provide 50% cost reduction and partial risk coverage	100	117.65	235.3	2x
SME risk capital fund	Risk capital Investments in SMEs	50	58.82	100.0	1.7x
Total Regional Operational Programme		**150**	**176,47**	**335.3**	**1.9x**

Financial Instrument	Rationale for instrument	Proposed allocation EURm (EU contribution) (1)	Proposed allocation EURm (EU funds + national contribution) (up to) (2)	SME financing supported EURm (estimate) (3)	Leverage effect (estimate) (4)= (3)/(2)
Human Capital Operational Programme *Thematic Objective 8 "Promoting employment and labor mobility"* *Thematic Objective 9 "Promoting social inclusion and combating poverty"*					
Portfolio Risk Sharing Loan for SMEs/entrepreneurship	Provide 80% cost reduction and partial risk coverage for entrepreneurship and for job creation	47.3	56	70	1.25x
Microfinance Guarantee	Covering up to 80% of risk of loans for entrepreneurship and for job creation	47.3	56	280	5x
Portfolio Risk Sharing Loan for social enterprises	Provide 80% cost reduction and partial risk coverage for social enterprises	18.6	22	27.5	1.25x
Social Guarantee	Covering up to 80% of risk of loans for social enterprises	18.6	22	110	5x
Total Human Capital Operational Programme		**131.8**	**156**	**487.5**	**2.62x**
TOTAL AND LEVERAGE			**393**	**907.7**	**2.3**

The allocation for participation of Romania in SME Initiative for the joint uncapped guarantee instrument is presented below:

EU SME Initiative Operational Programme ***Thematic Objective 3 "Enhancing the competitiveness of SMEs"***				
Joint Guarantee Instrument (option 1 of the SME Initiative)	Covering up to 80% of the risk of loans to SMEs	100	400	4x
Total EU SME Initiative Operational Programme		100	400	4x

The proposed instruments ensure a complementarity between equity and debt instruments, corresponding to the market gaps identified and the segments targeted under the relevant thematic objectives and operational programmes.

With regards to **implementation options**, it is recommended to utilise one or more of the options stipulated by the Common provisions regulation ("CPR"), articles 38 (1) and 38 (4):

1. **Financial Instrument set up at EU level, managed directly or indirectly by the EC, according to CPR article 38 (1)** According to the CPR, Member States may use the ERDF and EAFRD to provide a financial contribution to financial instruments managed indirectly by the Commission with implementation tasks entrusted to the EIB in respect of the following activities: uncapped guarantees and securitisation.

   Romania decided to participate in SME Initiative **with contribution from ERDF for the joint uncapped guarantee instrument (option 1),** which presents numerous advantages:

   - **Improved access to finance** for SMEs through capital relief, loss protection and potentially liquidity for the financial intermediaries;
   - Increased **leverage on public budget** through participation of EIB/EIF, COSME and/or Horizon funds, and private sector;
   - The SMEI **does not require co-financing** with national funds;
   - The SMEI relies on an **ex-ante analysis which has already been performed** by the EC and the EIB Group
   - There is available a **ready-made template for the Funding Agreement** to be negotiated between Member States and the EIF;
   - The treatment of **State Aid has already been cleared** by the European Commission.

2. **Entrustment of implementation tasks to EIB/EIF according to CPR article 38 (4) (b) (i)**

The choice to appoint EIB Group, more specifically EIF, to act as fund-of-funds in implementing SME financial instruments presents several advantages, notably the EIF's relevant experience in implementing the JEREMIE financial instruments in the 2007-2013 programming period.

It is proposed to entrust the implementation to EIF, as Fund of Funds, for the financial instruments financed by Competitiveness OP and Regional OP, and also for Portfolio Risk Sharing Loan instrument and also for instruments financed from the Human Capital OP.

3. **Entrustment of implementation tasks to a body governed by public or private law according to CPR article 38 (4) (b) (iii)**

According to the article 38 (4) (b) (iii) of CPR, the implementation of financial instruments could be entrusted to an international financial institutions in which a Member State is a shareholder, or a financial institution established in a Member State aiming at the achievement of public interest under the control of a public authority.

In order to clarify the requirements of the above-mentioned article, the European Commission has developed the *Guidance for Member States on the selection of bodies implementing FIs, including funds of funds*, a document in draft version at the time of the ex-ante assessment, according to which the award of public contracts by or on behalf of Member States' authorities has to comply with the principles of the TFEU, and in particular the free movement of goods, freedom of establishment and freedom to provide services, as well as other related fundamental principles such as equal treatment, non-discrimination, mutual recognition, proportionality and transparency. Furthermore, public contracts must comply with the public procurement directives (either Directive 2004/18/CE or Directive 2014/24/UE). The only exceptions are related to the designation as bodies implementing financial instruments of EIB/ EIF or an in-house entity. Such institution must also comply with the requirements laid out in articles 7(1) și (2) of Delegated Regulation 480/2014.

Considering that none of the managing authorities owns an in-house entity, the use of a national institution would require a public procurement process. The main disadvantages of this option are the lengthy period needed to begin implementation (depending on the public procurement process) and the lack of expertise in the field.

One of the most important benefit of using Financial instruments in implementation of ESI Funds is their **value added**. At a general level, the **qualitative** value added includes:

- **More responsible approach, better performance and financial discipline**
- **Simplicity of obtaining financing**
- **Creation of a new generation of entrepreneurs**
- E**ncouraging entrepreneurship** among less advantaged social categories;
- I**ntroduction of new instruments** including not only the early stage equity funds but also potentially the microcredit instruments;
- Supporting the buildup and modernisation of the financial system, including also the **non-banking financial institutions**.
- Creating c**ompetition among banks**;
- The **mathematical leverage effect is supplemented** by the stimulation of interest of private investors in a country or sector they would not have considered otherwise, potentially leading to further investments undertaken by them in the future.
- **Flexibility and adaptability**

- **More cost effective management**
- **Quick disbursement of funds**, absorption and less distortion of competition
- **Supporting competitiveness, innovation and entrepreneurship and creating employment**

Also, the financial instruments will provide **quantitative value added** through leverage/multiplier effect, i.e. the financing made available to SMEs divided by the OP contribution to the instrument, as it is presented in the table above. At instrument level, this ranges from a leverage of 1.1x in the case of seed funds and accelerators, where the qualitative dimension prevails by the risk taken in early stage projects, to around 5x for portfolio guarantee instruments. Thus, the proposed portfolios of instruments would lead to a leverage of 2.31 for the financial instruments managed at the national level and of 2.65 including SME Initiative (before considering the revolving features and the impact of management costs).

One of the expected benefits of FIs is **to attract private investments and other public funding**. To this end, international financial institutions should be considered an important source of funding, to the extent that their involvement takes place on market terms.

The sources of private funding, depending on the nature of the instruments, are:

- In the **case of equity funds**, firstly the fund managers invest normally around 1% of the fund capital, for alignment of interest purposes, and in parallel they market the fund to private investors. It is important to note the potential participation here of institutions such as European Bank for Reconstruction and Development (EBRD) or European Investment Bank (EIB). Other private investors may include **institutional investors located in Romania**, such as banks, asset managers and private pension funds.
- In the case of **risk sharing loans**, the banks themselves make available normally 50% (for instruments financed from ESIF) respectively 20% (for ESF) of the funding at SME level from their own sources or from loans either from mother banks or from institutions such as EIB.
- In the case of **guarantees**, the banks make available their own or borrowed funds for the loans extended to SMEs.

The proposed strategy for implementation of the FI with ESIF resources in the period 2014-2020 is based on the market situation as of 2013/2014 and on the lessons learned during the previous programming period. In case of major changes will occur should be necessary to revise the ex-ante assessment. The types of major changes that may require a revision of the ex-ante assessment could be:

- **A significant change in the financial and economic environment** – such as an economic crisis.
- **Changes in the fiscal and financing conditions of the economy.**
- **Changes in liquidity** would lead to an inability to effectively implement some of the proposed financial instruments.

- In case of a change in the legal and institutional framework that lead to **changes in the investment environment.**
- **Inadequate volume** of the support scheme compared to observed demand. For example, a situation where the volume is too low to meet observed demand may undermine the ability of the FI to achieve envisaged objectives.

At this point it is premature to provide a timing for potential revisions of the ex-ante assessment, however it is considered important to point out that more informal updates can be easily obtained by interviews and panel discussions with financing providers (e.g. banks, equity fund managers etc.) and SME representatives, which can be undertaken much faster than formal assessment revisions and may provide critical input for the revision of the investment strategy. Such market testing exercises take place prior to the launch of any new instrument in order to ensure its effective implementation.

B. METHODOLOGICAL APPROACH OF THE EX-ANTE ASSESSMENT

The present ex-ante assessment analyses all the requirements of the Common provisions regulation ("CPR"), in particular Title IV "Financial Instruments" and answers to the all requirements from the art. 37(2) namely:

a. Analysis of market failures or suboptimal investment situations and the estimated level and scope of public investment needs;

b. Assessment of the value added of the FI, consistency with other forms of public intervention in the same market and possible State aid implications;

c. Estimate of additional public and private resources to be potentially raised by the FI, including assessment of preferential remuneration when needed;

d. Identification of lessons learnt from similar instruments and ex-ante assessments carried out in the past;

e. Proposed investment strategy, including an assessment of its possible combination with grant support, options for implementation arrangements, financial products and target groups;

f. Specification of expected results including measurement of indicators;

g. Provisions allowing the ex-ante assessment to be reviewed and updated.

The methodological approach of the present assessment for financial instruments was mainly based on the guidelines provided by the European Commission, namely:

- *Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period* - Volume I - General methodology covering all thematic objectives (hereinafter "General ex-ante methodology")[6];
- *Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period* - Volume III - Enhancing the competitiveness of SME, including agriculture, microcredit and fisheries (hereinafter "SME ex-ante methodology")[7];
- *Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period* Volume II – Strengthening research, technological development and innovation (Thematic Objective 1)[8].

In order to substantiate the justification of proposals provided by the present ex-ante assessment for the implementation of financial instruments financed by the ESI Funds, it was also used the *Guidelines for SME Access to Finance Market Assessments developed by EIF*

[6] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/ex_ante_vol1.pdf
[7] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/ex_ante_vol3.pdf
[8] http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/ex_ante_vol2 pdf

(hereinafter "GAFMA")[9]; for analysing if and to what extent weaknesses and financing gaps exist in particular markets for SME finance.

A preliminary analysis on the existence of a mismatch between demand and supply on financial instruments for micro, small and medium-sized enterprises (SMEs) across Romania was performed for the period 2010-2012 within the document *SME Access to Finance Preliminary Study for Romania* (Annex 1). This study identified market failures or suboptimal investment situations, by estimating the current and potential demand for finance from SMEs and juxtaposing that to a variety of private and public sources of supply, using official statistical data, research reports, as well as additional market insights gathered from relevant actors in a series of focus groups. The analysis was based on figures that took into account both pre-crisis and crisis period.

The present ex-ante assessment goes further with the analysis based on more actual data (until 2014 whenever it was possible). The ex-ante evaluation is based on two others documents, developed especially for the purpose of this assessment, which updates on the specific sections focused on: microfinance (2014 microfinance study enclosed as Annex 3) and RDI (based on the third-party study contracted separately by the Ministry of Education, enclosed herein as Annex 2).

As indicated in the SME ex-ante methodology, this analysis process provides a snapshot of market conditions at the time of the ex-ante assessment and does not cover projections on future changes to market conditions throughout the programming period, nor the effect of the revolving funds in future cycles. As requested under Article 37 (2) (g), chapter H of the present document provides briefly for the update and revision of the ex-ante assessment during FI implementation to take into account market developments.

For estimating the SME financing gap in Romania there were used separate methods for each type of financial instruments:

- For bank lending it was extrapolate the results of the "viable SMEs" method, applied in the EC "Ex-ante assessment of the EU SME Initiative", prepared by the EC with contribution by EIB Group.
- For private equity and venture capital, the financing gap was estimate as the difference between the supply (consisting of investments undertaken) and the demand (investments made), based on benchmarking investment data as a % of the GDP against other countries in the region. The data used was the latest available at the date of the analysis.
- For microfinance, the financing gap was calculated as the difference between existing supply and potential demand, based on the average microcredit amount reported by the NBFIs to the European Microfinance Network.

In order to have a picture of the perceived financing gap and its underlying causes from those who operate in the market, main stakeholders (representatives of national and local

[9] http://www.eif.org/news_centre/publications/eif_wp_22_gafma_april14_fv.pdf

administration, Regional Development Agencies, industrial associations, entrepeneurs, financial intermediaries, social and academic environment) were consulted during working groups on Business Environment and meetings organized by the Ministry of Regional Development and Public Administration and National Authority for Research.

There were also organized some special meetings with the banks and equity funds working in Romania, in order to gather the perception of the offer side on the financing gap and also for testing the potential appetite of the financial institution for the proposed financial instruments, as follows:

- On 10 April 2014 - EIF organized an workshop regarding financial instruments in the cohesion policy with participants from both demand and offer sides and wherein itwas also presented the experience of EIF in this area, including the lessons learned from the previous period of implementation 2007-2013, both in Romania and Bulgaria.
- On 13 June 2014, as part of the RDI ex-ante supplemental analysis (Annex 2), it was organized a panel discussion with representatives of financial intermediaries and former beneficiaries of RDI projects, as well as representatives of the relevant national authorities.
- On 25 September 2014, it was organized an working meeting with the representatives of DG Regio, Geographical Unit for discussing the first results of the ex-ante assessment.
- On 6 November 2014, the Ministry of Regional Development and Public Administration organized a meeting where there were analyzed the financial instruments proposed to be implemented in the 2014-2020 period with banks and non-banking financial institutions. During discussions was underlined that in the next 3 to 5 years the main criterion that should be taken into account when analysing the main beneficiaries is **the risk profile of the beneficiary**. In the opinion of the financial institutions the financial instruments financed by ESI Funds should address those **beneficiaries with difficult access to financing due to the degree of risk and lack of collateral guarantees**.

  With regards to the type of financing, the banking sector expects the ratio between investment loans and working capital loans to remain dominated by working capital in the next few years, until a real recovery of economy.
- On 28 April 2015, the Romanian Banking Association organized a meeting with the representatives of MAs which will use financial instruments as implementing tools and the representatives of banks which are members this association. During the meeting, there were presented the financial instruments proposed and the banks' opinion on these instruments was requested. An important idea underlined during the discussion was the desire of the banks that Romania to participate in the SME initiative.
- On 27 May 2015, the European Investment Fund organized a meeting with the main representatives of the equity fund managers working in Romania. The purpose of meeting was to analyse the main causes of the lack of interest of equity funds to come and invest in Romania and the developments necessary to take into account for setting-up equity funds financed by ESI Funds. The main elements identified were:

- Difficulties to attract private investors in the funds , and the need to find solutions for incentivize them (e.g. by asymmetric profit sharing) and the conclusion that a co-investment fund may benefit from a more rapid start than an equity fund which can only be set up after the private investment is raised.
- The possibility to consider IFIs such as Investment European Bank (IEB) and European Bank for Reconstruction and Development (EBRD) as private investors in such Equity Funds
- The recommendation to set-up two equity funds as entrepreneurship accelerators/ seed fund in order to ensure a better geographic cover and to increase the competition, and only one equity Fund financed under ROP for SMEs in growth stage of development taking into account the greater value of necessary equity investments.

C. ANALYSIS OF MARKET FAILURES, SUBOPTIMAL INVESTMENT SITUATIONS AND INVESTMENT NEEDS

C.1. Context of the analysis – relevant Thematic Objectives and specific market issues

The present ex-ante assessment focuses on SMEs from all sectors and relies not only on the General ex-ante methodology but also on the ex-ante methodology for SME, for R&D and for micro credit. The general market failures were identified for the Thematic Objectives applicable for all three Operational Programmes. The data and methodologies available have enabled an analysis of market failures by type of financial instrument, e.g. equity, credit, microcredit. The analyse performed identified specific market issues for the four relevant Thematic Objectives in relation with concerned OPs as follows:

Thematic objective (TO)	Specific market issue
TO 1: **Strengthening research, technological development and innovation**[10]	• Limited link between RDI and the real economy, leading to low commercialization of RDI results (technology transfer) and low private investments into RDI • Insufficient innovation and intellectual property rights protection • Scarcity of skilled workforce • Fragmentation of the value chain and the supply chain • Legal and regulatory framework • Outdated or lack of physical infrastructure. • Insufficient or unpredictable cash flow. • Lack of financial instruments aimed to support the risk of private investment in research and innovation and to stimulate innovative start-ups and spin-offs • Lack or limited collaterals to gain access to debt finance
TO 3 **Enhancing the competitiveness of**	• Insufficient number of SMEs overall • Imbalanced business size • Lack of variation in SME's sectoral structure and low business

[10] See also B.2.2. - "Innovative sectors – update" and Annex 2 - "Ex-ante assessment for innovation-focused entreprises"

small and medium-sized enterprises [11]	resilience • Unstable regulatory environment • Access to skilled workforce • Poor physical infrastructure • Insufficient or unpredictable cash flow. • Limited access to finance for start-up and innovative enterprises • Limited access to finance for high risk projects • Lack or limited collaterals to gain access to debt finance
TO 8 **Promoting employment and labor mobility**[12] **TO 9** **Promoting social inclusion and combating poverty**[13]	• Ageing population, education system not linked to real economy and current economic conditions leading to lack of specialized workforce for some sectors, but also unemployment for persons with limited education and at certain vulnerable categories. • Imbalanced workforce distribution among regions • Low level of active population at country level, particularly youth, over-65, rroma population, disabled, persons from underdeveloped rural areas, and limited support structure to target the issue • Vocational education still not sufficiently developed • Limited incentives for job creation among disadvantaged categories of population • Low employment rate • Underdeveloped entrepreneurial culture • Limited access to finance • Lack or limited eligible collaterals to gain access to debt finance

[11] See also B.2.3. - "General situation of SMEs in Romania – update"
[12] See also Annex 3 – "Analysis of microfinance market failures"
[13] See also Annex 3 – "Analysis of microfinance market failures"

C.2. Analysis of the national and regional economic context - update

The analyses covers the main macroeconomic updates since the issuance of the 2013 SME study (which had been based on 2011 and 2012 data and is enclosed as Annex 1), and should be read in conjunction with the relevant chapter therein.

C.2.1. Economic background - update

The years 2013 and 2014 were marked by an acceleration of the economic growth, which however has not led to an improvement in SMEs' access to finance.

Summarizing the main macroeconomic developments in the country in 2013, the National Bank of Romania 2013 Annual Report states that "in an environment characterised by slow recovery of the global economy, Romania posted in 2013 a remarkable economic performance: faster GDP growth, marked decline in inflation rate, renewed current account deficit adjustment and ongoing fiscal consolidation, amid the implementation of a balanced economic policy mix seen as having the potential to underpin a lasting economic advance".

According to the 2014 Annual Report elaborated by the National Bank of Romania, "economic consolidation continued in 2014, despite turmoil coming from the international environment. Amid a balanced mix of economic policy, nominal convergence criteria stipulated in the Maastricht Treaty have been complied with, for the first time in the post accession period.

In 2014, Romania's growth accelerated to 2.8% against 2013, when an increasing of 3.5%, was registered after a cumulative 7.6% contraction over 2009-2010 and the country just avoided negative growth in 2012, when real GDP has expanded by only 0.7%.

From the point of view of the impact on SMEs, whereas GDP growth in itself is a good signal, it is also important to analyse which sectors contributed to the GDP in 2013 and in early 2014, as these provide useful indications of the source of future growth for SMEs both in performing sectors and the related ones. Furthermore, it is important to assess the trade balance evolution, since, as noted in the EC's ex-ante assessment methodology for SMEs, "when imports grow more slowly than the GDP, there is a new space for purchasing demand and reduced competition in the local market, providing local SMEs with new opportunities to increase both sale volume and profit."

Thus, DG ECFIN's spring 2014 European Economic Forecast[14] comments that "Romania's economy beat expectations by growing as much as 3.5% in 2013. Economic growth was driven by a robust industrial output and an abundant harvest feeding strong exports."

This assessment is complemented in the National Bank of Romania (NBR)'s December 2013 Monthly Bulletin[15], which provides a more updated and detailed GDP breakdown indicating growing economic sectors:

[14] Directorate-General for Economic and Financial Affairs, European Economic Forecast, Spring 2014, http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee3_en.pdf
[15] National Bank of Romania, Monthly Bulletin December 2013, www.bnro.ro

- "In December 2013, the annual dynamics of industrial output volume reverted to two-digit levels (10.2 percent), mainly on account of the faster growth rate reported by manufacturing (up to 11.8 percent). Most manufacturing sub-sectors posted improved annual changes, in particular: food industry – where the annual dynamics picked up to reach a record high of 21.1 percent, possibly under the influence of pork exports being resumed in China; transport means – where the increase in Dacia production offset the short-lived decline in Ford production; textiles; oil processing; rubber and plastic products. It is also worth noting the sign reversal in metallurgy, after eight months of negative values (...)."
- Also in December 2013, "the annual dynamics of trade and services picked up considerably from November 2013 to reach about 8 percent, due to the acceleration by about 9 percent in the annual change of the turnover volume in trade (a post-crisis peak), to which all components made a contribution. Thus, the annual growth rate of automotive sales was more than 4 times faster, reaching 20.2 percent, due to larger purchases of both new and used motor vehicles, the uptrend in the latter case, manifest throughout 2013, entailing the rise in sales of spare parts and accessories.(…) With regard to the other durables, the major contribution came from the doubling of the annual growth rate of purchases of IT&C products (to 22.9 percent)… The faster rate of increase of trade in non-durables was mainly ascribable to the rebound in purchases of food items and car fuels (annual changes exceeded 3 percent in both cases)."

The DG ECFIN forecast further comments that in 2013 in Romania "the balance of trade in goods and services improved strongly by 4.1% of GDP as export growth was strong and import growth remained subdued. Detailing on the same point, the NBR finds that, as of December 2013, "exports of goods grew by 22.5 percent year on year, being boosted by external sales of companies operating in road transport means, food, oil processing, textiles, woodworking and machinery and equipment industries. Imports of goods also saw a year-on-year increase, yet their annual growth rate was much slower than that of exports (8.1 percent). Positive changes were reported by most groups of goods, with mineral fuels, lubricants and related materials being the main exception (-12.3 percent); this group recorded decreases throughout 2013, against the background of lower energy consumption economy-wide. The large gap between the annual growth rate of exports and that of imports caused the trade deficit to narrow by over 55 percent as against the same year-ago period to EUR 315 million."

With regard to future economic growth, the Romanian Commission for Prognosis forecasts a growth of 2.9% on average until 2017, whereas the IMF Country Report of March 2014 notes that "growth is projected to advance by 2.2 percent in 2014, less than in 2013 but with a significant pick-up in non-agricultural growth" and that "better absorption of EU funds is set to support a gradual recovery in investment".

As a result of the above analyses, an average GDP forecast of 2.6% for the next years can be considered reasonable[16] to use as assumption in calculating financing gaps

[16] Although in August 2014 it was announced by Eurostat that Romania underwent two consecutive quarters of small GDP contraction compared to previous quarter ("technical recession"), the first half of 2014 still showed an economic growth of 2.6% compared to the first half of 2013.

C.2.2. Innovative sectors

"The key challenge for Romania remains its low level of competitiveness, which has significant consequences for the research and innovation system. The high-tech and medium-tech sectors of the economy do not contribute sufficiently to the trade balance, demand for knowledge remains weak, and the innovation culture continues to be underdeveloped. Romania is ranked as a modest innovator and has one of the lowest values in the EU for both R&D intensity and business R&D investments. To complete the picture of poor innovation, the Global Competitiveness Report 2013-14 still classifies the country as efficiency driven (together with Bulgaria) while the rest of theEU economies are either in transition to, or are already at the innovation-driven stage."[17]

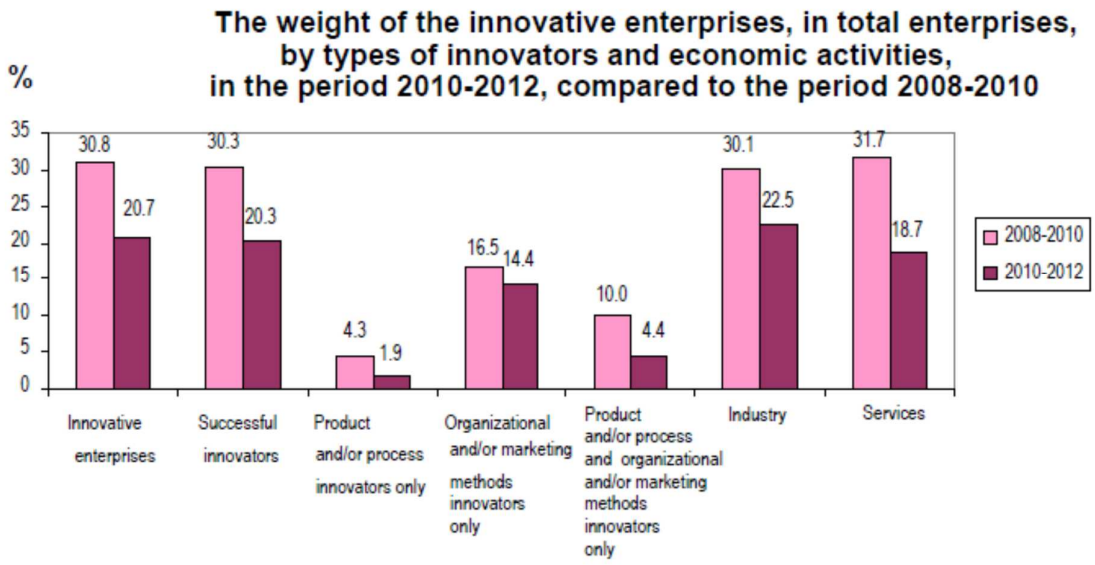
The SME ex-ante methodology indicates that "special attention may be paid to particularly innovative sectors so as to identify trends to be considered later on", particularly in the context of TO 1 "Strengthening research, technological development and innovation". Whereas Annex 2 comprises a detailed report on the financing market for innovative companies prepared by a third-party consultant, we present below several main considerations derived from both Annex 2 and other relevant sources.

Firstly, it is relevant to note that Romania is still behind the EU 2020 own target "Gross domestic expenditure on R&D" of 2%, according to 2012 statistics. It is furthermore useful to refer to the EC's "Innovation Union Scoreboard 2014"[18], which divides EU countries into 4 categories from an average innovation performance: leaders, followers, moderate innovators and modest innovators – the latter group comprising Romania, Bulgaria and Latvia, with Romania however being the strongest performing "Modest innovator". The report details the criteria used to compile the ranking noting that, in Romania, "innovation performance increased up until 2009 after which it has fluctuated ever since. Performance relative to the EU has worsened from being close to 50% in 2009 to 43% in 2013. Romania is performing well below the average of the EU for almost all indicators. Very weak performance is observed for Non-EU doctorate students and R&D expenditures in the business sector. High growth in Romania is observed for Community designs, Community trademarks, New doctorate graduates and International scientific co-publications. Strong declines are observed Non-R&D innovation expenditures, R&D expenditures in the business sector, Non-EU doctorate students and Venture capital investments."

The results of the EC's benchmarking exercise can be complemented by a recent analysis performed by the National Statistical Institute of Romania (INSSE)[19], published in July 2014, which gives also an interesting regional perspective.

[17] European Commission, "Research and Innovation Performance in the EU", 2014, http://ec.europa.eu/research/innovation-union/pdf/state-of-the-union/2014/iuc_progress_report_2014.pdf#view=fit&pagemode=none
[18] http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014_en.pdf
[19] http://www.insse.ro/cms/files/statistici/comunicate/com_anuale/inovatie%20afaceri/inovatie_afaceri14e.pdf

In summary, at country level, during the period 2010-2012, the weight of the innovative enterprises was 20.7%, 10.1 percentage points less, compared to the period 2008-2010.

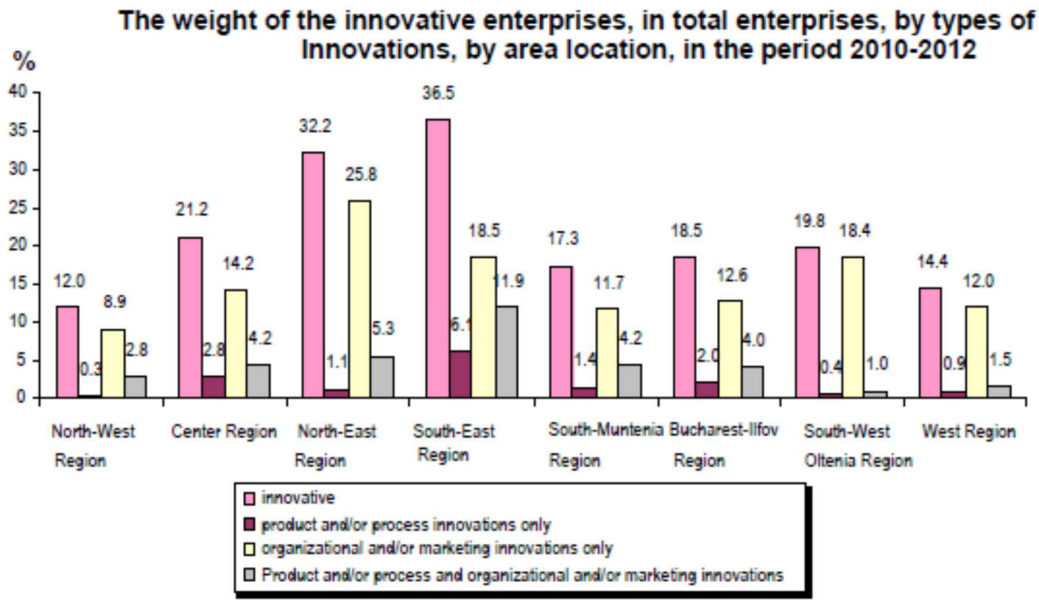


Certain economic activities recorded high weights of innovative activities. Thus, the most innovative economic activity in industry was the manufacture of tobacco products, in 80.0% of the enterprises, while in services it was the research - development activity, with 55.5% of the enterprises. By enterprise size class, big enterprises are more innovative, 40.1%, compared to medium size enterprises, 26.6% and small ones, 18.3%. This trend was also noted in the two sectors, industry and services.

The first 10 innovative activities in the period 2010-2012

Top	Economic activity	%
1	Manufacture of tobacco products	80.0
2	Research-development	55.5
3	Manufacture of basic pharmaceutical products and pharmaceutical preparations	52.3
4	Manufacture of motor vehicles, trailers and semi-trailers	38.0
5	IT services activities	35.6
6	Repair, maintenance and installation of machinery and equipment	35.6
7	Financial intermediation, insurance activities and pension funds excluded	34.6
8	Insurance, reinsurance and pension funds activities (public social insurance excluded)	34.0
9	Decontamination services and activities	33.3
10	Manufacture of machinery and equipment n.e.c.	32.2

In the period 2010-2012, the highest weights of innovative enterprises were recorded in the South-East Region, 36.5% and the North-East Region 32.2% and the lowest weights were registered by the West Region 14.4% and by the North-West Region 12.0%.


The weight of the innovative enterprises, in total enterprises, by types of Innovations, by area location, in the period 2010-2012
%
40
35
30
25
20
15
10
5
0
12.0
0.3
8.9
2.8
21.2
2.8
14.2
4.2
32.2
1.1
25.8
5.3
36.5
6.1
18.5
11.9
17.3
1.4
11.7
4.2
18.5
2.0
12.6
4.0
19.8
0.4
18.4
1.0
14.4
0.9
12.0
1.5
North-West Region
Center Region
North-East Region
South-East Region
South-Muntenia Region
Bucharest-Ilfov Region
South-West Oltenia Region
West Region
innovative
product and/or process innovations only
organizational and/or marketing innovations only
Product and/or process and organizational and/or marketing innovations

C.2.3. General situation of SMEs in Romania

"Romania's economy is dominated by small and medium-sized enterprises and has proportionally fewer micro-firms than the EU on the whole. Despite an increase in the number of business start-ups in recent years, the impact of micro-firms on the economy is still lower than average, providing about 23 % of private sector employment and only 13 % of economic added value. The manufacturing sector is very important for SMEs, accounting for a proportion of employment 30 % higher than the EU average. SMEs in the service sector dominate the economy far less. They focus on less knowledge-intensive activities such as retail and wholesale trade, food services and accommodation, travel agencies, rental and leasing services, land transport and courier services.

(…) Romanian SMEs are less competitive, less innovative and have a weaker technological base than their larger counterparts."[20]

An important element in the analysis of market failures is the general situation of SMEs in Romania: structure, types of SMEs and the main factors impacting negatively their development. An update on the 2013 SME study is provided herein based on the 2013 SBA Fact Sheet for Romania and the 2013 SME Performance Review, both published by the DG ENTERPRISE.

According to the SBA factsheet, "Romania's statistics for SMEs are below average", whereas "in 2013 and 2014, steady growth is forecast: SMEs are expected to return to pre-crisis levels in terms of their number and employment, though not yet value added." Based on 2012 statistics, the report notes that "the micro firm category is significantly less relevant in Romania than in the EU as a whole. Its share of the total workforce is one-quarter below the EU average, and its contribution to value added is about two-fifths lower".

	Number of enterprises			Number of employees			Value added		
	Romania		EU27	Romania		EU27	Romania		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	389,206	88.7%	92.1%	889,271	23.1%	28.7%	7	13.6%	21.1%
Small	39,928	9.1%	6.6%	804,960	20.9%	20.4%	8	16.9%	18.3%
Medium-sized	7,992	1.8%	1.1%	827,897	21.5%	17.3%	10	20.4%	18.3%
SMEs	**437,126**	**99.7%**	**99.8%**	**2,522,128**	**65.6%**	**66.5%**	**25**	**50.9%**	**57.6%**
Large	1,513	0.3%	0.2%	1,325,085	34.4%	33.5%	24	49.1%	42.4%
Total	**438,640**	**100.0%**	**100.0%**	**3,847,213**	**100.0%**	**100.0%**	**49**	**100.0%**	**100.0%**

These are estimates for 2012 produced by London Economics, based on 2008-10 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

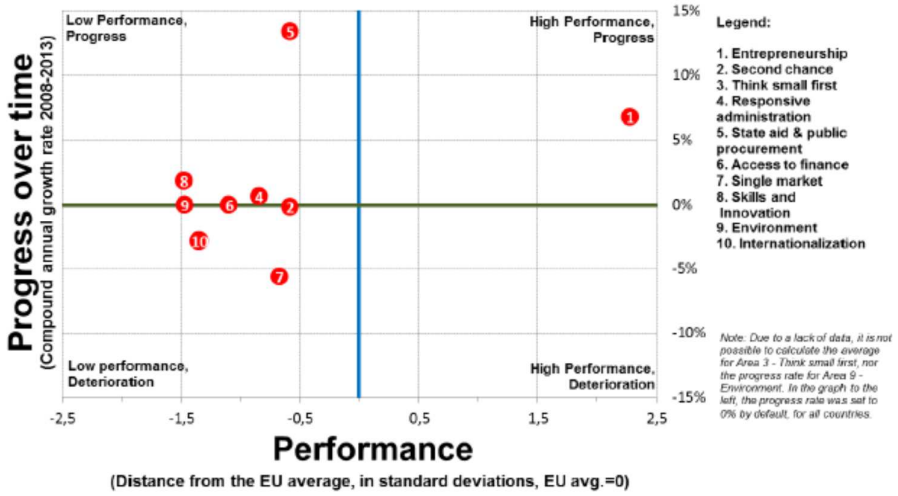
The SBA factsheet highlights that SMEs in Romania are found particularly in wholesale and retail trade, manufacturing and construction. These three sectors combined account for about

[20] European Commission, 2014 SBA factsheet Romania, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/romania_en.pdf

70% of value added by SMEs. Romanian firms are specialised in low-tech manufacturing and less knowledge-intensive services. In terms of statistics, it is worth noting that the number of business registrations was significantly affected by the economic crisis in 2008-2010 and the political instability especially in 2012.

The SBA factsheet also defines a country profile, on the basis of 9 indicators, as presented below – noting that Romania's performance is below par for seven out of nine SBA principles and is above average only for 'Entrepreneurship'. Romania's performance has seen little improvement, with four SBA dimensions registering limited progress, two deteriorating slightly since 2008, and the others staying at 2008 levels.

Romania's SBA performance: Status quo and development 2008-2013[10]



For the SME sector as a whole, several **major issues** were identified in the 2014 Government Strategy for SME Development and Improvement of Business Environment:

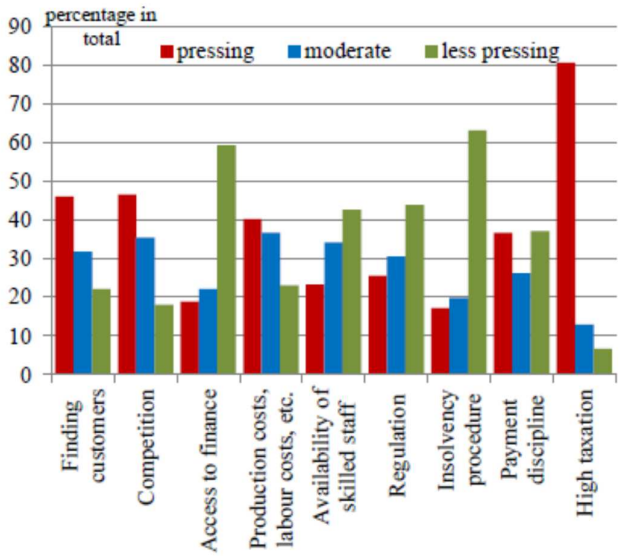
- no SMEs critical mass (not enough enterprises),
- business size (too few medium size enterprises),
- imbalanced SME's sectorial structure (too many enterprises are active in services and trade), and
- low business resilience (2/3 of enterprises vanish within the first year of life).

The Government's Department for SMEs identifies as top **microeconomic issues**:

- financing sources;
- lack of qualified workforce;
- excessive bureaucracy and taxation;
- excessive procedures in obtaining EU funds;
- ethical issues (corruption);
- lack of investments in R&D&I.

With regard to the issued faced by SMEs, further recent feedback is provided by a June 2014 NBR survey on SMEs access to finance[21]. The survey refers to the period October 2013 – March 2014 and was based on a questionnaire sent to a sample of nearly 10,000 non-financial companies, from which around 80 percent are SMEs. According to the report, **the most pressing problems faced by companies** were:

- **High taxation,** seen as a pressing issue by 81 percent of the firms
- **Competition**, 47%
- **Finding customers**, 46%
- **Access to finance** represents a concern for around 19 percent of the companies. Access to finance was less of a concern for large firms and exporting companies (compared with total companies). The companies in the agriculture sector perceived access to finance as a bigger problem compared with those in other business sectors, although the first ones were leaders in the percentage of companies which apply to bank loans, depending on the business sectors of activity.
- Other issues identified in the NBR's survey include: **high costs of labour and production; availability of skilled staff; regulation; insolvency procedures difficulty and clients' payment discipline.**



The National SME Council (CNIPPMR) revealed in its 2013 "White Chart of SMEs" the following main issues faced by SMEs, in order of their importance:

- Decrease of internal demand;
- Excessive taxation;

[21] http://www.bnro.ro/PublicationDocuments.aspx?icid=16645

- Inflation
- Excessive state controls and bureaucracy
- Unfair competition and corruption
- Staff hiring, training and maintaining
- Increase of staff costs
- Relative instability of local currency
- Competition of imported products
- Difficult access to loans
- High cost of loans
- Delays in clients' payment
- Low quality of infrastructure
- Access to consultancy and training
- Decreasing export demand

Finally, a good summary of SMEs situation in Romania is provided by the 2012 EC Position Paper regarding the 2014-2020 programming period:

"Economic operators encounter difficulties in growing, with low turnover and overwhelming dominance of microenterprises (90%), hampered by several obstacles: shortage of medium and highly skilled labour force, access to finance, excessive bureaucratization with weak governance regarding the business environment, market with fragmented and inconsistent institutional set up and weak entrepreneurship, in particular in rural and fisheries areas. (…) The creation and development of SMEs should be supported by tackling the current constraints. Improving access to tailored support services for the SMEs, including to access international markets, is essential in this respect. It would include access to finance, through tailored financing engineering instruments."

C.2.4. A limited regional perspective

There are significant regional imbalances in SME demographics, with a quarter of all SMEs being located in the Bucharest-Ilfov region, which also leads in terms of GDP per inhabitant. At the other extreme, North-East region is one of the poorest in Europe.

Romania is structured into 8 NUTS-II development regions, each including several counties: South Muntenia, South West Oltenia, South East, West, Bucharest-Ilfov, North West, North East, Centre.

According to figures published by Eurostat, the country's population has stayed just above 20 million inhabitants, whereas the most populated regions are North-East and Sud-Muntenia with over 3 million inhabitants each:

Population on 1 January by age, sex and NUTS 2 region
Last update: 06.11.14
Source of data: Eurostat

SEX: Total **AGE:** Total

TIME	2009	2010	2011	2012	2013
GEO					
European Union (28 countries)	502,206,401	503,402,952	504,990,610	506,098,349	507,162,571
Romania	21,498,616	21,462,186	21,413,815	20,095,996	:
Nord-Vest	2,721,468	2,719,719	2,717,532	2,598,877	:
Centru	2,526,062	2,524,418	2,522,692	2,360,578	:
Nord-Est	3,717,621	3,712,396	3,703,283	3,294,204	:
Sud-Est	2,818,346	2,811,218	2,802,532	2,538,949	:
Sud - Muntenia	3,279,786	3,267,270	3,253,712	3,128,799	:
Bucuresti - Ilfov	2,253,093	2,261,698	2,267,419	2,279,145	:
Sud-Vest Oltenia	2,257,752	2,246,033	2,232,814	2,067,357	:
Vest	1,924,488	1,919,434	1,913,831	1,828,087	:

However, the Bucharest-Ilfov region continues to lead in terms of GDP per inhabitant, being also the only one defined as "more developed region" according to EU terminology, whereas the North-East region is the poorest in Romania and in the bottom 10 NUTS-II regions at EU level:

Gross domestic product (GDP) at current market prices by NUTS 2 regions

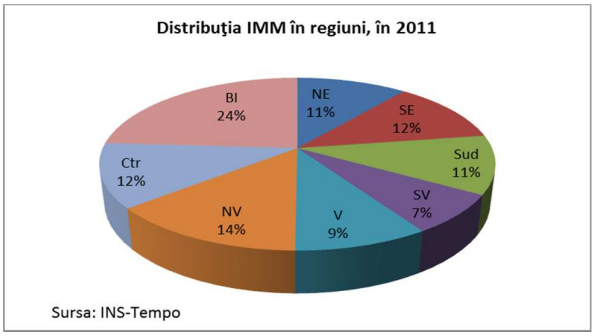
Last update: 03.03.14

Source of data: Eurostat

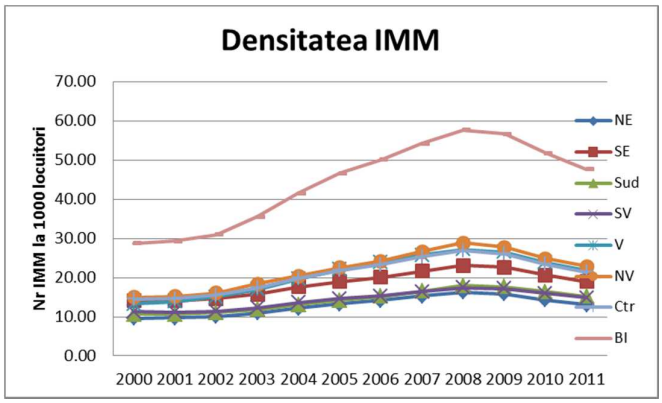
UNIT: Euro per inhabitant

TIME / GEO	2007	2008	2009	2010	2011
Bucuresti - Ilfov	13,400	16,200	13,000	13,800	15,500
Vest	6,400	7,100	6,000	6,600	6,800
Romania	5,800	6,500	5,500	5,800	6,200
Centru	5,800	6,200	5,300	5,600	5,800
Nord-Vest	5,600	5,800	5,000	5,200	5,300
Sud - Muntenia	4,700	5,400	4,700	4,800	5,100
Sud-Est	4,700	5,200	4,400	4,800	5,000
Sud-Vest Oltenia	4,500	4,800	4,200	4,500	4,700
Nord-Est	3,600	4,000	3,400	3,600	3,600

With regards to the **SME demographics by region**, as presented in the National Strategy for Regional Development[22] (2011 data), most SMEs are located in the Bucharest-Ilfov, with a quarter of all national SMEs ,followed at some distance by North-West and Center, whereas the South-West Region shows the lowest number of SMEs.



However, in terms of SME density (per 1,000 inhabitants), it is the North-East region that fares worst:



[22] http://www.inforegio.ro/images/programare2014-2020/Strategia%20Nationala%20Dezvoltare%20Regionala%20%20-%20iulie%202013.pdf

The contribution of SMEs to the regional turnover of all companies shows that only in the Bucharest-Ilfov region the SMEs show increased performance:

Ponderea cifrei de afaceri din IMM-uri la nivel regional, in 2011 - %

	IMM	Micro	mici	mijocii
NE	7.96%	8.51%	8.76%	6.82%
SE	10.53%	11.38%	11.25%	9.24%
SM	10.62%	11.67%	9.99%	10.42%
SV	5.41%	5.64%	5.89%	4.80%
V	7.90%	7.61%	8.30%	7.74%
NV	10.58%	11.87%	11.78%	8.53%
Ctr	9.62%	9.68%	9.79%	9.43%
BI	37.37%	33.64%	34.25%	43.01%

Sursa: INS 2012

C2.5 Social enterprises in Romania

Social enterprises are situated between the traditional private and public sectors. A Social enterprise has a social and societal purpose combined with the entrepreneurial spirit of the private sector.

European Commission issued in 2007 a Study on Practices and Policies in the Social Enterprise Sector in Europe[23]. The aim of the research study was to describe key features of the social enterprise sector and to identify and present relevant support measures for social enterprises. According to this study the main features of the 'social enterprise' are:

- fulfils social goals
- addresses a target population in need
- may operate under various legal forms
- deals with voluntary social work
- has a non-profit orientation or reinvests profits
- may receive public funding

Also, EC published in 2013 a Guide named "S*ocial economy and social entrepreneurship*" [24] which explains the specificities of the social economy and social enterprise, such as:

- participatory decision-making,
- focus on community development,
- reinvestment of profits or a social impact objective.

At EU level, social enterprises employ over 11 million people, over 6% of the active labor force. In Romania there are no statistics on the impacts of social enterprises in the national economy.

The only information about the social economy sector is provided by the Atlas of Social Economy (2014 FDSC) elaborated by the Civil Society Development Foundation (CSDF). According to this document, in 2012, the social economy sector in Romania included 39,347 active organizations who have owned about Euro 3.5 mil. fixed assets. The revenues achieved by the social enterprises in Romania are about Euro 4.1 mil. and employed near 131,127 people. The share of gross value added of social economy in total national economy was 1.9% in 2012, more than in 2011, when the social economy sector accounted for 1.3% of total of national economy.

Social economy was not regulated in Romania until the beginning of July 2015, when the Law concerning social economy was approved by the Parliament. This Law define social economy as being "activities organized independently by the public sector, whose purpose are to serve the public interest, the interests of a community and/or non-patrimonial interests by increasing the employability of people belonging to the vulnerable group and / or producing and supplying goods, services and / or works. "

Two types of social enterprises are identified:

[23] http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=3319
[24] http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7523&type=2&furtherPubs=yes

- social enterprise which recognition is made on the basis of ***an attestation*** certifying their contribution to the development of social economy.
- social enterprises for insertion that should fulfill one of the following conditions:
    - at least 30% of staff should belong to certain categories of persons from vulnerable group
    - reinvest at least 50% of the profit for social enterprise development.

A social enterprise for insertion is certified through a ***social integration brand***.

All information on the situation and development of the social economy at national level should be registered in the Single Evidence Register of social enterprises administered by the National Agency for Employment.

Social sector needs to receive long term support in order to overcome the main barriers to the development: lack of visibility and recognition, lack of specialised training and education, access to financing. It is difficult for a social enterprise to access the same type of financing options available to conventional enterprises due to their characteristics. For overcoming this barrier should be developed a market for social finance providing capital for social enterprises by developing financial instruments dedicated to the social enterprises: guarantees, (quasi-) equity, loans or co-investment schemes with the private sector.

C.3. Analysis of the financing gap for SMEs

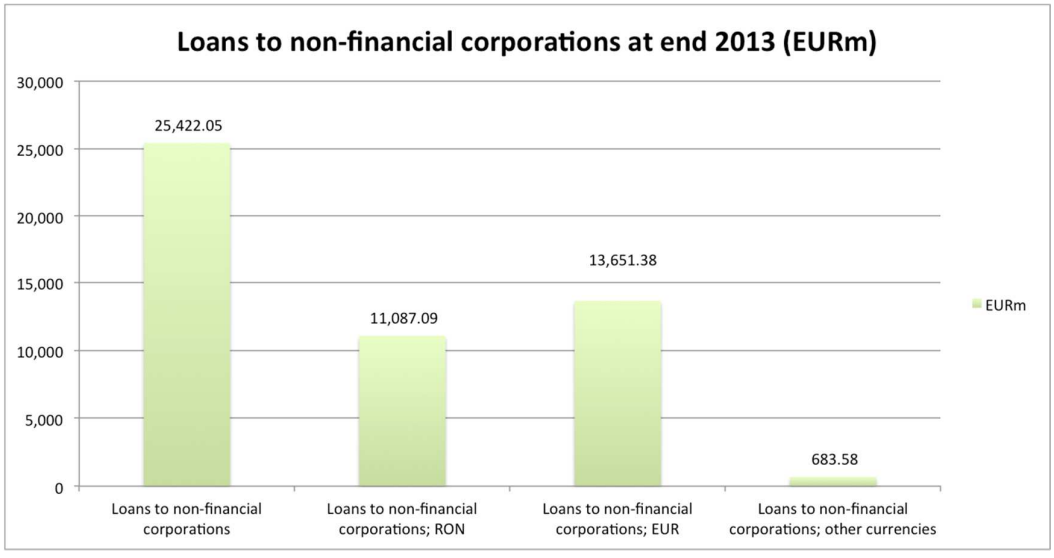
C.3.1. Supply analysis

C.3.1.a. Banking sector – 2013 update

The volume of loans granted by the Romanian banking system to the private sector stayed on the downward trend that started in 2012 Q4, despite the improvement in the domestic macroeconomic framework, largely as a result of structural limitations to the credit supply: lower funding from parent banks and increasing non-performing loans leading to a more prudent risk approach in lending to companies. Whereas local currency loans have improved, following also the NBR's policy measures, the EUR-denominated loans continue to decrease, similarly to neighboring countries.

According to the National Bank of Romania's 2013 Annual Report, the year was marked by a decrease in lending, namely by 6.9% in companies and 2.7% in individuals (in RON terms), as well as by a reduction in external financing from parent banks, combined however with a rise in domestic savings. This was reflected in the "financial intermediation" indicator, i.e. the share of loans to private sector in total GDP, which decreased from 38.5 percent in 2012 to 34.8 percent in 2013; furthermore, the share of net bank assets in GDP narrowed to 57.6 percent from 62.3 percent in the prior year.

In absolute terms, the portfolio of outstanding loans to non-financial corporations as of the end of 2013 was EUR 25.4bn (about EUR 2bn higher than the loans to individuals and households), of which 54% in EUR, 44% in RON and the remaining in other currencies. By comparison, the outstanding loans portfolio to non-financial corporations at the end of the previous year amounted to EUR 26.7bn. There were 1.453m loans outstanding at the end of 2013 (for any client type), a decrease of 23,000 loans from the end of 2012.



Source: EIF based on NBR statistics; 1 EUR = 4.419RON (average 2013)

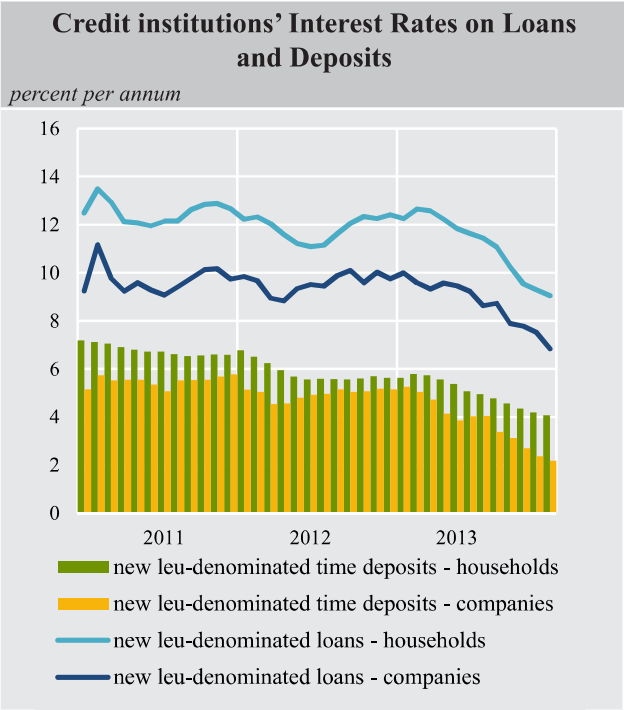
The NBR explains the developments in lending in 2013 as follows: “On the supply-side, lending standards were tightened, banks’ increased prudence being ascribed to the high indebtedness of households, on the one hand, and to tighter financing constraints for SMEs, along with factors related to the loose payment discipline and companies’ abusive resort to the insolvency procedure, on the other hand. As a result, lower loan stocks were reported by both non-financial corporations (6.9 percent in real terms) and households (2.7 percent in real terms)”.

With regard to the currency of loans, the NBR points out that EUR loans decreased much more than RON loans, mainly due to the regulator’s efforts to encourage local currency lending which resulted, among others, in a smaller difference between interest rates in the two currencies: “The currency breakdown shows that the contraction in *leu*-denominated loans slowed down from a year earlier (-0.8 percent in real terms), whereas foreign currency-denominated loans saw their decline gathering pace (-6.8 percent in 2013, based on EUR-denominated values), with new business plunging year on year.”

On a performance level, it is evident that the quality of the portfolio continued to deteriorate, although in a less abrupt pace, with NPLs reaching almost 22% of the total loan portfolio, whereas 2013 was the first year of profit at overall system level after 3 loss-making years.

As explained in the NBR’s December 2013 Monthly Bulletin, the “non-performing loan ratio rose further in 2013, reaching 21.9 percent, 3.6 percentage points higher than in the previous year. In 2013 H2, however, several positive signals on the future trajectory of this indicator, namely the slower pace of deterioration and the reversal of the upward trend followed by the number of companies with non-performing loans, were noticed. The profitability of the banking sector reverted to positive territory in 2013 (after three years of aggregate losses), under the favourable impact of the declines in domestic and external financing costs, provisions, as well as in expenses associated with the adjustment of portfolio assets.”

Interest rates continued to decline in 2013 as a result among others of the cuts in policy rates by the NBR. Thus, the NBR’s December 2013 Monthly Bulletin points out that: “Average bank interest rates in relation to non-bank customers declined further and reached new historical lows in the post-1990 period. The downward adjustment was more visible for new loans, with average lending rates shedding 0.67 percentage points (to 6.84 percent) for non-financial corporations and 0.24 percentage points (to 9.05 percent) for households.”



The structure of the banking system has remained stable in 2013, with 40 institutions operating in the market, the only significant developments being related to changes in the majority share capital of Libra Bank from domestic to foreign, and reversely in ATE Bank, as well as the merger of RBS Bank Romania and The Royal Bank of Scotland plc.

Among banks operating in Romania, the market leader in terms of share in net assets continued in 2013 to be BCR (Erste) with 17.5%, followed by BRD SocGen with 13% and Banca Transilvania with 8.9%. For the first time, UniCredit Tiriac ranked 4th with a market share of 7.6%, whereas state-owned CEC Bank descended to 5th place with 7.4%, followed by Raiffeisen Bank with 7.3%.

With regard to the bank lending supply, it was expected that the terms will ease somewhat; however, according to a recent survey among local banking institutions by the EIB[25], "banks in Romania expect the overall terms and conditions to remain rather strict, particularly with respect to the size and maturity of the average loan".

[25] http://www.eib.org/attachments/efs/economics_cesee_bls_2014_h1_en.pdf

C.3.1.b. Private Equity and venture capital (PE/VC) – 2013 update

Romania continues to rank poorly among EU countries in terms of share of private equity and venture capital investments in the GDP, with the emerging companies being least targeted. The recent investments of the JEREMIE Catalyst Romania fund in several local companies may be a positive signal.

At European level, the PE/VC sector in 2013 continued to be marked by a recovery in the process of setting up new equity funds ("fundraising"), particularly in the segment dedicated to developed companies ("buyout funds"), while overall the fundraising activity is still significantly under the 2008 level. As reported recently by the EVCA[26], venture capital continued to lag severely behind the overall market in terms of fundraising, with only 8% in the total activity in the year.

Most of the resources committed into new funds of all stages at European level were made available by pension funds (40%), whereas for venture capital most of the resources are contributed by government agencies (38%).

During 2013, PE/VC investments were made in over 5,000 European companies, similar to 2012. However, there was a slight decrease in the value of equity investments by 3%, to EUR 35.7bn. The total amount of venture capital invested had increased by 5% to EUR 3.4bn.

Out of the total number of companies backed by PE/VC funds, 3,000 companies were backed by venture funds. Start-up stage investments were the majority of venture capital activity by amount (55%) and number of companies (59%). The life sciences, computer & consumer electronics, communications and energy & environment sectors accounted for over 70% of all venture capital investments.

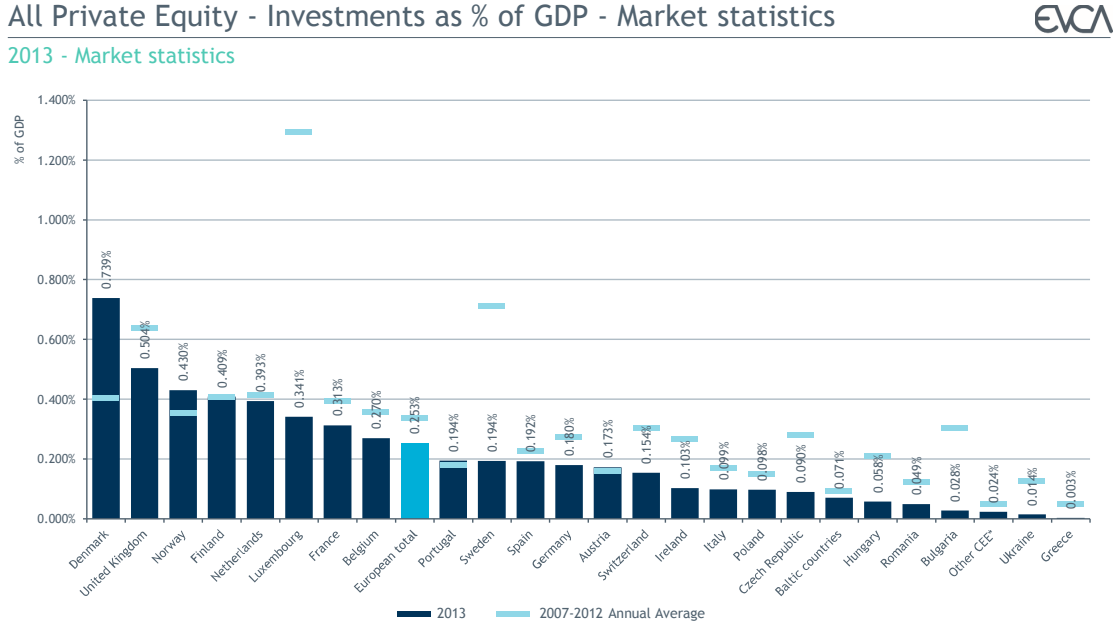
More than 800 companies received buyout investments. The related equity amount invested reduced by 2% and the number of companies by 9% compared to 2012. More than half of buyout investments concentrated on companies active in business & industrial products, consumer goods & retail, business &industrial services and life sciences.

As in 2012, more than 1,000 companies attracted growth investments. This represented an increase of 6% by number of companies and a 10% decrease in the amount of equity invested. About 50% concentrated on companies active in business & industrial services, business & industrial products, computer &consumer electronics and communications.

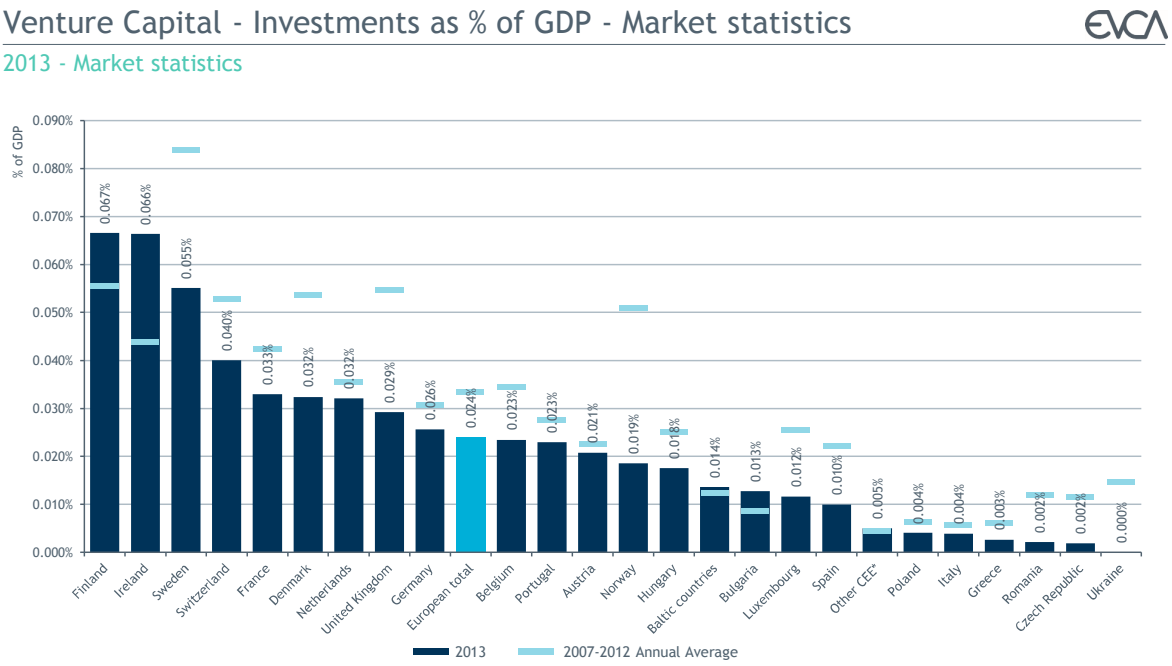
In Romania, according to the 2013 EVCA yearbook, PE/VC investments added to EUR 70m during the year.

In terms of share of PE/VC investments in the GDP, an important benchmarking indicator in the industry, Romania continues to fare poorly, with only 0.049%, compared to 0.253% at European level, whereas other countries in the CEE perform 1.5x -2x times better in the same indicator (Poland 0.098%, Czech Republic 0.090%, Baltic countries 0.071%, Hungary 0.058%). Romania has, however, performed better than Bulgaria (0.028%).

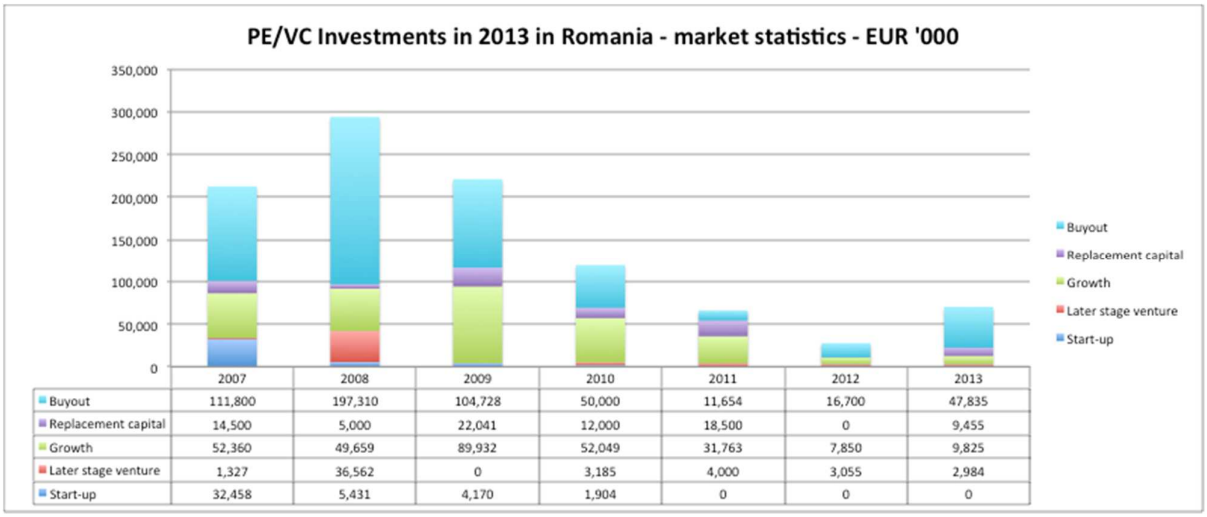
[26] http://www.evca.eu/media/142790/2013-European-Private-Equity-Activity.pdf. The investment statistics used were the market statistics, ie investments into European companies irrespective of the fund's location.



The situation is even less positive for the Romanian market when considering only venture capital investments, where Romania shows a total of 0.002% of the GDP compared to an average of 0.024% of GDP at the level of the continent:



Similar to Europe and consistent with previous years, the PE/VC investment activity in Romania in 2013 was also dominated by buyout investments, as shown in EVCA's yearly statistics:



	2007	2008	2009	2010	2011	2012	2013
Buyout	111,800	197,310	104,728	50,000	11,654	16,700	47,835
Replacement capital	14,500	5,000	22,041	12,000	18,500	0	9,455
Growth	52,360	49,659	89,932	52,049	31,763	7,850	9,825
Later stage venture	1,327	36,562	0	3,185	4,000	3,055	2,984
Start-up	32,458	5,431	4,170	1,904	0	0	0

Source: EIF based on EVCA statistics

Whereas the EVCA report does not identify the transactions, and in the PE/VC industry, a disclosure of value of investments is not normally made when a deal is announced, important transactions publicly announced in 2013 and which should constitute the bulk of the investments made in the country include:

- Emerging Europe Accession Fund, managed by Axxess Capital, acquired Deutek S.A., a company engaged in manufacturing and marketing decorative dyes and paints, from PE fund Advent International.
- US investment fund Francisco Partners bought the entire stake in e-commerce solutions provider Avangate, part of the GeCAD group, owned by the Romanian businessman Radu Georgescu and the 3TS Cisco Fund.
- The JEREMIE 3TS Catalyst Romania fund invested in Intelligo Media, owner of the portal AvocatNet and developer of the legal solutions website www.superlege.ro.
- Purchase of the fitness centres chain WorldClass by Resource Partners (partly in 2013 and 2014).
- Purchase of the courier company Cargus by Abris Capital Partner from DHL.

In early 2014, further local transactions were announced, including:

- The investments of JEREMIE 3TS Catalyst Romania fund into the local mobile telephony solutions developer Simartis and the online retailer Elefant.ro.
- Investment of VC funds Early Bird and iEurope Capital into recruitment firm Tjobs.
- Purchase of Fan Courier by Abris Capital Partner.
- Emerging Europe Accession Fund, managed by Axxess Capital, purchased a stake in Star Storage, a data archive solutions provider.

The main equity fund managers operating in Romania as of 2013 (though not all with offices in the country) are as follows[27]:

Fund manager	Fund (including previous funds)	Vintage Year	Fund Capital
Enterprise Investors	Polish Enterprise Fund IV	2000	217 mil USD
	Polish Enterprise Fund V	2004	300 mil EUR
	Polish Enterprise Fund VI	2006	658 mil EUR
	Polish Enterprise Fund VII	2012	Fundraising
	Enterprise Venture Fund I	2008	100 mil EUR
Advent International Romania	ACEE IV	2008	1 bn EUR
Innova Capital	Innova 4	2006	228 mil EUR
	Innova 98	1998	125 mil USD
	Innova 5	2011	388 mil EUR
Axxes Capital Partners	Romanian American Enterprise Fund	1995	55 mil USD
	Balkan Accession Fund	2007	110 mil EUR
	Emerging Europe Accession Fund	2010	200 mil EUR
Resource Partners	Resource Partners fund	2009	293.4 mil EUR
GED Capital	GED EASTERN FUND I	1996	46 mil EUR
	GED EASTERN FUND II	2004	150 mil EUR
Value4Capital	V4C Eastern Europe II	2006	156 mil EUR
	Baring Central European Fund	2001	86 mil EUR
3TS Capital Partners	3TS TCEE Fund III	2013	103 mil EUR
	JEREMIE Catalyst Romania	2012	15.1 mil EUR
	3TS Central European Fund II	2005	130 mil EUR
	3TS Cisco Growth Fund	2007	34 mil EUR
Oresa Ventures	No fund structure	-	-
Global Finance	Global Romania & Bulgaria Growth Fund	2003	20 mil EUR
	South Eastern Europe Fund (SEEF)	2006	350 mil EUR
	Global Capital Investors (II)	2003	200 mil EUR
	Black Sea Fund	1998	100 mil USD
	Global Capital Investors	1997	50 mil USD
	Euromerchant Balkan Fund	1994	27 mil USD
Mezzanine Management	Accession Mezzanine Capital II LP (AMC II)	2007	261 mil EUR
Darby Private Equity	Darby Converging Europe Mezzanine Fund	2005	300 mil USD
ARX Equity Partners SRL	DBG Eastern Europe II LP	2003	67 mil EUR
	Arx III	2009	102 mil EUR
SigmaBleyzer	Southeast European Fund IV	2007	250 mil EUR
RECAP Restructuring Capital	Reconstruction Capital II Limited (RCII)	2007	73.4 mil EUR
PineBridge Investment	PineBridge New Europe Partners II	2006	500 mil EUR
Mid Europa Partners	AIG Emerging Europe Infrastructure	1999	550 mil USD

[27] Extract from Annex 1.

	Fund		
	Emerging Europe Convergence Fund II	2005	655 mil USD
	Mid Europa Fund III (MEF III)	2007	1.53 bn EUR
Argus Capital	Argus Capital Partners II	2006	263 mil EUR
	Argus Capital Partners I1	2000	172 mil USD
HKK Partners (East Fund Management)	No info on fund	-	-
Abris Capital Partners	Abris CEE Mid-Market Fund LP	2011	210 mil EUR (no final closing yet)
	Abris CEE Mid-Market Fund II LP	2008	320 mil EUR
NBGI Private Equity	No info on fund	-	-
Mackenzie Capital SRL	The Foundations 1.0 SEE Fund	2014	50 mil EUR

C.3.1.c. Microfinance sector – 2013 update

Romanian microfinance ranks 5th in the EU in terms of value and number of business micro-loans.

The EC defines microcredit as "the extension of very small loans (micro-loans) to entrepreneurs, to social economy enterprises, to employees who wish to become self-employed, to people working in the informal economy and to the unemployed and others living in poverty who are not considered bankable. It stands at the crossroads between economic and social preoccupations. It contributes to economic initiative and entrepreneurship, job creation and self-employment, the development of skills and active inclusion for people suffering disadvantages"[28]. Microloans do not exceed 25,000 Euro and may be provided either by banks or by Non-Banking Financial Institutions (NBFIs), which were the main focus of the analysis performed through the 2014 microfinance study, as summarized below.

NBFIs include leasing firms, mortgage providers, credit unions, guarantee/counter-guarantee funds, and pawn shops, as well as microfinance companies. All NBFIs are registered in the General Registry and licensed by the NBR. The large NBFIs should be listed into the NBR's Special Register if the outstanding loans volume supplied to debtors is higher than RON 25 million and the level of their own capital and of the borrowed resources existing in the balance is at least RON 50 M.

In June 2014, a number of 126 NBFIs were registered in the NBR's General Register section K – Multiple crediting activities, out of them 100 are providing microloans among the other financial services, e.g. factoring, guarantee, consumer credit, etc., and 2 NBFIs are registered in the section C – microcredit activities, delivering exclusively microloans.

The portfolios of the eight main microfinance NBFIs or MFIs are summarised below (with more details to be found in the 2014 microfinance study enclosed as Annex 3):

[28] EU, The European initiative to develop microcredit in support of growth and employment, 2007

Indicators	MFI	Total Assets [Euro]	Gross Loan Portfolio [Euro]	Number of active loans	Average loan amount [Euro]	Number of staff	Number of offices
Large MFIs	Patria Credit	66,005,345	59,085,000	11,326	5,217	243	35
	ROCREDIT	20,747,000	15,636,000	1299	12,037	64	11
	good.bee credit	35,000,000	27,827,000	2765	10,064	39	11
Medium MFIs	OMRO	10,365,814	10,359,000	2272	4,559	46	8
	VITAS	7,131,000	6,323,000	1535	4,119	49	11
Small MFIs	LAM	5,011,000	5,685,000	933	6,093	15	3
	FAER	5,453,000	4,726,000	798	5,922	13	8
	ROMCOM	5,098,000	5,068,000	432	11,731	11	4
Total /Average		**154,811,159**	**134,709,000**	**21,360**	**6,307**	**480**	**91**

Source: 2014 microfinance study

According to the EMN's MF survey 2010-2011, the Romanian microfinance sector ranks the fifth in the European Union in terms of value and number of business micro-loan disbursed[29], position maintained during 2012-2013. Three MFIs, namely OMRO, Patria Credit and Vitas, are the Partner Lending Institutions (PLI) within the Romanian Microcredit facility, operating since 2006 until 2016, funded by the Romanian Government and the EU pre-accession funds (PHARE Programme), administrated and co-financed by the EBRD. Romanian MFIs were among the most active participants and beneficiaries of the EU funded financial instruments: Progress Microfinance and JASMINE - TA program during 2009 – 2013.

The result of the analysis performed in the enclosed microfinance study shows that the estimate supply of microloans increases from EUR 982 million/ 72,517 microloans in 2013 up to EUR 1,384 million/ 85,810 microloans in 2020, and may become critical for the start-up segment.

[29] EMN: Overview of the Microcredit sector in the European Union 2010 – 2011, Romanian rank the fifth after Germany, France, Spain and Poland

C.3.1.d. International institutional support in support of SMEs – 2013 update

International financial institutions have continued to be present in Romania in 2013.

The European Invesment Bank (EIB), EU's lending arm, provided four loans totaling EUR 210m to BCR, BRD SocGen, ING Bank and CEC Bank, aimed to finance projects promoted by small and medium-sized enterprises and midcap companies in Romania.

EIB's risk financing arm, European Investment Fund (EIF) also continued to be present in Romania through investments in regional equity funds, as well as several projects signed under mandates managed by EIF: the EU's former CIP programme (guarantee for ProCredit), the PROGRESS microfinance facility (guarantees for Banca Transilvania and in 2014 with Libra Bank). The EIF also manages in Romania the JEREMIE initiative, funded from ERDF (presented below under the country's public support programmes).

The European Bank for Reconstruction and Development - EBRD signed a EUR 10 million facility with UniCredit Tiriac Bank S.A. for on-lending to SMEs investing in industrial energy efficiency and small-scale renewable energy projects, as part of the Sustainable Energy Financing Facility (RoSEFF). EBRD also contracted a EUR 80m loan for SMEs with BCR.

The Black Sea Trade and Development Bank, based in Thessaloniki, increased its support to the financial sector in Romania with a EUR 7 million loan to Patria Credit, the largest non-banking microfinance institution in the country, as well as a EUR 5m loan to BT Leasing (a further approval was given for a EUR 7.5m loan to Garanti Leasing).

Also in 2013/2014, a CHF 20m loan for on-lending to SMEs was signed by CEC Bank under the Swiss-Romanian Cooperation Programme.

C.3.1.e. Public support of SMEs – 2013/2014 update

This update summarizes:

- An overall update on structural funds expenditure for SMEs;
- An update on the SME activity of the National Guarantee Fund for SMEs; and
- An update on the implementation of the JEREMIE Holding Fund, the only set of financial instruments financed through ERDF so far in Romania

Update of structural funds expenditure

It is worth reminding that the structural funds system in Romania was marked by low absorption and various implementation issues, which led to the pre-suspension of most operational programmes under the programming period 2007-2013. In 2013, all operational programmes resumed implementation and, according to mid-November 2014 data made

available by the Ministry of European Funds[30], the absorption of structural funds has reached 44.4% of the total available allocations.

Under the 2007-2013 programming period, most SME-targeted resources were found in three operational programmes, namely Regional OP, Competitiveness OP and Human Resources Development OP. The Regional OP has remained the best performing as of October 2014, with an absorption rate (expenditure declarations submitted to EC) of 55%, whereas the Competitiveness OP shows an absorption rate of 47% and the Human Resources Development OP is the least performing of all the national OPs, with almost 29% as of the same period.

According to the 2013 annual activity reports of the Regional OP[31] and Competitiveness OP[32], SMEs benefitted directly and indirectly from the following projects until year end 2013:

- Competitiveness Operational Programme[33]:
    - 1,928 direct investments into SMEs;
    - 44 R&D projects undertaken by research institutes and SMEs;
    - 106 R&D start-ups;
    - 1,617 IT&C projects;
- Regional Operational Programme[34]:
    - Through Key Area of Intervention (KAI) 4.1. "Sustainable development of business support structures", 84 contracted projects
    - Through KAI 4.3 " Support in the development of microentreprises", 2,173 contracted projects
    - Through KAI 5.2 "Tourism development", 138 contracted projects

Update on SME programmes managed by the Department for SMEs, Business Environment and Tourism within the Ministry of Economy

According to the annual activity report for 2013[35], the following state-funded programmes were managed by the Department for SMEs in 2013:

Programme	Budget EURm[36]	Contracts signed	Contracts paid	Jobs created
Development of marketing for products and services	3.34	211	211	521
Support in the setup and development of	5.5	527	353	561

[31] Observații la Evaluarea ex-ante a IF
[32] The 2013 report for the Human Resources Development OP was not available at the time of this update.
[33] http://www.fonduri-ue.ro/res/filepicker_users/cd25a597fd-62/Documente_Suport/Rapoarte/2_Rapoarte_POSCCE/03.07.2014/POSCCE_RAI2013a.pdf
[34] http://www.inforegio.ro/images/Evaluare/Raport_evaluare_POR_versiune%20finala.pdf
[35] http://www.imm.gov.ro/CMS/0/PublicMedia/GetIncludedFile?id=214
[36] Exchange rate 1 EUR = 4.42RON.

Programme	Budget EURm[36]	Contracts signed	Contracts paid	Jobs created
microenterprises by young entrepreneurs				
START – entrepreneurship skills and access to finance for youth	4.16	394	71	210
Entrepreneurship for women	0.11	15	14	28
Crafts and artisanship	0.19	109	109	
Technology incubators	0.32	14	14	
"Kogalniceanu" interest rate and guarantee fee subsidy for working capital loans	3.64	1,635	1635	
TOTAL	**17.26**	**2,905**	**2,407**	**1,320**

Most of the programmes summarized above will continue to be implemented in 2014 and the following years.

Update on the National Guarantee Fund for SMEs (FNGCIMM)

The most important national guarantee institution is the state-owned National Guarantee Fund for SMEs, set up in 2001. FNGCIMM provides loan-by-loan guarantees through its own funds (its share capital of over EUR 220m), as well as funded by third-party mandates of the Romanian state. Furthermore, FNGCIMM manages the guarantee scheme for eligible beneficiaries under the Operational Programme for Fisheries 2007-2013.

As of July 2014, the outstanding SME guarantee portfolio of FNGCIMM (total own funds and relevant mandates only, excluding agriculture) was as follows:

- In total, around 14,000 outstanding guarantees were issued for SME loans in total value of EUR 1.4bn (including agriculture).
- Around 98% (in number) of guarantees were issued through own funds, totalling EUR 773m and resulting in total loans of EUR 1.37bn.
- Through the Kogalniceanu interest and guarantee fee subsidy programme for SMEs, funded by the state in 2011-2013, with a budget available of EUR 67.9m, there are outstanding guarantees in total value of EUR 0.74m for SME capital loans in total value of EUR 0.97m.
- Through the SME guarantee programme ("Government Emergency Ordinance 92/2013"), also funded by the state for 2013-2016 and available since April 2014, with a total budget above EUR 450m, there are outstanding guarantees in total value of EUR 3.5m for SME loans in total value of EUR 9m.

- As at 30.09.2014, under the Fisheries OP 2007-2013, there were outstanding guarantees in value of EUR 5m.

Update on the JEREMIE initiative

Through a dedicated KAI under the ERDF-funded Competitiveness OP, the Government allocated a total of EUR 150m (of which EUR 100m in 2008 and EUR 50m in 2013) for financial instruments under the JEREMIE initiative, implemented in Romania by the European Investment Fund, the EU institution for risk financing, part of the EIB Group[37].

As of December 2014, the JEREMIE Holding Fund Romania has the following portfolio of instruments:

- **Portfolio guarantee instrument**, implemented through agreements with BCR, UniCredit Tiriac and Raiffeisen; the instrument benefits from a EUR 62m financial allocation, set to result in a total portfolio of new SME loans of EUR 310 through the 5x leverage effect of the first loss feature. The guarantee is free of charge for the SMEs (de minimis aid). As of October 2014, the instrument was almost entirely absorbed (EUR 55.5m of the EUR 62m allocation for total guarantee payments), with an estimate portfolio of 2,900 working capital and investment loans in total estimate value of around EUR 290m.
- **Risk sharing portfolio loan** (interest subsidy), launched in 2014, implemented through BRD, BCR, Banca Transilvania, ProCredit Bank and CEC Bank, with a total budget of EUR 75m, resulting in a target portfolio of new SME loans of EUR 150m. SMEs benefit from a 50% reduction in interest rates[38] (de minimis aid) and losses are covered pari-passu by the bank and the JEREMIE Holding Fund. The estimate loan portfolio originated as of December 2014 through the instrument is EUR 77m.
- **Risk capital**, implemented through the 3TS Catalyst Romania fund, launched in 2012 and which made four investments in the local companies in the IT, online retail and media sectors. The instrument benefits from an allocation of EUR 10.5m, complemented by 30% private participation to add up to a total fund capital of EUR 15m.

The JEREMIE instruments have been at full speed since 2012, after the initial testing period necessary to create the instruments in line with the still incipient Structural Funds rules and to clarify the state aid and eligibility rules with the EC, performing the selection of intermediaries and obtaining from the EC and local authorities the flexibility in financing working capital for strengthening of the current business, which in the current economic conditions still prevails in SMEs' needs.

It is worth noting that the weight of working capital loans in both the EIF/JEREMIE guarantee portfolio and the FNGCIMM portfolio is approximately 70%, given the low investment appetite in the current economic conditions. This is reflected also in the average value of the SME loans,

[37] For more details about the EIF and its outstanding portfolio of financial instruments worth around EUR 13 billion, financed from own capital, EIB resources, central and decentralised EU mandates, please see www.eif.org.
[38] Indicatively, according to the NBR's May 2014 Monthly Bulletin, the average interest rate for new loans to non-financial companies is 7.18% for RON and 4.39% for EUR.

which is similar in the FNGCIMM portfolios and the JEREMIE guarantee portfolio, ie around EUR 100,000.

Furthermore, the measures taken by the NBR to encourage local currency lending reflect in the prevalence of RON-denominated loans in the SME portfolios of both institutions.

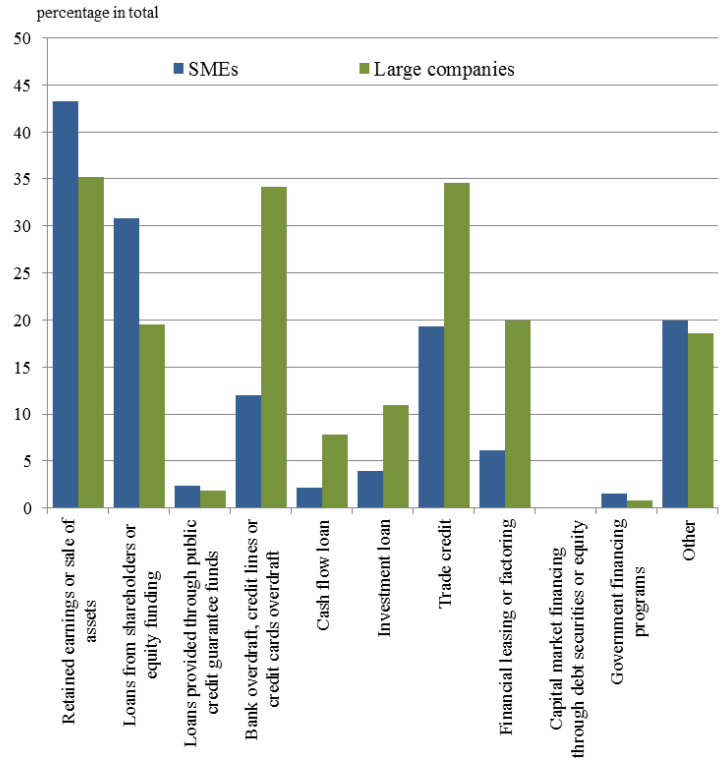
C.3.2. Demand analysis - update

C3.2.a. Bank lending demand - update

The demand for loans cu companies is still low, and mostly for working capital loans denominated in local currency and refinancing of existing loans.

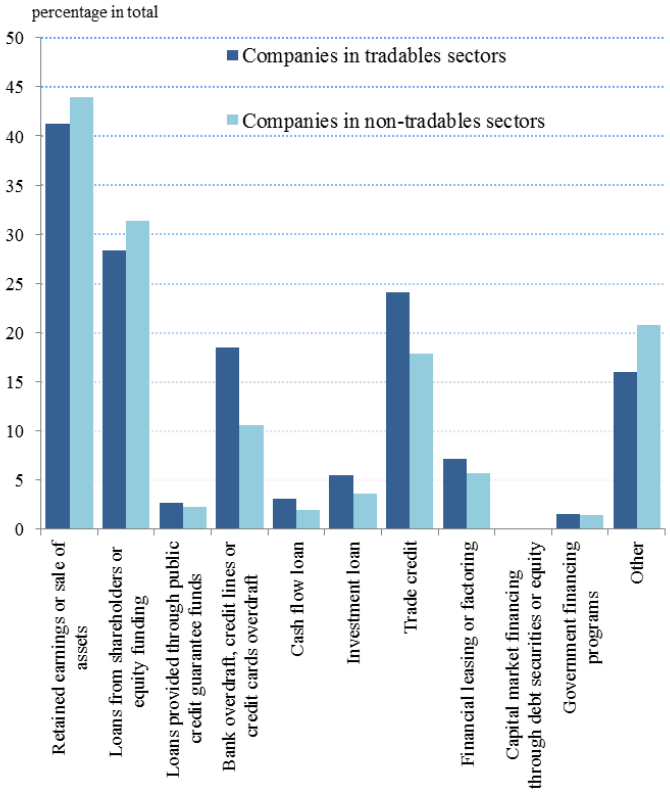
In Romania, statistics show a marked contraction in active loan demand, which is reflected among others by the lower number of queries in the Credit Risk Register (Centrala Riscurilor Bancare) undertaken with the consent of the potential loan beneficiary. Although this statistic is not available for companies only, but only at the level of the entire banking system, and takes into consideration only exposures over RON 20,000 or approx. EUR 4,500 (representing however almost 90% of total loans), it is notable that the number of queries was around 1 million per year in 2012 and 2013, compared to over 11 million queries in 2007.

On a qualitative level, according to the NBR's "Survey on the access to finance of the non-financial companies in Romania" published in June 2014, companies continue to rely on internal resources in order to fund their current business and their development (44% of survey respondents). Less than 20% of companies use bank loans (investment loans, CF loans or credit lines) and a similar percentage use trade credit. The capital market and other sources of funding are insignificant at the level of the economy.

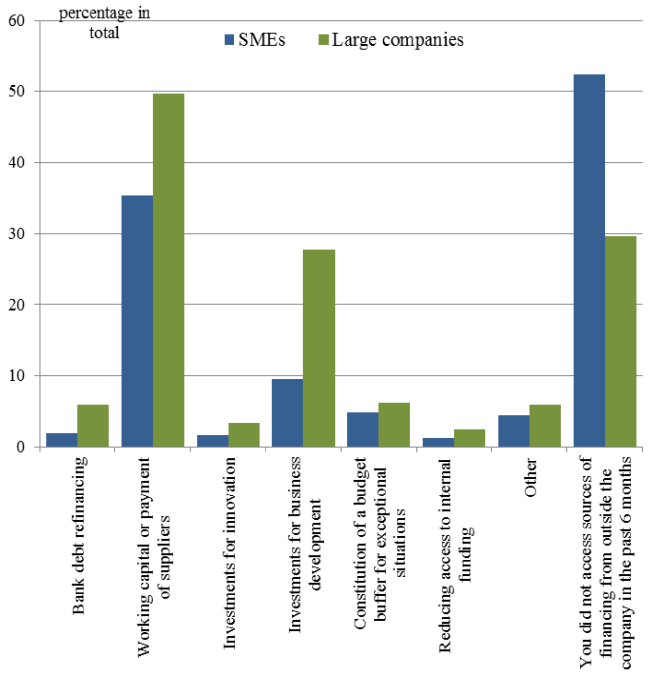


The companies in the agriculture sector and industry applied mostly for bank loans (34% of the firms in the agriculture sector, 25% of the companies in the industry sector respectively),

whereas the firms in the sectors of services and utilities used retained earnings or sale of assets prevailingly for financing their operations (47%). The companies doing business in tradeables sectors accessed more loans from banks, financial leasing or commercial loans than the firms that do business in non-tradeables sectors.

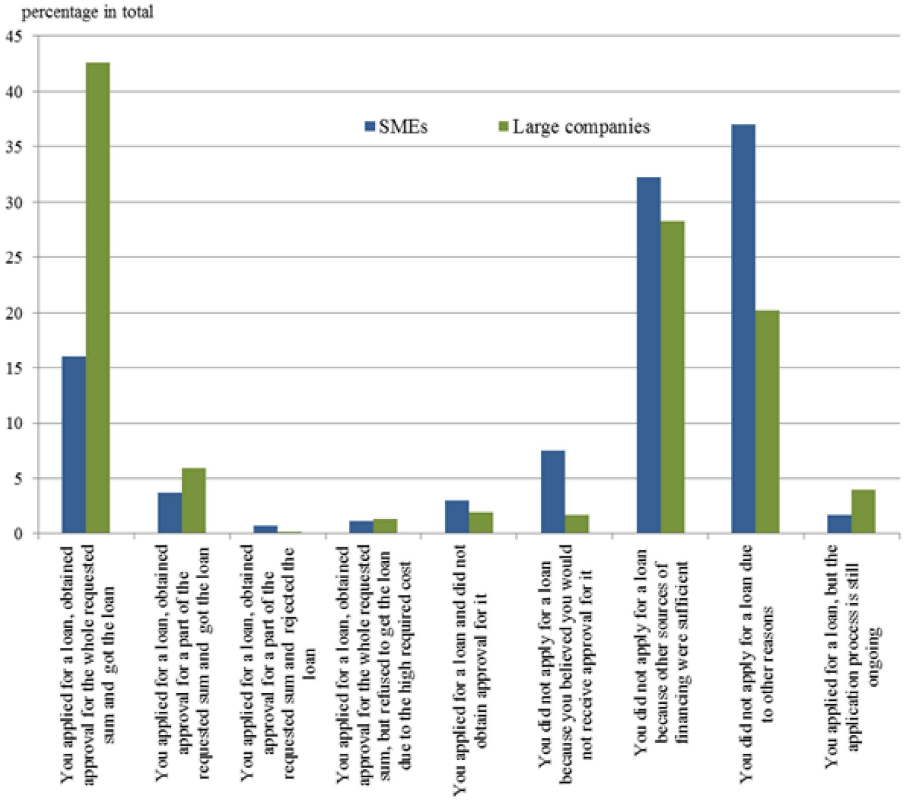


With regard to the destination of the financing accessed by non-financial companies in the period October 2013-March 2014, the NBR June 2014 survey concluded that 1/3 respondents (constituting the majority of SMEs which did access external funding) used the resources obtained for working capital, whereas less than 10% of respondent used external funding for investment in business development, with lower weights of utilisation referring to refinancing of existing debt, budget buffers and innovation.



As far as companies' success rate in accessing finance from banks and non-bank financial institutions in the period October 2013 – March 2014 is concerned, it was over 70% of the companies that did apply for a loan.

However, most respondents to the surveys did not apply for loans at all, mostly either because they had sufficient funds from other sources or for undisclosed reasons.



Overall, the survey reveals that he number of the companies without loans from banks and/or non-bank financial institutions rose compared with the previous term (71 percent in the period October 2013-March 2014 in comparison with 65 percent in the previous survey round).

When questioned about the **significant reasons limiting their access to finance**, the SMEs referred to:

- the t**oo high a level of interest rates and bank fees** (45% of respondents),
- the **value or type of collateral** (40%),
- the **contractual clauses** (30%) and
- the **bureaucracy** of the credit process (30%).

Other reasons included:

- **the age of the company**
- **credit history**,
- the **lack of financing instrument** in the bank's offer
- reasons **related to the banks themselves** (lack of transparency, lack of qualified staff).

The SMEs' feedback is complemented by a survey of banking institutions, also undertaken in May 2014, according to which:

- Credit standards remained unchanged in Q1/2014, in line with the evolution recorded in the previous quarter.
- For Q2/2014, banks estimate that credit standards will be significantly eased, regardless the type of loan.
- Loan demand recorded a moderate decrease in Q1/2014 at aggregate level, this evolution being determined by the decline of short-term loans demand from SMEs.
- For Q2/2014, credit institutions expect the decreasing trend of demand from companies to persist at aggregate level.
- Companies' risk, by activity sector, showed a mixed evolution. According to banks, credit risk for companies is on a raising path, except for the large firms (which registered a moderate decrease in risk perception compared to the previous quarter).

More recently, following a meeting organised by authorities with banks and non-banking financial institutions, the Romanian Banking Association made the following qualitative comments with regards to current and future lending demand (the letter is enclosed as Annex 4):

"*The main criterion to be taken into account when analysing the main beneficiaries that may require financing over the next 3 to 5 years in Romanian s**hould be the risk profile of the beneficiary**. Financial instruments should primarily address those beneficiaries with difficult access to financing **due to the degree of risk, lack of collateral guarantees**, start-ups with seasonal activity, beneficiaries under exchange rate influences, affected by lack of demand (e.g. construction), exposed to environment, natural hazards, factors limiting the production (e.g. agriculture), working in rural areas or small towns with low economic potential, with subsistence economy (…)*"

With regards to the sectors that may require financing over the next 3-5 years, the Romanian Banking Association names the following: heavy industry including supply to automotive, energy efficiency, construction particularly for infrastructure, wholesale and retail trade; chemical, health and pharmaceutical industry; food, beverages and personal care; paper and packaging; software production and system integration; utilities; transportation and tourism.

With regards to the type of financing, the RBA expects the ratio between investment loans and working capital loans to remain dominated by working capital, with a slight increase expected for the latter.

C.3.2.b. Microfinance demand – update

The enclosed 2014 microfinance study (Annex 3) provides an in-depth analysis of current and potential demand for microloans until 2020, relying on the ICF GHK framework[39] and considering also EIF's GAFMA. The ICF GHK framework assumes that following sources of microcredit demand:

1. **Financing needs of unemployed and potential start-ups**:
   a. Start-up entrepreneurs seeking external finance; and
   b. Unemployed individuals wishing to become self-employed
2. F**inancing needs of existing businesses and of the self-employed**
   a. Self-employed seeking finance (less than EUR 25,000); and
   b. Micro-enterprises seeking finance (less than EUR 25,000)

Due to the lack of research data on financing needs of Romanian unemployed, start–up entrepreneurs, and the self-employed, t**he 2014 microfinance study used the EU 28 indicators to estimate the potential annual demand for microcredit in Romania.** Adjustments were made only for two indicators: percentage of unemployed seeking to become self-employed, from 7% (in EU28) to 2% (for the purpose of this analysis in Romania)[40], and percentage of start-up entrepreneurs seeking finance from the active population, from 4% to 2%. These adjustments were made due to the lower entrepreneurship skills among the unemployed and the active population in Romania and lack of incentives for start-ups[41].

Variable	**Formulas** **% Ro/EU indicators**	**Calculation**
1. Financing needs of the potential start-ups: 51,792		
Unemployed aiming to become self-employed : 10,074		
Number of the unemployed	A	503,702
% unemployed seeking to become self-employed	B=A* 2%	10,074
% un-bankable	C=B*34%	3,425
a. Start-up entrepreneurs seeking finance: 41,718		
Total active population (age 15-64):	D	**13,905,940**
% taking steps to start a business	E=D*2%	278,119

[39] EC – ICF GHK : Evaluation of the JASMINE TECHNICAL ASSISTANCE Pilot phase - November 2013
[40] WB study: Romania Europe 2020 Romania: Evidence-based Policies for Productivity, Employment, and Skills Enhancement
[41] Subsidies for unemployed to start up a business: grant/guarantee schemes, unemployment benefits continued during the first years of business operation or until business break-even, etc.

Variable	Formulas % Ro/EU indicators	Calculation
% seeking external finance (<EUR 25,000)	F=E*20%	41,718
% funded by friends and family (latent demand)	G=F*45 %	7,092
% those whose demand is partially met through commercial sources	H=F*4%	5,006
% unsuccessful in obtaining loans	I=F*40%	16,687
2. Financing needs of existing businesses and the self-employed: 129,251		
a. Self-employed individuals (Sole traders)	**53,159**	
Number of self-employed individuals (active PFA/II/AF):	J	**354,393**
% seeking external finance (<EUR 25,000)	K=J*15%	53,159
% funded by friends and family (latent demand)	L=K*17%	9,037
% those whose demand is partially met through commercial sources	M=K*12%	6,379
% unsuccessful in obtaining commercial loans	N=K*40%	21,264
b. Established micro-enterprises: 76,092		
Business population (<10 employees/micro-companies) :	O	**422,732**
% seeking external finance (<Eur 25,000)	P=O*18%	76,092
% funded by friends and family (Latent demand)	Q=P*6%	4,566
% those whose demand is partially met through commercial sources	R=P*18%	13,697
% unsuccessful in obtaining external finance	S=P*13%	9,892

Source: 2014 microfinance study

In order to estimate conservatively the value of the microcredit market in Romania, the enclosed study considered the average amount of microcredit for business purposes extended by NBFI in 2013, namely EUR 6,670.

The results of the study, according to the detailed calculations in the microfinance study, show a demand for microloans (conservative value) ranging from EUR 1.07bn in 2013 to an estimate of EUR 1.529bn in 2020.

The enclosed study also analyses in more detail the regional distribution of demand, concluding that it follows the current density of existing sole traders and microenterprises and is higher in the Bucharest- Ilfov and the western, more developed, regions of Romania, followed by South

Muntenia. Furthermore, a description of the demand for Business Development Services, specific to the microfinance sector, is provided.

C.3.3. Estimate of Financing gaps

C.3.3.a. Summary of financing gaps identified

As presented below in more detail, the following financing gaps were identified for the types of financial instruments analysed:

Type of instrument	Financing gap (EURm) up to 2020
Debt financing (guarantees, risk sharing loans)	Up to 1,893
Microfinance	Up to 940
Equity investments	Up to 544
Total	**Up to 3,377**

C.3.3.b. Methodology

A combination of the following methods in estimating the SME financing gap in Romania was applied, using predominantly the 2013 data available at the time of the analysis:

- **For bank lending** (debt financing), which constitutes the bulk of external financing obtained by SMEs, it is proposed to extrapolate on the results of the "viable SMEs" method, applied in the EC "Ex-ante assessment of the EU SME Initiative", a Staff Working Document prepared by the EC with contribution by EIB Group, with the added element of the bank overdrafts which are not considered therein. *The forecast refers to NACE sectors B to N, thus excluding notably Agriculture.*
- F**or private equity and venture capital**, it is considered appropriate to estimate the financing gap as the difference between the supply (consisting of investments undertaken) and the demand (investments made), based on benchmarking investment data as a % of the GDP against other countries in the region.
- **For microfinance**, the methodology used implies the calculation of the difference between existing supply and potential demand, based on the average microcredit amount reported by the NBFIs to the European Microfinance Network, as described in the 2014 microfinance study (Annex 3).

The sum of the above figures is considered to represent the current financing gap for Romania and has considered in general **an assumed linear GDP growth of 2.6%** to calculate the estimate financing gap for the period 2014-2020.

Whereas the data and methodologies available did not enable an analysis of specific financing gaps by Thematic Objective, and relied instead on an analysis by type of instrument, it is believed that the results are relevant since the ultimate goal of the present ex-ante assessment is to estimate the needs of SMEs from all sectors, which face mostly the same issues in accessing finance.

C.3.3.c. Debt financing gap

The "viable SMEs" approach was used by the European Commission (EC) and the EIB Group in the recent report "Ex-ante assessment of the EU SME Initiative".

Even though it was developed for a different SME study, the approach used therein is relevant because:

- The gap assessment was delivered very recently (2013) and therefore maintains its validity, although some macroeconomic parameters such as the GDP growth were subsequently updated.
- The object of the study is exactly the same – to assess the gap in bank lending for SMEs; and
- The method was proposed by EIB Group, comprising EIB and EIF; it was recognized by the EC and validated at EU level.
- The method was already considered in the SME Access to Finance Market Assessment for Bulgaria.

The methodology used by the EC estimates financing gaps by using two elements:

- The identification of the percentage rate of financially viable SMEs that were unsuccessful in obtaining loan finance; and
- The calculation of a loan financing gap by using an average loan amount that would have been requested by each financially viable unsuccessful SME.

The assumptions used in the quoted study, based in a multitude of surveys at EU level, were:

- The proportion of financially viable SMEs is identified by the share of SMEs that have benefited from a positive growth in terms of turnover in the preceding six months.
- A more stringent proxy for the proportion of financially viable SMEs is represented by the share of high-growth SMEs, i.e. firms that have benefited from a turnover growth higher or equal to 20% in the last three years.
- The causes that generate a "failure" in obtaining loan financing (as per the definition stated in the previous section) are represented exhaustively by the following three

outcomes:

- Bank's rejection of the loan application
- Firm refusal of the loan conditions
- Firm's unwillingness to apply for loan financing even when loan financing is needed

The EC paper explains that at the EU28 level, the proportion of SMEs that have faced problems in accessing bank financing between 2009 and 2012 is 12.36%, calculated as the weighted average of all countries participating in the SAFE Survey in a given year. This figure, in line with the estimates provided in the Ex-Ante Assessment for COSME, corresponds to approximately 2,850,000 SMEs.

The estimated interval for the proportion of financially viable SMEs lies within 5.84% and 32.53%. While this range may seem excessively broad, it is interesting to note that the average point of this interval is 19.18%, very close to the 20% figure, representing the proportion of financially viable SMEs arbitrarily set in the Ex-Ante Assessment for COSME.

Further insight can be gained from the data quoted in the Horizon 2020 Ex-Ante Assessment based on the 2012 Community Innovation Survey, which reveals that some 53% of enterprises reported "innovation activity" between 2008 and 2010; this suggests that at any one time, 150,000 to 500,000 innovating SMEs are originating bankable operations that the market cannot support.

Overall, the loan financing gap affected between 155,000 and 860,000 European SMEs in the 2009-2012 period. Therefore, up to 4.11% of European SMEs were not able to obtain a loan for reasons unrelated to financial viability.

With regard to the average loan amount, an estimate was made by matching data obtained from Orbis Database with information on loan shares provided by BACH-ESD Database, leading to an average SME loan size of EUR 130,850 which is considerably close to the one previously computed by Economisti Associati (2011), who considers an indicative figure of EUR 100,000.
With regard to Romania, it is worth noting (separately from the SME Initiative ex-ante assessment) that the JEREMIE-guaranteed loan portfolio as of end 2013 consisted in 2,010 loans with a total value of EUR 184m, thus leading to an average of approx. 90,000 EUR. However, this average is impacted by the requirement to maintain a certain minimum level of investment loans, whereas at overall country level the average SME loan is lower – and considering that the average microloan is under EUR 7,000, as identified above, the average loan amount proposed under the SME Initiative ex-ante assessment of EUR 49,000 appears reasonable.

According to this methodology, the SME **loan financing gap** (LFG) is calculated as follows:

Loan financing gap = Nr SMEs x Financially viable SMEs x Unsuccessful SMEs x Average SME loan size

where

Nr SMEs: number of SMEs;

Financially viable SMEs: share of SMEs exhibiting positive turnover growth.

Unsuccessful SMEs = SMEs that applied x (SMEs rejected + SMEs refused) + SMEs discouraged

where

- *SMEs that applied*: share of financially viable SMEs that applied for a bank loan;
- *SMEs rejected*: share of financially viable SMEs that applied for a bank loan and whose demand was rejected by the bank;
- *SMEs refused*: share of financially viable SMEs that applied for a bank loan and refused the proposed bank loan because of high interest rates;
- *SMEs discouraged*: share of financially viable SMEs that did not apply for a loan for fear of rejection;

The detailed analysis at EU and country level results in an estimated trend for the debt financing gap in the 2009-2012 period, expressed as the most recent figure of the financing gap (in the case of Romania, this would be 2011), between:

- a **lower figure ("lower bound"**) representing the debt financing needs of high-growth SMEs (ie SMEs that have shown a turnover growth rate over 20%), and
- a **higher figure ("upper bound")** which indicates the financing needs of SMEs with a positive turnover growth rate of any level.

The outcome of the analysis for Romania, as detailed below, is that **the estimated amount of debt financing gap lies between EUR 179m (lower bound) and EUR 1,402m (upper bound), only referring to NACE sectors B to N (and thus excluding the impact of the Agriculture Sector).**

The result may be extrapolated to cover the period until 2020, interpreting the average GDP growth of 2.6% considered for this paper as the annual rate of increase of the "upper bound" presented herein. According to the methodology described, this would result in a **debt financing gap (upper bound) of EUR 1,893 billion in 2020**.

Romania

MACROECONOMIC INDICATORS			
GDP GROWTH RATE (2013):	2.2%	LOANS-TO-DEPOSIT RATIO (2012):	130.9%
OUTPUT GAP (2013):	-1.8%	NON-PERFORMING LOANS RATIO (2012):	17.3%
UNEMPLOYMENT RATE (2013):	7.3%	BANK CAPITAL ADEQUACY RATIO (2012):	14.7%
GOVERNMENT NET LENDING / BORROWING (2013) AS % OF GDP:	-2.5%	RETURN ON BANK EQUITY (2012):	-0.3%
GROSS GOVERNMENT DEBT (2013):	38.5%	CENTRAL BANK LIQUIDITY AS % OF LIABILITIES (2011):	2.1%
CORPORATIONS NET LENDING/BORROWING (2013) AS % OF GDP:	6.3%	BANKS' EXPOSURE TO VULNERABLE COUNTRIES :	n.a.
SOVEREIGN INTEREST RATES SPREAD VERSUS BUND :	n.a.	FOREIGN OWNERSHIP OF THE BANKING SYSTEM (2009):	76.1%

FINANCIAL INDICATORS FOR SMEs			
SHARE OF SMEs OVER TOTAL ENTERPRISES (2013):	99.7%	SMAF DEBT SUB-INDEX (2011):	92.4
SHARE OF SME EMPLOYMENT (2013):	66.9%	NUMBER OF INITIATIVES SUPPORTING LOANS UNDER STRUCTURAL FUNDS (2007 - 2013):	1
SHARE OF BANK LOANS TO SMEs OVER TOTAL (2007-2011):	61.4%†	GROWTH IN SME LOANS (2007 - 2011):	-29.1%†
SHARE OF SME LOANS IN TOTAL SME DEBT:	n.a.	INTEREST RATE SPREAD FOR SME LOANS (2012-12):	1.72%[b]
SHARE OF DISCOURAGED SMEs (2011H1):	7.0%	AVERAGE LOAN SIZE PER SME (2009 - 2012):	EUR 49,000
SHARE OF FINANCIALLY VIABLE SMEs UNSUCCESSFUL IN OBTAINING LOAN FINANCING (2009H1 -2011H1):	11.8%	ESTIMATED INTERVAL FOR SME DEBT FINANCING GAP (2009 - 2011):	179 - 1,402 € Mln

Source: Ex-ante assessment of the EU SME Initiative

It is to be noted that these needs reflect only a **minimum gap,** for the following reasons:

- The definition of a viable company is a limiting factor, especially under the current market conditions. SMEs which have deteriorating financial standings due to external reasons are not taken into account, nor are newly created SMEs which should be a target of financial instruments.
- SMEs which are viable and have access to finance could be in the process of experiencing financing constraints which does not allow for the further development of their activities or for their expansion to international markets. These SMEs create important added value and should be taken into account when analysing financing gaps.
- SMEs which have difficulties restructuring their existing debts are also not included. These companies could become viable if supported in their process to renegotiate their terms on existing loans.
- Potential financing demand of SMEs that do not yet exist is not taken into account (due to lack of data availability).
- The Agriculture sector, which was not considered in the methodology, may have a significant impact on the total financing gap at country level (however, the sector was considered less relevant for the funding sources considered herein).

C.3.3.d. Private equity and venture capital (PE/VC) financing gap

For private equity and venture capital, it **was considered appropriate to estimate the financing gap as the difference between the supply (consisting of investments undertaken) and the demand, based on benchmarking investment data as a % of the GDP against regional peers (Hungary, Poland, Bulgaria and the Czech Republic).**

To begin with, certain quality remarks are due on the nature of investment gaps.

As it was already remarked in the 2013 SME needs assessment, only a tiny fraction of the funds currently target early-stage enterprises in Romania, with most of the active funds making it clear that they are not interested in venture capital deals.

Taking a historical perspective, the **VC landscape experienced a significant contraction in Romania over the past 10 years.** During the 1990s, the first funds that were established in Romania were focused mainly on venture capital. The USAID-backed Romanian American Enterprise Fund and the European project Romanian Post-Privatisation Fund (supported financially by the EBRD and the EU) declared their strategic objective to be the support of Romanian SMEs (either those born from an entrepreneurial idea or those recently privatized). After some initial deals involving early-stage companies (in IT, agribusiness, manufacturing and financial services), both funds migrated naturally towards a less-risky segment of private equity, namely growth financing. Subsequent funds raised by these management teams departed totally from the idea of VC investments, focusing rather on the growth and buyout segment.

The *Global Venture Capital and Private Equity Country Attractiveness stud*y, compiled by IESE and Ernst & Young, puts Romania on the 48th place in 2012 for the VC index, a significant decline from 43rd place reached in 2009. Among peer countries, only Bulgaria is ranked lower (58 in 2012), while Poland is significantly ahead (28th place in 2012).

Romania was ranked very poorly in terms of *the simplicity of closing a business* (79th), *innovation* (55th) and corporate R&D (50th). **This index reflects however the attractiveness of the country, as Romania doesn't really have an active VC market**. The metric is built by assessing six major drivers of VC/PE attractiveness: economic activity, depth of the capital market, taxation, investor protection and corporate governance, human and social environment, and entrepreneurial culture and deal opportunities.

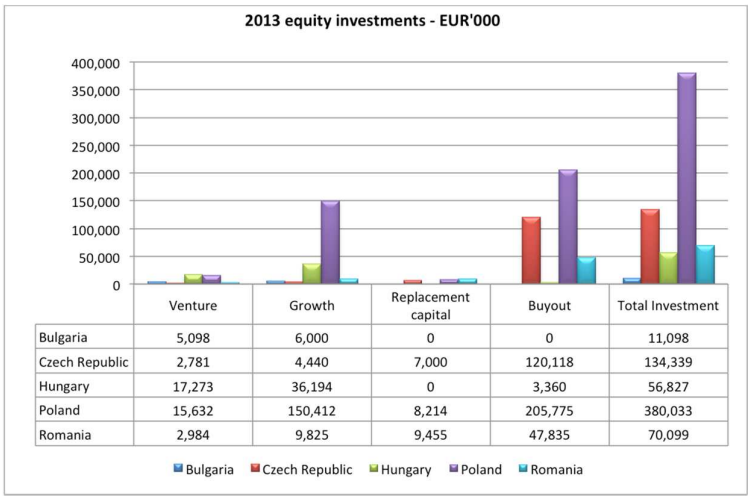
The qualitative analysis of the Romanian venture market shows a set of constraints that needs to be acknowledged in order to have a complete view on the topic:

- The **local culture does not favour serial entrepreneurs**. Most of the people who start a company never consider selling it. Moreover, highly educated young people tend to prefer a position in a multinational corporation due to it being perceived as more secure. The reluctance of these potential entrepreneurs **represents a weakness for the Romanian entrepreneurial culture.**

- There is a **lack of information related to venture capital** that limits the choices of SMEs in respect to funding. There is a need for raised awareness among entrepreneurs regarding this financial instrument in order to overcome limited knowledge on the topic.
- There are **not enough angel investors to mentor and support entrepreneurs** in order to reach the level where they can become interesting to VC investors.
- The entrepreneurs are **not aware of the value added potential of a VC investor** and they tend to overrate the value of their business. The degree to which entrepreneurs need to be educated about the rigors of business and investments was repeatedly emphasized in the document.
- There is a l**ack of awareness related to the milestones that a company has to fulfill** once it becomes part of a VC portfolio.
- There is **no legal and fiscally flexible structure adjusted to protect investors** in early stage companies.
- There are **difficulties related to the protection of property rights** a**nd to the implementation of basic corporate governance principles**, which increase the risk faced by VC investors.
- Romania records a **low level of R&D expenditure** that is directly correlated with VC investments; the research eco-system is taking shape, but it requires public funding in order to develop, to strengthen Romania's research capacity and generate spill-over effects.
- The **labour market** that should normally stimulate entrepreneurial initiative **is too rigid,** making it harder for companies to fire people.
- The Romanian capital market lacks depth; the development of the initial public offering (IPO) market is necessary as it is one of the most attractive exit routes for VC investors.

With regard to investments in later stages, such as growth and buyout, the 2013 SME study found that the level of activity in the growth segment was adequate, and did not currently require the intervention of public entities. However, due to the low interest of Limited Partners (LPs) in this region, which makes the fundraising process for new funds very difficult, a significant risk was envisaged for this segment to face shortages in the foreseeable future. On the other hand, for buyout investments, targeting mainly mature companies, preferably market leaders, with strong management teams and stable cashflow, there may be insufficient targets and it may be necessary to move into the large enterprises segment.

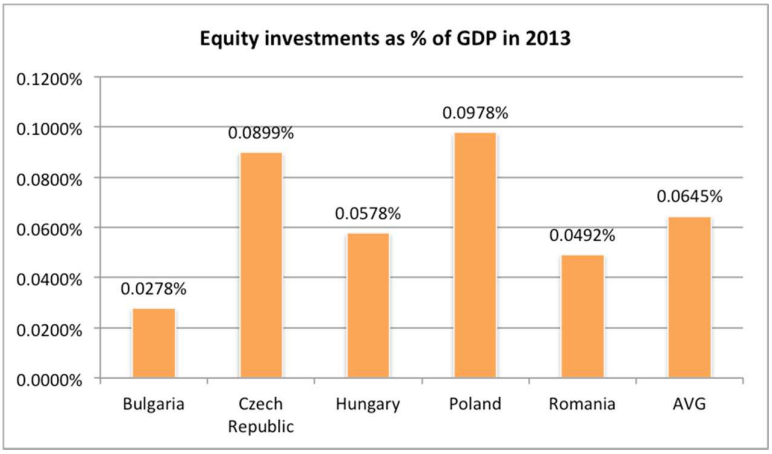
The statistics for 2013 investments in the region (market statistics ie investments in the countries) as presented by EVCA show that Romania fares better in absolute terms than Bulgaria and Hungary, a situation that may change once the JEREMIE equity funds in Bulgaria accelerate investments.



	Venture	Growth	Replacement capital	Buyout	Total Investment
Bulgaria	5,098	6,000	0	0	11,098
Czech Republic	2,781	4,440	7,000	120,118	134,339
Hungary	17,273	36,194	0	3,360	56,827
Poland	15,632	150,412	8,214	205,775	380,033
Romania	2,984	9,825	9,455	47,835	70,099

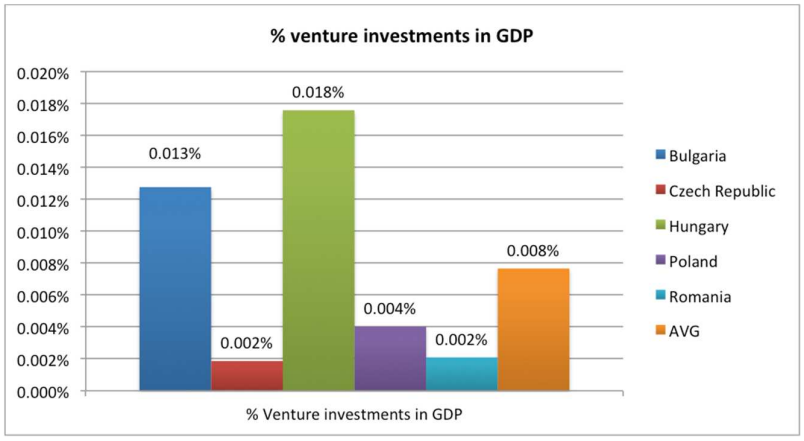
Source: EIF based on EVCA data

However, in terms of share of total equity investments in the total GDP, Romania surpasses only Bulgaria and is 50% below the average of the five peer countries:



Source: EIF based on EVCA data

The situation is even worse when comparing only venture investments, where Romania shows the lowest percentage in GDP of countries in the region:



Source: EIF based on EVCA data

In order to "catch up" with the peer countries, we propose that Romania should aim to achieve at least the share of average equity investments among its peer group, and at best to catch up with the best performing country in the group, namely Poland, which shows equity investments of almost EUR 1bn.

Considering the same GDP 2013 figure for Romania as reported by EVCA, namely EUR 142bn, the average and maximum percentage of equity investments in the regional peer countries, and then deducting the effective investments in the year of EUR 70m, the result is that the PE/VC financing gap in Romania in 2013 was between EUR22 and EUR 70m.

Assuming an average GDP increase of 2.6% in the next years, the cumulative PE/VC financing gap in Romania between 2014 and 2020 can be estimated to be between EUR 171m and EUR 544m.

C.3.3.e. Microcredit financing gap

Based on the forecasts of the demand and supply in value for microcredit for the period 2013-2020, as presented in detail in Annex 2, the estimated market gap in terms of value presented is presented below:

Forecasted Market gap /year	2013	2014f	2015f	2016f	2017f	2018F	2019f	2020f
Supply of microcredit (Value MEUR)**	982	1024	1076	1132	1190	1251	1316	1384
Supply of microcredit (Number)	72,517	73,761	75,643	77,573	79,554	81,586	83,671	85,810
Demand of Microloans (Value MEUR)*	1070	1124	1183	1245	1311	1380	1452	1529
Demand of Microloans (Number)	160,348	164,357	168,630	173,014	177,513	182,128	186,863	191,722
Estimated Gap (value MEUR)	87	**100**	**107**	114	**121**	**129**	**137**	**145**
Estimated Gap (Number)	87,831	90,596	92,987	95,441	97,959	100,542	103,192	105,912
Note*: Average MC amount for demand considered in EUR 6,670(2013) to EUR 7,975 (2020);								
Note: Average MC amount for demand considered in EUR 13,542(2013) to EUR 16,127 (2020);**								

The study concludes that microfinance can play important role in creating and developing small businesses, reducing unemployment, addressing financial and social inclusion. Its impact, however, will be diminished in the absence of coordinated measures to stimulate and assist in the establishment of new enterprises, through microfinance schemes and BDSS funded from ESIF and national sources.

D. PROPOSED INVESTMENT STRATEGY AND IMPLEMENTATION ARRANGEMENTS

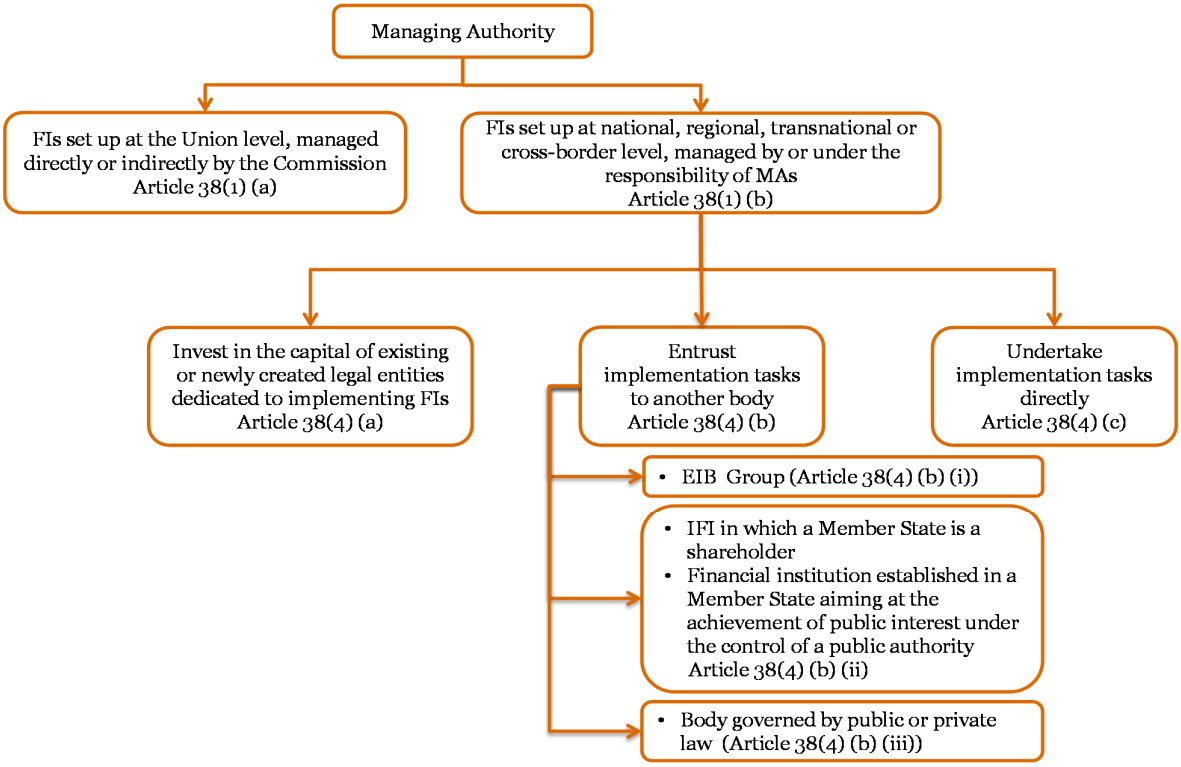
The proposed investment strategy is analysed according to the Article 37 (2) (e) CPR:

- Examination of the options for implementation arrangements within the meaning of Article 38;
- Offered financial products;
- Targeted final recipients;
- Envisaged combination with grant support where appropriate

D1. Options for implementation arrangements and requirements

The governance structure was analyzed in order to find out the more appropriate way for ensuring that FI will contribute to the attainment of concerned specific objectives.

A summary of the implementation options, as provided in the General ex-ante methodology, is shown below:



Option (1) EU level, instrument managed directly or indirectly by the EC

As explained in the EC's Short Reference Guide, the possibility to make ESIF programmes' contributions to EU level instruments established and managed in line with FR (title VIII, Articles 139-140) is a novelty for 2014-2020 and is included in Article 38(1)(a) of the CPR.

According to the CPR, Member States may use the ERDF and EAFRD to provide a financial contribution to financial instruments managed indirectly by the Commission with implementation tasks entrusted to the EIB in respect of the following activities:

- uncapped guarantees providing capital relief to financial intermediaries for new portfolios of debt finance to eligible SMEs
- securitisation.

Taking into account that in Romania securitization it is not a very well known instrument, **it is recommended the possibility to participate in the SME Initiative with contribution from ERDF for the joint uncapped guarantee instrument (option 1).**

The joint uncapped guarantee instrument operates under the Financial Regulation and Rules of Application related to EU level instruments, and ESIF contributions by Member States to COSME and/or Horizon 2020 will be ring-fenced for support to SMEs in their respective region or country.

Under the uncapped guarantee instrument, EIF will issue uncapped portfolio guarantees and ESIF will be used to cover t***he first loss piece***. EU funds from COSME (for SMEs that are perceived as risky) and/or Horizon 2020 (for innovative SMEs and small mid-caps) and the EIF will join in to absorb, together with ESIF, t***he second loss piece***. The ***residual risk of the senior tranches*** will be guaranteed by EIB.

The public sector's uncapped guarantee should not exceed 80% of the SME loan portfolio and the originating bank should keep at least a 20% stake in each SME loan, to help avoid moral hazard by ensuring sound originating and monitoring standards.

Nevertheless, **capital relief will be substantial for the originating bank**. The proposed instrument takes up to 80% of the risk of each SME loan from the banks. The facility ensures earmarking of bank credit to SMEs/mid-caps, as bank will have to clearly demonstrate the transfer of benefit of the EU SME instrument to the SMEs, which can take one or several of the following forms: acceptance of higher risk clients (young companies, start-ups, low scoring companies, etc.), reduction of collateral requirements and/or reduced pricing, or other.

Thus, **this instrument would provide originating banks with gradual capital relief** (as portfolios are being built up) and cover of losses for defaulted loans. This u**se of EU and ESIF contributions ensures that banks build up portfolios of new debt finance to SMEs and improve the credit transmission channel to the real economy.**

Consequently, the decision to dedicate resources to the Joint SME Guarantee Instrument (option 1) within the SME Initiative would yield **numerous advantages** for Romania:

- **Improved access to finance for SMEs** through capital relief, loss protection and potentially liquidity for the financial intermediaries, with the benefits being passed on to the SMEs in the form of reduced pricing (and possibly reduced collateral);
- **Increased leverage on public budget** through participation of EIB/EIF, COSME and/or Horizon funds and private sector;

- The SMEI **does not require co-financing with national funds** and therefore s**aves national budget for other uses;**
- The SMEI commits the participation of EIB and EIF with sizeable contributions and their expertise in the structuring, execution, implementation and monitoring of guarantees
- The SMEI **relies on an ex-ante analysis which has already been performed** by the EC and the EIB Group
- The European Commission and the EIB Group have already **adopted a 'Model Funding Agreement'**, which is a ready-made template for the Funding Agreement to be negotiated between Member States and the EIF;
- **Treatment of State Aid has already been cleared** by the European Commission.

It is also proposed that, under the SME Initiative, a possibility could exist for counter-guarantee instruments destined in principle for national guarantee institutions which would thus benefit from partial risk protection as well as know-how transfer through working with the EIB Group in implementation.

Given that initially Romania did not take into consideration the allocation of resources to the SME Initiative, **the following steps should be completed** to enable its implementation:

- **Amendment of the Partnership Agreement 2014-2020**, approved by the EC in August 2014, which makes no provisions for the SME Initiative
- **Setup of a single national dedicated Operational Programme for the SME Initiative,** with its own Managing Authority, which would require EC approval as any other OP.
- **Modification of Regional OP** from which resources would be reallocated to the SMEI OP.

Option (2) Entrust implementation tasks to national financial institution for public interest under public control

Romania can choose to entrust implementation task towards a new or existing national legal entity, according to 38 (4) (b) (iii) of CPR. According to this, the implementation of financial instruments could be entrusted to an international financial institution in which a Member State is a shareholder, or a financial institution established in a Member State aiming at the achievement of public interest under the control of a public authority. Guidance is under preparation by the EC regarding the selection on Financial Intermediary and interpretation of the abovementioned article. Based on this each MA could take the best decision in case it decides to use the possibility to entrust the implementation tasks to a body governed by public or private law according to CPR article 38 (4) (b) (iii), respecting the conditions from Article 7 of Delegated Act 480/2014 .

The main **advantages** of using a new or existing national legal entity resides from **the highest possible efficiency in addressing the target market, know-how and expertise that these bodies have of the local financial and legal environment and the readiness of mobilization**. Also, an **increasing of the national expertise** in implementing these types of financial instruments could be also an important reason for this option.

Option (3) Implementation tasks entrusted to EIB Group (EIB/EIF):

Each Operational programme could decide to entrust the implementation tasks to EIB Group (EIB/EIF) as Fund of Funds for some or all financial instruments envisaged. As a general comment, it is more effective for the financial instruments under each OP to be set up at national level, organised in a single Fund-of-Funds for each OP, thereby ensuring a cohesive and effective implementation and ensuring that financial instruments achieve critical mass.

The appointment of EIF as Fund of Funds has as main advantage the experience this institution already have in Romania : it has developed, tested and implemented the financial instruments funded through ERDF in the previous programming period (JEREMIE).

Option (4) Undertake implementation tasks directly:

The implementation of financial instruments directly by Managing Authorities is not possible in the case of guarantee and credit instruments, which can be implemented only by duly authorized entities according to national law.

In the case of other instruments such as risk capital and coinvestment, the option does not appear feasible as the implementation of such instrument requires specific in-house know-how, decision-making flexibility and carries significant legal considerations (such as the responsibilities specific to limited partners).

Conditions for appointment

When considering implementation options (other than the contribution to the SME Initiative), the conditions laid out in the Delegated Act 480/2014[42], Article 7 "Criteria for the selection of bodies implementing financial instruments" should be considered:

"1. When selecting a body to implement a financial instrument in accordance with Article 38(4)(a) and 38 (4) (b)(ii) and (b)(iii) of Regulation (EU) No 1303/2013, the managing authority shall satisfy itself that this body fulfils the following minimum requirements:

[42] Commission Delegated Regulation (EU) No 480/2014of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund

(a) **entitlement to carry out relevant implementation tasks** under Union and national law;

(b) **adequate economic and financial viability**;

(c) **adequate capacity to implement the financial instrument**, including organisational structure and governance framework providing the necessary assurance to the managing authority;

(d) existence of an **effective and efficient internal control system**;

(e) use of an **accounting system providing accurate, complete and reliable information in a timely manner**;

(f) **agreement to be audited** by Member State audit bodies, the Commission and the European Court of Auditors.

2. When selecting a body referred to in paragraph 1, the managing authority shall take due account of:

- the nature of the financial instrument to be implemented,
- the body's experience with the implementation of similar financial instruments,
- the expertise and experience of proposed team members,
- the body's operational and financial capacity.

The selection shall be transparent and justified on objective grounds and shall not give rise to a conflict of interest. At least **the following selection criteria** shall be used:

(a) **robustness and credibility of the methodology** for identifying and appraising financial intermediaries or final recipients as applicable;

(b) **the level of management costs and fees** for the implementation of the financial instrument and the methodology proposed for their calculation;

(c) **terms and conditions applied** in relation to support provided to final recipients, including pricing;

(d) **the ability to raise resources for investments** in final recipients additional to programme contributions;

(e) t**he ability to demonstrate additional activity** in comparison to present activity;

(f) in cases where the body implementing the financial instrument allocates its own financial resources to the financial instrument or shares the risk, proposed measures to align interests and to mitigate possible conflicts of interest.

3. Where a body that implements a fund of funds, including the EIB, further entrusts implementation tasks to a financial intermediary, **it shall ensure that the requirements and criteria referred to in paragraphs 1 and 2 are met in respect of that financial intermediary.**"

D. 2. Financial instruments and target financial recipients

Financial instruments can support projects through different financial products. In order to identify the best financial instruments for each Operational Programme, some steps were performed.

- During the market assessment stage, **market failures or suboptimal investment situations** have been identified.

- There **were analysed possible financial products taking into account their characteristics** for better filling the market gap.
- During the workshops organized, **the types of instruments proposed were presented and the stakeholders' opinion were taken** into consideration.
- The **main characteristics** of the proposed financial instruments were detailed in **synthetic fiches,** underlining advantages and disadvantages of each financial instrument proposed and the characteristic that made it desirable to be used for.

An analysis of **the specific market issues** related to each thematic objective was performed and based on this were propose the most appropriate financial instruments, as follows:

- ***the lack or limited collaterals to gain access to debt finance*** is a general issue which should be addressed. The best suited financial instrument for overcoming this problem is the **guarantee** instrument (other than the SME Initiative).

  The **main advantages** of using this financial instrument are:

  - Addresses specific risk capacity constraints for SMEs.
  - Disbursement takes place only in case of default
  - Cost reduction for SMEs, in case the guarantee is provided free of charge or at reduced fee
  - Significant leverage on resources allocated, in the case of the portfolio guarantee.

  Specific rules on guarantees delivered through financial instruments are set-up in the Article 8 of Delegated Act 480/2014:

  - **an appropriate multiplier ratio** shall be achieved between the amount of the programme contribution set aside to cover expected and unexpected losses from new loans or other risk-sharing instruments
  - **the multiplier ratio shall be established through a prudent *ex ante* risk assessment** for the specific guarantee product to be offered, taking into account the specific market conditions, the investment strategy of the financial instrument, and the principles of economy and efficiency. The *ex ante* risk assessment may be reviewed where it is justified by subsequent market conditions;

- **outdated or lack of physical infrastructure and insufficient or unpredictable cash flow**. These issues could be addressed by two financial instruments: **loan or equity**.

  Loan, as financial instrument, **addresses specific liquidity and risk capacity constraints** in a given market segment and needs management cost.

  The main disadvantages of this instrument are:

  - **Increases the company's risk level** (it becomes more sensitive to economic downturns, interest rate variability, and changes in market conditions).
  - **Has to be re-paid**, so the company should have stable / positive cash flow.
  - Assets may be taken as **collateral**.

For businesses the main disadvantage of debt financing is that it requires to make r**egular monthly payments of principal and interest**. If the payment delays, **severe penalties could be activated** which may include charging late fees or taking possession of collateral and these can **adversely affect the business's credit rating and its ability to obtain future financing**. Also, the amount of money is likely to be limited, so SMEs may need to use other sources of financing as well.

Equity investment means the p**rovision of capital to a company**, invested directly or indirectly **in return for partial ownership of that firm** and where the Equity investor **may assume some management control of the firm and may share the firm's profits**[43].

The main a**dvantages of the equity financial instrument** are:

- Possibility to have capital injections in SMEs which normally are not considered eligible for bank financing
- Equity financing **does not have to be repaid**.
- The **risks and liabilities** of company ownership **are shared with the new investors**.
- The **cash flow generated could be used to further grow the company or to diversify** into other areas.
- Involvement and **know-how-transfer** from the professional fund manager

However there is one **important disadvantage** of using this type of financial instrument by **giving up partial ownership of the company and some level of decision-making** authority over the business. But for SMEs without necessary collateral to secure the level of financing required to start their businesses this type of instrument should be taken into consideration. Also for the companies in advanced stage of development, attaining a low debt-to-equity ratio allows them to get a loan in the future when needed and through the involvement of the fund manager the management expertise is strengthened and the company is helped to access new markets.

- **low employment rate , underdeveloped entrepreneurial culture and limited access to finance**.

Human Capital Operational Programme set specific actions for increasing entrepreneurial culture and also providing financial instruments for increase employment by sustaining micro enterprises. A special emphasis is given to financially excluded businesses (eg. self-employed, young firms or start-ups without a sufficient credit track record, categories of entrepreneurs who are more likely to be financially excluded such as women, ethnic minorities, people with disabilities, and also social enterprises).

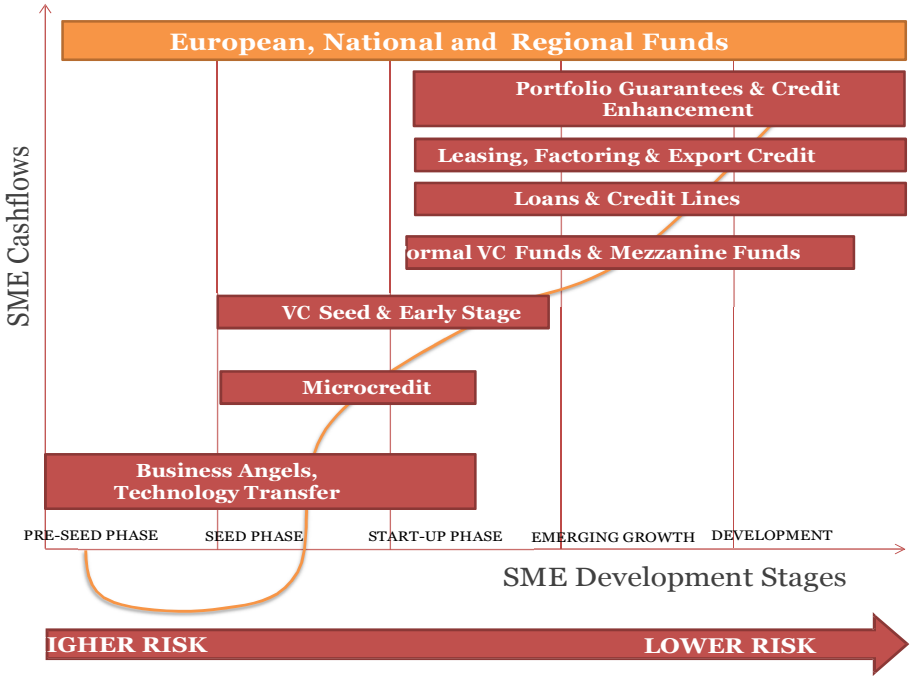
The Ex-ante assessment methodology for financial instruments provided by the Commission (volume III, Enhancing the competitiveness of SME, including agriculture, microcredit and fisheries) made an analyses of the different types of potential final recipients related their level of financial inclusion and bankability. This document distinguish two approaches to microcredit: **microenterprise lending** (focused on providing small loans to nearly bankable

[43] Financial Instruments: A Stock-taking Exercise in Preparation for the 2014-2020 Programming Period, EIB, Final report

enterprises that have difficulties in accessing the mainstream finance circuit) and **social inclusion lending** (for supporting the selfemployed).

The main instruments taken into account for these specific issues are: **guarantees and microcredits.**

The selection of the most appropriate financial instruments for each operational programme was also based on the analyses of the development stage of SMEs, as it is presented in the conceptual map provided by the GAFMA.



Based on the business stage of development there were proposed to use the next financial instruments:

- **seed and start-up phase**
  - Equity Funds for start-ups and early stage - accelerators & seed funds financed through Competitiveness OP.
  - Microcredits and guarantees for seed and start-up enterprises financed through Human Capital OP
- **emerging and growth stage**
  - Portfolio Risk Sharing Loan (PRSL) funded through OP Competitiveness and Regional OP,
  - Uncapped Guarantee for SMEs in emerging and growth stage
  - Equity Fund for SMEs in emerging and growth stage funded through Regional OP

Related the target final recipients, the ex-ante General methodology recommends *flexibility*, recognizing that the exercise of predefining final recipients for future financial instruments "can be particularly challenging on a time horizon of up to ten years (i.e. the duration of the eligibility period, running until 31 December 2023. Therefore, the proposed investment strategy should set a target for the final recipients, leaving room for changes (e.g. sectors of industry classified as innovative may develop over time) and be sufficiently prudent when selecting the financial product. Indeed, during the implementation phase, a reasonable level of flexibility can be beneficial to the effective disbursement of the funds."

Thus, it is appropriate for the investment strategy and target recipients for financial instruments to be defined at the time of the allocation of resources and based on the approved Operational Programmes, always preserving some flexibility to allow for market developments. The launch of any financial instrument in the market should be preceded by market testing exercise with potential financial intermediaries in order to fine-tune the specific features of each product and estimate absorption potential, as to be set out in the calls for selection of intermediaries.

Nevertheless, based on the results of the market failure analysis in Chapter B, the Partnership Agreement and the objectives set for Operational Programmes, it was possible to envisage some indicative features of the final recipients for FIs financed from each OP.

A specific issue brought up by equity fund managers during consultation was the difficulty in raising private resources / investments, in particular since the GBER has raised the minimum required. As always, sharing the risks and rewards remains a necessary condition to ensure a fair return to the public investors. However, experience (including in Romania) shows that the equity funds covering a single country, targeting riskier SMEs, with eligibility limitations and with procedural requirements which go beyond commercial practices may be considered too risky and too complicated for the normal private investors. Thus, the market has provided strong indications, and it was recognized as such in the recently issued GBER 651/2014, that private investors need to be incentivized. Whereas it is accurate that such asymmetric profit sharing may reduce the resources repayable to the fund-of-funds, the alternative may be to not have any private investors at all. Thus, **it is recommended to make available in the calls for expression of interest the option for private investors to be incentivized by preferred (asymmetric) profit sharing.**

D.3. Envisaged combination with grant support

The eligibility rules under the ERDF-funded FIs in the 2007-2013 period did not allow for the combination of FIs and grants for the same eligible expenditure. This was seen as a problem by Member States, especially given the difficulties faced by grant beneficiaries to secure the prefinancing or co-financing necessary to implement in particular large investment projects.

Whereas prefinancing and double financing will continue to remain ineligible, the CPR allows for the period 2014-2020 for combination of grants and FIs, as detailed in the EC's Short Reference Guide: "For the combination of ESIF financial instruments with ESIF grants or other assistance, there are two possibilities.

- Firstly, it will be possible for certain types of grants (interest rate subsidy, guarantee fee subsidy or technical support as specified in Article 5 of the Delegated Act) and financial products to be combined within the same operation and to be treated as a financial instrument. Other types of grants cannot be presented under a single financial instrument operation.
- Secondly, it will be possible for the grant operation and financial instrument operation support to be combined to finance the same investment at the level of final recipient, however as separate operations.

The overall guiding principle for all cases is that t**he same expenditure cannot be declared twice to the Commission**. **Grants shall not be used to reimburse support received from financial instruments and financial instruments shall not be used to pre-finance grants.**"

In order to better define the possibility of combining grants with FIs, the Commission prepared a special Guidance. The Guidance better clarified what a financial operation means, in order to avoid any doubts: "***financial instruments operation is constituted by the financial contribution from a programme to the financial instrument and the subsequent financial support provided by this financial instrument to final recipients***".

According to this Guidance, there are **two possible types of combination of support from a financial instrument with other support** (for example grants or other financial instruments).

1. **The combination of support within a financial instrument operation (a single operation)** is possible only for combination with technical support, interest rate subsidies, and guarantee fee subsidies, with the condition to be directly linked to the financial instrument, in the purpose to facilitate and enhance the implementation of the financial instrument.

   The other forms of support (including technical support, interest rate subsidies, and guarantee fee subsidies) are provided by the fund manager, and **the support is for the benefit of final recipients but it is not directly paid to the final recipient**.

   For the financial instruments proposed in the assessment for being implemented by the Operational Programmes, the combination of financial instruments with other forms of

support should be used in order to make the financial instruments more attractive, by **reducing related costs and increase the ability of beneficiary to realize good support documents necessary** for receiving a loan or guarantee by providing technical assistance for preparing business plans.

In the context of the necessity to improve the SMEs access to finance, the following combination of financial instruments with technical support is recommended:

- For **the increasing employment** specific objective within Human Capital Operational Programme, it is recommended the combination l**oan-technical support and guarantee-technical support.** The beneficiaries of this type of interventions usually do not have necessary knowledge to write a proper business plan in order to gather a loan or a guarantee for a loan. It **is recommended to be used a combination with technical assistance.** The maximum amount for technical support should be 5% from the loan. The specific thresholds should be established in the financing agreement.
- In the case of the entrepreneurship **accelerator and seed structure**, technical support could be used for office accommodation for the enterprises within accelerator and a full set of back office services (legal, accounting, etc) and other program related expenses. According to the experience from the Bulgarian Eleven accelerator, this average amount is EUR 2,000 per company for the 3-month program. Assuming that could be about 200 companies hosted for acceleration phase during the programming period, so the technical support provided could be 1% from the total amount.

According to the Article 37(7) CPR, the conditions for combining the other forms of support (including technical support, interest rate subsidies, and guarantee fee subsidies) with a financial instrument are:

- ***The other forms of support must be directly related to the financial instrument.*** This means that technical assistance it is directly related to financial instruments if it concerns technical support for the purpose of the technical preparation of the prospective investment and for the benefit of the respective final recipient. All provisions for any type of combination envisaged are the same as for the financial instruments (e.g. on governance structure, substantiation of expenditure, co-financing rate, payments, management costs and fees, reporting), taking into account that this type of combination represent a single financial package.
- ***The financial instrument and the other forms of support must target the same final recipients***.
- ***The applicable state aid rules must be respected***. This means that the same final recipient may receive a technical support grant for the preparation of the investment and repayable support for this investment (e.g. in the form of a loan) the State aid rules on the cumulation of aid must be respected.

- ***Separate records must be maintained for each form of support***, for reporting purposes and for the declaration of eligible expenditure by the fund manager to the Managing Authority.
- ***The sum of all forms of support combined must not exceed the total amount of the expenditure item concerned***

2. Combination of support could be also possible **at the level of the final recipient (combination of two separate operations),** according to the article 37(8) CPR. In this case the grant or other form of assistance **does not constitute part of the financial instrument operation**.

The combination of the financial instrument support and of the grant can took place within two separate operations, each having distinct eligible expenditure.

The conditions for this combination are:

- The ESIF financial instrument support to final recipient is part of an operation with eligible expenditure distinct from the other sources of assistance;
- State aid rules are respected, in particular on cumulation of aid;
- Separate records are maintained for each source of assistance.

For the combination of the financial instrument support and of the grant should be also respected the next conditions:

- Grants must not be used to reimburse support received from the financial instrument;
- The financial instrument must not be used to pre-finance the grants.
- Article 37(9) from CPR allows for the support provided through a grant and a financial instrument to cover the same expenditure item, the sum of all forms of support combined must not exceed the total amount of the expenditure item concerned. In the context of Articles 65(11) and 37(9) expenditure item is the amount declared as eligible for Union funding under a budget category.

The *"sum of all forms of support"* refers to ESIF programme support (i.e. ESIF and national co-financing) whether in the form of grant or financial product, which:

- In case of a grant covers the amount of the ESIF programme grant which is declared as eligible expenditure ;
- in case of a loan or equity covers the amount of the ESIF programme loan or equity;
- In case of a guarantee covers the amount of the entire loan or risk-bearing instrument covered by the ESIF programme guarantee.

In order to respect the condition that "*Grants must not be used to reimburse support received from the financial instrument*", it is recommended to request a statement/ declaration from the final recipient that it will respect the above requirement. In the

process of management verifications at the level of grant beneficiary, this aspect should be verified based on supporting documents allowing verification of compliance with Union and national law (see mainly Article 9 (e) (xi) and (xii) and (xiii) of Regulation 480/2014.

In the case of OPs which provide funds for financial instruments there are not envisaged the combination of support from financial instrument and grant (for example an investment which includes multiple expenditure items (e.g. construction works and purchase of machinery) and where both grants and FI are used to finance different items). However, there can also be an ad hoc combination at the level of final recipient, where a final recipient applies for an ESIF programme loan for part of it investment and for a grant for another type of its investment (within two separate operations).

D.4. PROPOSED INVESTMENT STRATEGY AND IMPLEMENTATION ARRANGEMENTS FOR OPERATIONAL PROGRAMMES

D.4.1. Competitiveness Operational Programme – TO1 "Research and Innovation"

C.4.1.a. Summary of proposed instruments

	Financial Instrument	Rationale for instrument		Proposed allocation EURm (up to)
Fund-of-funds implementation entrusted to EIB Group (EIF), as per CPR art. 38.4.b.i.	Equity Funds for start-ups and early stage -accelerators & seed funds	Investments in start-up and early stage innovative SMEs	34	40,3
	Portfolio Risk Sharing Loan	Provide 50% cost reduction and partial risk coverage to innovative SMEs	16	19,0
	Total Competitiveness Operational Programme			**59,3**

D.4.1.b. Implementation option and rationale

In order to identify the better implementation option for the financial Instruments funded by the Competitiveness Operation Programme, a detailed analysis was performed, based on OP objectives and the financial instruments proposed to be implemented and the options for FI implementation described in the chapter C1.

The results of the analysis identified that entrusting implementation to a Fund of Funds at national level it is the best implementation option. This is the most effective option in the case of small allocations from a single OP, where the administrative burden of managing several separate instruments by different bodies may hinder effective implementation. This option allows to group as much as possible all the financial instruments funded under this Operational Programme in order to better contribute to the achievement of the results envisaged by the specific objective.

The single Fund of Funds presents numerous advantages, including issuing a single set of reports, benefitting from a single point of contact, avoiding overlaps at product level due to similarity of eligibility criteria.

Furthermore, grouping the instruments in a Fund of Funds has the distinct advantage of making possible the easier reallocation of resources among instruments and financial intermediaries, depending on their performance.

D.4.1.c. Contribution of proposed financial instruments to OP Objectives

Financial instruments are financed from **priority axis 1. Research Development and Innovation (RDI) in support of economic competitiveness and business development,** under the investment priority **: "***promoting business investment in R&I, developing links and synergies between enterprises, research and development centers and the higher education sector, in particular promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation, and supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production, in particular in key enabling technologies and diffusion of general purpose technologies***."**

The dedicated action is "*debt instruments and measures for risk capital in favor of innovative SMEs and research organizations which respond to the market demand*" and it is designed to contribute to the specific objective "**Increasing the private investment in RDI**".

This objective is defined for complying with the objective of the Europe 2020 Strategy of achieving a level of 3% of EU GDP of spending on research and development. Romania has assumed a 2% of GDP target for R & D funding (1% of GDP public expenditure and 1% of the GDP from private sources).

This target could be achieved by encouraging private investments in R & D and increasing the number of enterprises aiming at introducing innovation in their own activity through projects that develop new or substantially improved products and / or processes for production and marketing.

The private expenditure for RDI is particularly low, due both to the structural factors (lack of innovation culture in the private sector, weak links between education, research and business, lack of collaboration between public institutions and the private sector RDI, poor practical application of research results) and other factors that limit private investment in RDI. One important factor is represented by the reduced access of private sector to financing due to the absence of risk capital instruments and especial venture capital for supporting innovation.

By providing specific financial instrument to support innovative enterprises, the Competitiveness Operational Programme will contribute to increasing the number of innovative enterprises and also to the increasing the share of private expenditure in the RDI sector by providing capital investments and working capital.

Thus, the proposed instruments will contribute to the achievement of the Competitiveness OP specific objective "Increase of private investments in RDI".

D.4.1.d. Financial instruments and final recipients - indicative eligibility criteria

Financial instruments address various SMEs' needs in terms of development and time horizon. These needs often depend on the size of the SME and its current stage of development.

According to the map prepared by GAFMA, related the relationship between the development stage of SME and the recommended financial instrument to be used, for the starting-up innovative companies the most suitable financial instrument **is entrepreneurship accelerator and seed fund**. This type of two-stage equity instrument is recommended due to many SMEs' low ability to provide the necessary collateral to secure the level of financing required to start their businesses and need for mentorship support in launching their business The reduced risk and security for private investors and lower costs for final recipients is also viewed by stakeholders as advantageous. The use of the equity fund as financial instrument will also provide added value to Final Recipients that have difficulties to find other financing sources either because it was not available, or because they did not meet the eligibility requirements of other financing options. The equity and seed fund could also meet the needs of start-ups, and had certain advantages, compared to other instruments, such as being able to receive both resources and expertise.

The utilisation of dedicated Financial Instrument enables additional support to be allocated to SMEs, because of attracting additional private resources, thus multiplying the effect of ESIF resources. This was the basis for proposing the Portfolio Risk Sharing Loan as financial instrument for the innovative enterprises. Additionally, risk-sharing at financial intermediary level may encourage investors to invest (more) in projects which are not attractive without public intervention.

The proposed financial instruments will aim to:

- Provide capital investments through one or more early stage equity fund(s) focused on innovation, together with private investors.
- Provide debt financing at lower interest and/or reduced collateral requirements, with the financing and risk sharing being provided by the OP and the intermediary.
- The financing is envisaged to be utilised by final recipients for investments and/or working capital.

The OP Competitiveness pays a special attention to the "smart specialization" sectors, as defined by the National Strategy for Research, Development and Innovation 2014-2020[44]. These sectors include:

- Bioeconomy;
- Information and communications technology, space and security technology;
- Energy, environment and climate change;
- Eco-nano-technologies and advanced materials;
- The health sector is also a national priority according to the Operational Programmes.

[44] http://www.research.ro/uploads/politici-cd/strategia-cdi-2014-2020/strategia-cdi-2020_-proiect-hg.pdf

For defining the final recipients for financial instruments financed through Competitiveness OP we have taken into account the recommendations made in *General Guide for ex-ante assessment* in the chapter dedicated to the final recipients: "leave room for changes (e.g. sectors of industry classified as innovative may develop over time) and take care when selecting the financial product. Indeed, during the implementation phase, a reasonable level of flexibility can be beneficial to the effective disbursement of the funds."

Also in the *Volume III - Enhancing the competitiveness of SME*, it was recommended "to define reasonably broad eligibility and selection criteria…..the investment strategy should not be excessively strict in the definition of the final recipients in order to facilitate absorption of the funds."

Thus, indicatively, final beneficiaries may be an SME and may fulfill at least one of the following criteria:

- The activity of Beneficiary falls within the smart specialisation activities mentioned in the National Strategy for Research, Development and Innovation 2014-2020
- The Beneficiary or one of its shareholders has registered or is in the process of registering at least one technology right (such as patent, utility model, design right, software copyright, etc.)
- The Beneficiary or one of its shareholders has been awarded an R&D or Innovation prize provided by an EU institution, or a competent EU/national/regional body
- The Beneficiary is a "fast-growing enterprise", operating for less than 6 years following its establishment date and with an average annualised endogenous growth in employees or in turnover greater than 10% a year, over a three-year period.
- The Beneficiary's R&D costs represent at least 10% of its total operating costs in at least one year; or in the case of a start-up enterprise without any financial history, as evidenced on the basis of the documents of its current fiscal period
- The Beneficiary intends to use the financing under this instrument to invest in producing or developing new or improved products, processes or services .

The abovementioned eligibility criteria for final recipients are only indicative and will be refined in collaboration with the Managing Authority and established including by market testing in the. and further in the call for selection of intermediaries

D.4.1.e. Possible combination of financial instrument with other form of support

A combination grant-financial instrument within the financial instrument operation is possible for the **accelerator and seed structure**. Technical support could be used for office accommodation and for a full set of back office services (legal, accounting, etc) and other expenses related. According to the experience from the Bulgarian Eleven accelerator, this average amount is EUR 2,000 per company for the 3-month program. Assuming that could be about 200 companies hosted for acceleration phase during the programming period, so the technical support provided could be 1% from the total amount.

In the case of Competitiveness OP it is not envisaged the combination of grant and financial instrument in 2 separate operations (for example investment which includes multiple expenditure items, e.g. construction works and purchase of machinery and where both grants and FI are used to finance different items).

However, there can also be an ad hoc combination at the level of final recipient, where a final recipient applies for an ESIF programme loan for part of it investment and for a grant for another type of its investment (within two separate operations). In order to respect the condition that "*Grants must not be used to reimburse support received from the financial instrument*", it is recommended to ask a statement/ declaration from the final recipient that he/she will respect the above requirement. In the process of management verifications at the level of grant beneficiary this aspect should be verified based on supporting documents allowing verification of compliance with Union and national law (see mainly Article 9 (e) (xi) and (xii) and (xiii) of Regulation 480/2014.

D. 4.1.f. Detailed presentation of proposed instruments

The **proposed instruments** are described further and are based on:

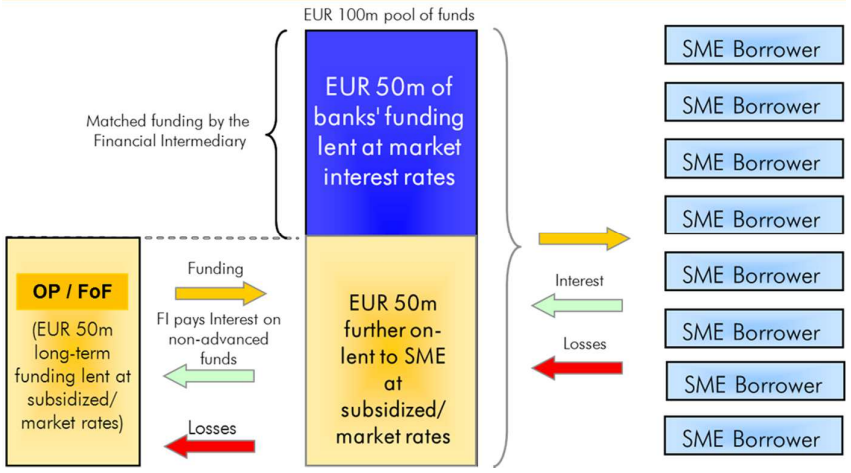
- On the principles laid out in the Implementing Regulation 964/2014 regarding the "off-the-shelf" financial instruments[45], which constitutes a reliable basis for Managing Authorities for eligibility and state aid issues, already verified by EC services, allowing for possible variations to take into account the local market specifics.
- On the experience in implementing the accelerators /seed funds under JEREMIE Bulgaria.

It is considered that development of completely new instruments, other than those based on portfolio guarantees/risk sharing loans prescribed in Implementing Regulation 964/2014 and on previous experience (in the case of SF-funded equity instruments), might pose certain risks to Managing Authorities, primarily with regards to delayed implementation due to the time required to analyse eligibility and state aid aspects. As reflected in lessons learnt section D, the process took a considerable amount of time at the launch of financial instruments in the 2007-2013 and it is prudent to fully benefit from already verified instruments.

Setting-up a new equity fund could be hindered by two serious problems: selection of a good fund manager and the private contribution which is required by the State aid regulation. Experience (including in Romania) shows that the equity funds covering a single country, targeting riskier SMEs, with eligibility limitations and with procedural requirements which go beyond commercial practices may be considered too risky and too complicated for the normal private investors. Thus, the market has provided strong indications, and it was recognized as such in the recently issued "Commission regulation (EU) No 651/2014 (art.21, point13, that private investors need to be incentivized. Whereas it is accurate that such asymmetric profit

[45] Commission Implementing Regulation (EU) No 964/2014 of 11 September 2014 laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards standard terms and conditions for financial instruments

sharing may reduce the resources repayable to the fund-of-funds, the alternative may be to not have any private investors at all. Thus, **it is recommended to make available in the calls for expression of interest the option for private investors to be incentivized by preferred (asymmetric) profit sharing.**

Financial instrument	**Portfolio Risk Sharing Loan (PRSL) funded through OP Competitiveness – Indicative description**
Schematic representation (figures for example only)	
Structure	**The Portfolio Risk Sharing Loan (PRSL) takes the form of a loan fund set up by a financial intermediary with contributions from an OP and the financial intermediary, with the aim to finance a portfolio of newly originated loans, to the exclusion of the refinancing of existing loans.** The PRSL is designed in the framework of the 1.2.2 Lending instruments and risk capital measures that meet market demands for innovative SMEs and research organizations which is part of the ***priority axis 1***. ***Research Development and Innovation (RDI) in support of economic competitiveness and business development*** defined in the programme co-funded by the relevant ESIF and defined in the context of the ex-ante assessment required in Article 37 of Regulation (EU) No 1303/2013.
Aim of the Instrument	The aim of the instrument is to: • **combine resources** from the ESIF programme and the financial intermediary to support financing to SMEs as referred in Article 37(4) of Regulation (EU) No 1303/2013, and • **provide SMEs with easier access to finance** by providing financial intermediary with a funding contribution and credit risk sharing and thereby **offering SMEs more funds at preferential conditions in terms of interest rate reduction and, if relevant, collateral reduction**. The contribution from the ESIF programme to the financial intermediary shall not crowd out financing available from other private investors or public investors. The ESIF programme shall provide funding to the financial intermediary in order **to build up a portfolio of newly generated loans to SMEs**, and in

	parallel, participate in the losses/defaults and recoveries on the SME loans in this portfolio on a loan by loan basis and in the same proportion as the programme contribution in the instrument. In the case of fund of funds structure, the fund of funds shall transfer the contribution from the ESIF programme to the financial intermediary.
Advantages	• **Cost reduction for SMEs**, eg up to 50%, because the ESIF loan-by-loan co-financing is provided free of charge (as allowed by state aid rules) and is matched by intermediary's co-financing at market price. • **Lower collateral requirements for SMEs**, depending on the loan-by-loan risk sharing rate. • **Leverage on resources allocated**, in the case of the portfolio guarantee. For instance, for risk sharing rate of 50%, the SME loan portfolio created is 2 times higher than the allocated resources. • **Effective implementation**, as the co-financing is provided automatically by the bank to the SME.
State Aid implication	**PRSL shall be state aid free at the level of the Financial Intermediary and fund-of-funds, by complying with the following requirements:** • The Financial Intermediary and the Managing Authority or fund-of-funds **shall bear at any time the losses and benefits in proportion to their contributions (pro-rata) and there is an economically significant participation of the financial intermediary** in the PRSL, • **The remuneration (i.e. management costs and/or fees)** of the financial intermediary and the fund-of-funds reflects the current market remuneration in comparable situations, which is the case when the latter has been selected through an open, transparent, non-discriminatory and objective selection procedure or if the remuneration is aligned with the Articles 12 and 13 of Delegated Regulation (EU) No 480/2014 and no other advantages are granted by the State. • The financial advantage of the programme public contribution to the instrument shall be fully passed on to the final recipients in the form of an interest rate reduction. When selecting the financial intermediary, the Managing Authority shall asses the pricing policy and the methodology to pass on the financial advantage to the final recipients. Where the financial intermediary does not pass on all the financial advantage to the final recipients, the undisbursed public contribution shall be transferred back to the managing authority. • At **Final Recipient level**, the instrument shall be devised according to de minimis aid rules set out in Reg. 1407/2013. Thus, the gross grant

	equivalent (GGE) for any loan / guarantee may not exceed EUR 200,000 over 3 years. The **GGE may be calculated in one of the three following manners**: • By applying directly the provisions of Reg. 1407/2013, according to which a loan of EUR 1m and maturity of 5 years, and respectively a loan of EUR 0.5m with a maturity of 10 years, are the equivalent of the de minimis ceiling of EUR 200,000 (proportional calculations are applied for loans outside of these specifications); or • By calculating the net present value of the sum of interest subsidies over the loan maturity at SME level, in comparison either with the relevant market rate or with the EC reference rate[46]. or • By applying the calculation set out in Implementing Reg. 964/2014, for the similar instrument "risk sharing loan", according to which "GGE = Nominal amount of the loan (EUR) × (Cost of funding (standard practice) + Cost of risk (standard practice) – Any fees charged by the managing authority on the programme contribution to the financial intermediary) ×Weighted average life of the loan (Years) × Risk sharing rate." The method of calculation should be established by the relevant Managing Authority before the selection of financial intermediaries, depending on the co-financing rate and extent of subsidy chosen (full or partial cost subsidy on ESIF co-financing part). Technical support grant or another grant provided to the final recipient shall be cumulated with the calculated GGE.
Lending policy	**(a) Disbursement from the Managing Authority or fund-of-funds to the financial intermediary:** • Following the signature of a Funding Agreement between the MA and the fund of funds (or the financial intermediary), the relevant managing authority transfers public contributions from the programme to the fund of funds or the financial intermediary which places such contributions in a dedicated Risk Sharing loan fund. **(b) Origination of a portfolio of new loans:** The financial intermediary shall be required **to originate within a pre-determined limited period of time a portfolio of new eligible loans** in addition to its current loan activities, partly funded from the disbursed funds under the programme at the risk-sharing rate agreed in the funding

[46] See the Communication from the Commission on the revision of the method for setting the reference and discount rates (2008/C 14/02)

	agreement. **Eligible loans for SMEs (according to pre-defined eligibility criteria on a loan-by-loan and portfolio level) shall be automatically included in the Portfolio**, by way of submitting inclusion notices, typically on a quarterly basis. The financial intermediary shall implement a consistent lending policy, especially regarding portfolio diversification, enabling a sound credit portfolio management and risk diversification, while complying with the applicable industry standards and while remaining aligned with the Managing Authority's financial interests and policy objectives. The identification, selection, due diligence, documentation and execution of the loans to final recipients shall be performed by the financial intermediary in accordance with its standard procedures and in accordance with the principles set out in the relevant funding agreement. **(c) Re-use of resources paid back to financial instrument:** Resources paid back to the financial instrument shall be either reused within the same financial instrument (revolving within the same financial instrument) or after being paid back to the managing authority or the fund of funds they shall be used in accordance with Article 44 of Regulation (EU) No 1303/2013. **When revolving within the same financial instrumen**t, as a matter of principle, the amounts that are attributable to the support of the ESIF and that are reimbursed and/or recovered by the financial intermediary from loans to final recipients within the time framework for investments shall be made available for new use within the same financial instrument. This revolving approach as referred at Articles 44 and 45 of Regulation (EU) No 1303/2013 shall be included in the funding agreement. ***Alternatively***, if the managing authority or the fund of funds ***is directly repaid***, the repayments shall occur regularly mirroring (i) principal repayments (on a pro rata basis on the basis of the risk sharing rate) (ii) any recovered amounts and losses deductions (according to the risk sharing rate), of the SME loans and (iii) any interest rate payments. These resources have to be used in accordance with Articles 44 and 45 of Regulation (EU) No 1303/2013. **(d) Loss recoveries:** **The financial intermediary shall take recovery actions in relation to each defaulted SME loan** financed by the financial instrument in accordance with its internal guidelines and procedures. **Amounts recovered** (net of recovery and foreclosure costs, if any) by the

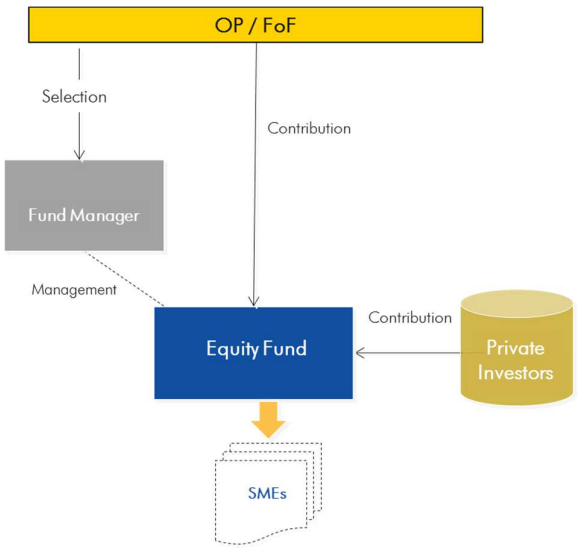
	financial intermediary **shall be allocated pro-rata to the risk-sharing between the financial intermediary and the managing authority or the fund of funds**. (e) Others: Interest and other gains generated by support from the ESI Funds to PRSL shall be used as referred in Article 43 of Regulation (EU) No 1303/2013.
Pricing Policy	When proposing its pricing, **the financial intermediary shall present a pricing policy and the methodology to ensure the full pass on of the financial advantage of the programme public contribution to the eligible SMEs**. The pricing policy and the methodology shall include the following elements: • the interest rate on the financial intermediary participation is set at market basis (i.e. according to the financial intermediary own policy), • the overall interest rate, to be charged on loans to the eligible SMEs included in the portfolio, must be reduced proportionally to the allocation provided by the public contribution of the programme (50%). The GGE calculation shall be applied on each loan included in the Portfolio.
Programme contribution to financial instrument: amount and rate (product details)	• The actual risk sharing rate, programme public contribution and interest rate on loans shall be based on the ex-ante assessment findings and shall be such as to ensure that the benefit to the final recipients complies with the *de minimis* rule. • The PRSL allocation and the risk-sharing rate must be set in order to fill the gap evaluated within the ex-ante assessment, but in any case must comply with the conditions laid down in this term sheet. • The risk sharing rate agreed with the financial intermediary shall define for each eligible loan included in the portfolio, the portion of the eligible loan principal amount financed by the programme. • The risk-sharing rate agreed with the financial intermediary determines the exposure of the losses which are to be covered by the financial intermediary and by the programme contribution accordingly.
Programme contribution to financial instrument (activities)	• **The portfolio** funded by the RS loan instrument **shall include only newly originated loans provided to SMEs, to the exclusion of the refinancing of existing loans**. • **The eligibility criteria** for inclusion in the portfolio are determined pursuant to Union law (e.g. Regulation (EU) No 1303/2013 and Fund-specific rules), programme, national eligibility rules, and with the financial intermediary with the aim of reaching a large number of final recipients and achieving sufficient portfolio diversification. An indicative

	list of the eligibility criteria can be proposed , however it is subject to update and clarification through the financial agreement between Fund of Fund and Financial Intermediary and further in the call for expression of interest for selection of financial intermediaries • The financial intermediary shall have a reasonable estimation of the portfolio risk profile. These criteria shall reflect market conditions and practices in the relevant Member State or region.
Managing Authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 point 2 of Delegated Regulation (EU) No 480/2014: *As direct financial liability of the managing authority towards bodies implementing financial instruments or final recipients as well as its liability as regards any other debt or obligation of the financial instrument may not exceed the amount committed by the managing authority to the financial instrument under the relevant funding agreements, the bodies implementing financial instruments shall ensure that no claims can be made on the managing authority beyond the amount committed by it to the financial instrument.*
Duration	The lending period of the financial instrument shall be set in order to ensure that the programme contribution as referred in Article 42 of Regulation (EU) No 1303/2013 is used for loans disbursed to final recipients no later than the 31 December 2023.
Lending and risk-sharing at financial intermediary level (alignment of interest)	**Alignment of interest** between the managing authority and the financial intermediary shall be achieved through: • **Performance fees** as provided by Articles 12 and 13 of the Delegated Regulation (EU) No 480/2014. • In addition to the programme contribution, the financial intermediary shall contribute under local market conditions to the financing of 50 % of the total financing commitment for lending to SMEs within the PRSL instrument. • The losses and recoveries shall impact pro-rata the financial intermediary and the managing authority within their respective liability according to the risk-sharing rate.
Eligible Financial Intermediaries	**Public and private bodies established in a Member State which shall be legally authorised to provide loans** to enterprises operating in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are **financial institutions,** and, as appropriate, microfinance institutions or any other institution authorised to provide loans.
Final recipients	**The final recipients** shall be eligible under EU and national law, the relevant

eligibility	operational programme and funding agreement. The following eligibility criteria shall be met at the date of the signature of the loan: • shall be a **micro, small and medium** enterprise (SMEs) • Shall be a Ressearch organization or an university • shall not be a SME active in the sectors defined in point (d) – (f) of Article 1 of the *de minimis* Regulation. • shall not be a firm in difficulty as defined by State aid rules. In addition, at the time of the investment and during the reimbursement of the loan, final recipients shall have the place of business registered in a Member State and the economic activity for which the loan was disbursed shall be located in the relevant Member State and Region/Jurisdiction of the ESIF programme. The **list of the eligibility criteria presented below is indicative and could be updated and clear established in the financial agreement between Fund of Fund and Financial Intermediary**. According to this indicative list the beneficiary should fulfill at least one of the next criteria: • The activity of Beneficiary falls within the smart specialisation activities mentioned in the National Strategy for Research, Development and Innovation 2014-2020 • The Beneficiary or one of its shareholders has registered or is in the process of registering at least one technology right (such as patent, utility model, design right, software copyright, etc.) • The Beneficiary or one of its shareholders has been awarded an R&D or Innovation prize provided by an EU institution, or a competent EU/national/regional body • The Beneficiary is a "fast-growing enterprise", operating for less than 6 years following its establishment date and with an average annualised endogenous growth in employees or in turnover greater than 10% a year, over a three-year period. • The Beneficiary's R&D costs represent at least 10% of its total operating costs in at least one year; or in the case of a start-up enterprise without any financial history, as evidenced on the basis of the documents of its current fiscal period • The Beneficiary intends to use the financing under this instrument to invest in producing or developing new or improved products, processes or services
Characteristics of the product for the final	• The financial intermediary shall deliver to final recipients the loans that contribute to the objective of the programme, selected according to the eligibility criteria) and that are co-financed by the programme under the

recipients	PRSL instrument. • The loans shall be used exclusively for the following permitted purposes: – investment in tangible and intangible assets – working capital. • Loans shall be newly originated, to the exclusion of the refinancing of existing loans. • The principal amount of a loan included in the RS loan portfolio shall be provided under such conditions that would not cause the GGE with respect to each final recipient to exceed EUR 200 000 over any period of three fiscal years; • Eligible SMEs could potentially apply more than once for loans allocated in the context of this financial instrument provided that the above-mentioned GGE limit is fully respected. • Loans shall provide financing for one or more of the permitted purposes in EUR and/or national currency in the relevant jurisdiction and, as the case may be, in any other currency. • Loans shall not be in the form of mezzanine loans, subordinated debt or quasi equity. • Loans shall not finance pure financial activities or real estate development when undertaken as a financial investment activity and shall not finance the provision of consumer finance. • Loans shall have a minimum maturity of 12 months including the relevant grace period (if any) and a maximum maturity of up to 120 months.
Reporting and targeted results	• Financial intermediaries shall provide the managing authority or fund of funds with quarterly information in a standardised form and scope. • The report shall include all the relevant elements for the managing authority to fulfil the conditions of Article 46 of Regulation (EU) No 1303/2013 and will use the Model for reporting on Financial Instruments provided in the Commission Implementing Regulation (EU) No 821/2014 • Reporting obligations pursuant to the de minimis Regulation. shall also be fulfilled • Proposed indicators are aligned with the specific objective "**Increasing the private investment in RDI**"of the investment priority from which the financial instrument is financed. They shall be measured and reported at least quarterly for the PRSL instrument and aligned as a minimum with the regulation requirements. The proposed indicators for this financial instrument are

	• Number of enterprises receiving financial support other than grants • Number of enterprises supported to introduce new to the market products; • Private investment matching public support in innovation or R&D projects; • Number of loans provided • Value of loans
Evaluation of the economic benefit of the programme contribution	• The financial intermediary **shall reduce the overall effective interest rate** (and collateral policy where appropriate) charged to the final recipients under each eligible loan included in the portfolio reflecting the favourable funding and risk sharing conditions of the RS loan. • The entire financial advantage of the programme public contribution to the instrument shall be transferred to the final recipients in the form of an interest rate reduction. • The financial intermediary shall monitor and report on the GGE for final recipients as referred in the State aid section. This principle shall be reflected in the funding agreement between the managing authority or fund of funds and the financial intermediary.

Financial instrument	**Equity fund(s) – accelerators/ seed fund(s) funded through Competitiveness OP – Indicative description**
Schematic representation	
Structure	• The Equity Fund will bring together contributions from the operational programme / fund-of-funds and private investors, in compliance with the minimum requirements for private participation as described in the "state aid" paragraph. • The Fund will be managed by a financial intermediary - **Fund Manager - a private entity who takes all investment/divestment decisions with the diligence of a professional manager in good faith**. • The financial intermediary will be economically and legally independent from the managing authority and FoF. The Fund maintains the participation into SMEs
Aim of the Instrument	**Depending on the fund size and type of SMEs targeted, equity instruments may include accelerators and seed:** • **Accelerator**: Initial financing indicatively up to a maximum Euro 50,000 by the selected financial intermediary (FI) supporting the entrepreneurs (eligible SMEs) to research, assess and develop an initial concept. In order to attract a critical mass of eligible applications for receiving financing in the Acceleration stage, the FI shall envisage holding competitive application windows. Upon closure of any such procedures, approved SMEs (according to pre-defined eligibility and quality assessment criteria by the Financial Intermediary) could receive initial financing.

	• **Seed Fund:** In this stage, the FI shall provide: – follow-on financing eligible SMEs supported in the Acceleration stage, upon successful graduation of each eligible SME from the Acceleration stage; – financing to eligible SMEs which have not participated in the Acceleration stage, as long as initial concept is developed provided that financing SMEs with a business plan only will not be allowed at this stage. • For effectiveness, **it is recommended that accelerators and seed funds should be set up into one single structure** enabling to follow through an idea until launch to market. Thus, the majority of the committed capital in the Seed stage should be invested in graduates from the Acceleration stage. • **A specific feature** of these early-stage funds **consists in the mentorship and advice structure** and the collaboration with similar structures in the EU and US, thus catalyzing product development, management coaching and market networking.
Advantages	• Availability of capital injections for SMEs which normally are not considered eligible for bank financing • Active ownership of the professional fund manager translates into know-how-transfer and more effective operations, strengthening management expertise, delivering operational improvements and helping companies to access new markets. Mentors and advisors provide high-level strategic input. • *Commission Regulation (EU) No 651/2014 declaring certain categories of aid compatible with the internal market*, specifies in Art. 21 Risk Finance aid, point 13 b that for investments other than guarantees, asymmetric profit sharing shall be given preference over downside protection. Since private investor incentivisation is allowed (eg preferential returns), the ability to attract interested coinvestors increases.
State Aid implication	• The equity funds will be free of state aid at the level of the financial intermediary (fund manager), who will be selected through an open, transparent, non-discriminatory and objective selection procedure. • Furthermore, the financial advantage of the OP contribution to the instrument shall be fully passed on to the final recipients in the form of an equity investment. The instrument shall be governed by either the de minimis rules or block exemption rules under GBER 651/2014, as to be decided by the

	Managing Authority. The de minimis regime limits the total investment to EUR 200,000 over 3 years, whereas under the exempted risk capital investments the ceiling is much higher, however there is a requirement for private coinvestment of at least 10% of the fund's capital.
Investment policy	**a) Disbursement from the managing authority to the Equity Fund:** • Following the signature of a funding agreement between the managing authority / fund-of-funds and the financial intermediary, the relevant managing authority will transfer public funds from the programme to the Equity Fund according to the expected portfolio of investments. • The financial Intermediary shall implement a consistent investment policy, especially regarding portfolio diversification (geographical, sectorial, size of final recipients, etc.), enabling a sound portfolio management and risk diversification, while complying with the applicable industry standards and remaining appropriate to the managing authority's financial interests. • Potential co-investments will be identified, screened and assessed by the financial intermediary, who which will undertake, on a deal by deal basis, a due diligence in which key aspects such as detailed business plan, containing details of product, sales and profitability development, assessment of the viability of the investment and a clear exit strategy will be assessed. **b) Disbursements from the Equity Fund to the eligible SMEs** • The Equity Fund shall make disbursements into the equity of the SMEs on a deal by deal basis respecting the proportion of the contributions of private and public investors.
Fund contribution to financial instrument: amount and rate (product details)	• The transfer of public contribution from the programme to the Equity Fund shall aim to provide capital at seed, and start-up, stages in the form of equity to final recipients. • The actual investment amounts will be determined by factors such as the size and focus of the Fund, the fundraising conditions, the expected catalytic effect of the Fund, remaining in the limits set by relevant state aid rules. • Amounts returned to the financial intermediary from the investments within the time framework for investments as set out in the funding agreement shall be used or re-used as stipulated by the CPR. • Preferential remuneration of private investors can be set in line with the CPR and relevant state aid rules.
Programme	• The indicative duration of the Equity Fund is 10 years and may be

contribution to financial instrument (activities)	extended by maximum two years with the consent of the managing authority. • The underlying transactions portfolio funded by the Equity Fund **shall include new investments and follow-on investments** provided for the ultimate benefit of final recipients. • The eligibility criteria are determined by the programme eligibility rules, State aid rules, and by the financial intermediary with the aim of reaching a sufficient number of final recipients and achieving sufficient portfolio diversification (geographical, sectorial, size of final recipients, etc.). The financial intermediary shall have a reasonable estimation of the portfolio risk profile. • The investment should be made in companies for a needed period before an exit in line with the investment strategy. • The financial intermediary should be required to set aside sufficient financial resources to make follow-on investments. Follow-on investments made by the Equity Fund occurring after the 31/12/2023 could be made from the resources returned to the Equity Fund from earlier investments.
Managing Authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 point 2 of Delegated Regulation (EU) No 480/2014: *As direct financial liability of the managing authority towards bodies implementing financial instruments or final recipients as well as its liability as regards any other debt or obligation of the financial instrument may not exceed the amount committed by the managing authority to the financial instrument under the relevant funding agreements, the bodies implementing financial instruments shall ensure that no claims can be made on the managing authority beyond the amount committed by it to the financial instrument***.**
Duration	The investment period of the financial instrument will be set in order to ensure that first time use of the programme contribution as referred in Article 36 CPR will be used with investments disbursed to final recipients at the latest by 31.12.2023.
Investment and risk-sharing at financial intermediary level (alignment of interest)	Alignment of interest between the managing authority / fund-of-funds and the financial intermediary shall be achieved through: • Performance fees as provided by Articles 12 and 13 of Delegated Regulation (EU) No 480/2014; • The remuneration of the financial intermediary shall reflect the current market remuneration in comparable situations, which is the case when the financial intermediary has been selected through a

	competitive tender and no other advantages granted by the state; • Contribution by the private investors shall be at the minimum level provided by state aid rules ; • Contributions by private investors can be made on identical terms and conditions as those applicable to the OP contribution or on an asymmetric loss-sharing model between the public and private investors, in order to attract private investors that would otherwise not invest. A specific issue brought up by equity fund managers during consultation was the difficulty in raising private resources / investments, in particular since the GBER has raised the minimum required. As always, sharing the risks and rewards remains a necessary condition to ensure a fair return to the public investors. However, experience (including in Romania) shows that the equity funds covering a single country, targeting riskier SMEs, with eligibility limitations and with procedural requirements which go beyond commercial practices may be considered too risky and too complicated for the normal private investors. Thus, the market has provided strong indications, and it was recognized as such in the recently issued GBER 651/2014, that private investors need to be incentivized. Whereas it is accurate that such asymmetric profit sharing may reduce the resources repayable to the fund-of-funds, the alternative may be to not have any private investors at all. Thus, it is recommended to make available in the calls for expression of interest the option for private investors to be incentivized by preferred (asymmetric) profit sharing.
Eligible Financial Intermediaries	The managing authority shall ensure that the financial intermediary is selected through **an open, transparent and non-discriminatory call** aimed at establishing appropriate profit/loss-sharing arrangements. The financial intermediary (fund manager) shall be a private entity with sufficient experience and expertise in equity investments, as to be assessed during the selection process by the MA / FoF.
Final recipients eligibility	• **The final recipients** should be SMEs and shall be eligible under EU and national law, the relevant operational programme and funding agreement. The following eligibility criteria shall be met at the date of the signature of the loan: • shall be an SMEs (including individual entrepreneurs/self-employed persons) as defined in Commission Recommendation 2003/361/EC.

	• shall not be a firm in difficulty as defined by State aid rules. • In addition, at the time of the investment and while the investment is maintained, final recipients shall have a registered place of business and the main economic activity for which the investment was made shall be located in Romania The list of the eligibility criteria presented below is indicative and could be updated and clear established in the financial agreement between Fund of Fund and Financial Intermediary. According to this indicative list the beneficiary should fulfill at least one of the next criteria: • The activity of Beneficiary falls within the smart specialisation activities mentioned in the National Strategy for Research, Development and Innovation 2014-2020 • The Beneficiary or one of its shareholders has registered or is in the process of registering at least one technology right (such as patent, utility model, design right, software copyright, etc.) • The Beneficiary or one of its shareholders has been awarded an R&D or Innovation prize provided by an EU institution, or a competent EU/national/regional body • The Beneficiary intends to use the financing under this instrument to invest in producing or developing new or improved products, processes or services
Characteristics of the product for the final recipients	• The financial intermediary shall deliver to final recipients equity investment financed by the Equity Fund, based on contributions from financial intermediary own contributions, the OP and the private investors.
Reporting and targeted results	• Financial intermediaries shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope. The report shall include all the relevant elements for the managing authority to fulfil the conditions of Article 46 of Regulation (EU) No 1303/2013 and will use the Model for reporting on Financial Instruments provided in the Commission Implementing Regulation (EU) No 821/2014 • Reporting obligations pursuant to the de minimis Regulation. shall also be fulfiled • Proposed indicators are aligned with the specific objective "**Increasing the private investment in RDI**"of the investment

	priority from which the financial instrument is financed. They shall be measured and reported at least quarterly for the PRSL instrument and aligned as a minimum with the regulation requirements. The proposed indicators for this financial instrument are • Number of enterprises receiving financial support other than grants; • The value of private contribution in innovation or R&D projects • Volume of equities provided
Evaluation of the economic benefit of the programme contribution	• The benefit of the programme contribution to the instrument shall be quantified and transferred for the final recipients. • This principle and the quantification methodology shall be clearly reflected in the funding agreement between the managing authority / fund-of-funds and the financial intermediary.

D.4.2. Regional Operational Programme – TO3 "SME Competitiveness"

D.4.2.a. Summary of proposed instruments

Implementation Option	Financial Instrument	Rationale for instrument	Proposed allocation EURm (up to)
Implementation entrusted to EIB Group (EIF), as per CPR art. 38.4.b.i.	*Portfolio Risk Sharing Loan*	*Provide 50% cost reduction and partial risk coverage to SMEs*	117.65
	SME Equity fund	Investments in developing SMEs	58,82
	Total Regional Operational Programme		**176.47**

D.4.2.b. Implementation option and rationale

The allocation for sustaining SMEs through financial instruments was initially quite substantial within the Regional OP (250 million Euro). The financial instruments cover all types of instruments for which a financing gap was identified. In the first drafts of the ex-ante assessment of Financial Instruments there was identified guarantee as a financial instrument for more risky SMEs which have not enough collaterals for taking a loan. Taking into account the advantages of the participation to the SMEs initiative, presented in the chapter *C. Proposed investment strategy and implementation arrangements,* Romania has decided to participate in this initiative managed indirectly by the Commission with implementation tasks entrusted to the EIB. Thus, the sum of EUR 100m which was initially allocated to the guarantee instrument will be used for the participation in SMEs Initiative.

For the other two instruments (Portfolio Risk Sharing Loan and SME Equity fund), the Fund-of-funds remains the most efficient implementation option from the point of view of economies of scale, reporting and possibility to reallocate between intermediaries and instruments depending on performance.

D.4.2.c. Contribution of proposed instruments to OP Objectives

The proposed financial instruments are funded from the priority axes 2 of ROP: *Increasing SMEs competitiveness* which has as specific objective the i*mprovement of economic competitiveness through increasing the productivity of SMEs in competitive sectors identified in the in the National Strategy for Competitiveness.*

The expected result of the support provided to SMEs by ROP is ***to increase labour productivity*** and thus contributing to the diminishing the large existing gap with the average European economic competitiveness.

This investment priority supports SMEs older than 1 year from urban area and medium enterprises with non-agricultural activity older than 1 year from rural area for improving their technical capacities, products and services in order to increase regional and national competitiveness. In this respect, will be financed SMEs interested in finding an optimal model of growth, both in the sense of transferring to another category of size and in terms of developing their activity in the purpose of increasing market size (from local market to regional, national or international).

ROP aims to support companies that have the potential to develop / maintain market position in order to facilitate their processes of growth in the regional national and international markets, based mainly on innovation. The ROP support influences the factors that could contribute to the increasing of productivity at the level of enterprises for example, new equipment, organizational and management changes or new skills learned on or off the job.

The support provided by the financial instruments contribute to maintain and develop competitive advantages of the SMEs by supporting the quickly adaptation to market signals, continuously improvement of the products and services delivered - by assimilating technological progress and innovation, incorporated services, etc.

Many studies have provided evidences that ease of access to finance for viable SMEs is a key driver of productivity, through its impact on investment, enterprise creation and innovation.

The study "Finance and Productivity Growth: Firm-level Evidence" [47] underlined that "the use of finance has a statistically significant effect on firms' future productivity growth. Overall, in addition to the well-studied relationship between financing and physical investment, firms use finance to invest in innovative projects that lead to increases in future productivity. These results indicate that the role of finance in supporting investments in innovative projects may be an important link in understanding the effects of financial development (and financial crises) on economic output and growth."

Access to finance also supports SMEs to exploit growth and investment opportunities and to achieve a larger equilibrium size. Firms can safely acquire a more efficient productive asset portfolio, and they are also able to choose more efficient organizational forms.

An equity fund is needed to cover the high demand for investments in growth companies, as evidenced by the investment statistics compared to other countries in the region. For growing companies or those seeking to strengthen their current activity, but who do not seek the strategic partnership with an equity fund, working capital or investment loans may be the right solutions and may be obtained with significant collateral and/or price reduction through the proposed debt instruments.

[47] Levine, Warusawitharana, 2014 : Finance and Productivity Growth: Firm-level Evidence

Certain sectoral priorities may be established further by the Romanian authorities, linked with the National Strategy for SMEs, the National Competitiveness Strategy or other national priorities. As mentioned for the Competitiveness OP, it is important to allow for the funding of the retail and wholesale sectors, in order to enhance access to finance for the full product cycle from concept to sale to customer.

The proposed financial instruments will target SMEs active in a wide range of sectors and which are usually in a growth stage, by:

- Providing capital investments through one or more generalist equity fund, together with private investors.
- Providing debt financing at lower interest and lower collateral requirements, with the financing and risk sharing being provided pari passu by the OP and the intermediary.
- Providing guarantees and thus significantly reduces collateral requirements, with the lending being funded by the financial intermediary.

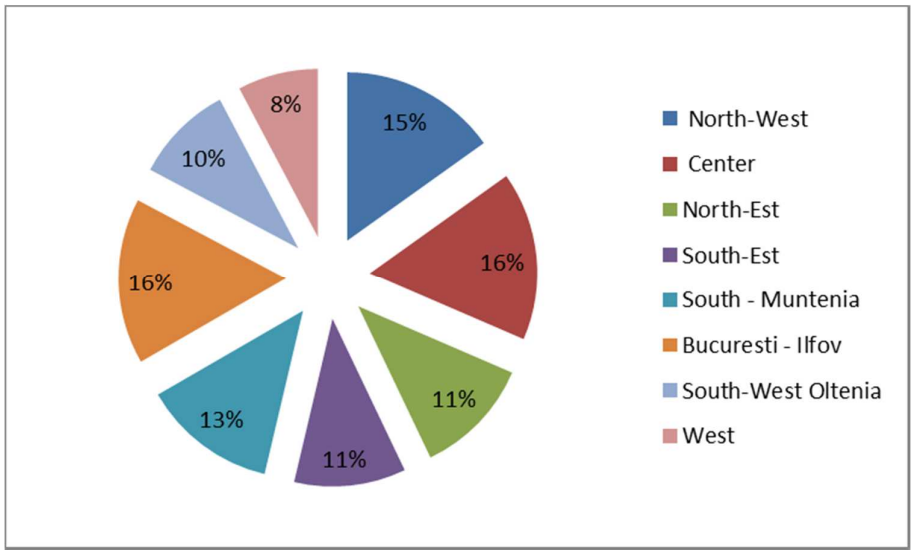
Taking into account the abovementioned considerations we can conclude that the proposed instruments will contribute to the achievement of the Regional OP specific objective "Improvement of SMEs competitiveness".

D.4.2.d. Financial instruments and final recipients - indicative eligibility criteria

Priority axes 2, under Investment priority from which financial Instruments are funded, address SMEs that are in a growth stage, which tend to increase their dimensions or their market or to expand their activity in other regions or internationalize it. For final recipients of FIs funded from the Regional OP, it could be possible to set up prioritization based on regional development targets, however it may be less effective to pre-establish an allocation of resources at regional level; instead it may be best to preserve the flexibility in the use of resources where demand for financial instruments exists.

According to the analyses performed on implementation of Jeremie instruments, we can conclude that the number of enterprises which used financial instruments is mostly related to the number of SMEs and economic development of the region, so it is difficult to impose a greater amount to the less developed regions.

Jeremie - Regional distribution of SMEs



Source: calculation based on Jeremie reports prepared by EIF

For defining the final recipients for financial instruments financed through Regional OP, there have been taken into account the recommendations made in *General Guide for ex-ante assessment* in the chapter dedicated to the final recipients, to "leave room for changes (e.g. sectors of industry classified as innovative may develop over time) and take care when selecting the financial product. Indeed, during the implementation phase, a reasonable level of flexibility can be beneficial to the effective disbursement of the funds." Also in the *Volume III - Enhancing the competitiveness of SME*, it was recommended "to define reasonably broad eligibility and selection criteria…….the investment strategy should not be excessively strict in the definition of the final recipients in order to facilitate absorption of the funds." Also, the European Commission when provide financial instruments to SMEs for the same purposes of growth and competitiveness do not put other eligibility criteria than to be SMEs, not in difficulty and in restricted area.

However, it is agreed that according to the ROP, special attention may be given to the sectors identified in the Romania's national strategies, including competitiveness strategy and regional strategies for competitiveness, CAEN code for the sectors seen as the most competitive in the competitiveness strategies), and also to the sectors with potential for smart specialization. It is also recommendable to allow for the funding of the retail and wholesale sectors, especially related to e-commerce, in order to enhance access to finance for the full product cycle from concept to sale to customer. Since the objective of the priority axis dedicated to SMEs is to increase competitiveness and the economic sectors envisages mainly the productive fields, the support for retail and wholesale sectors will be limited in the total portfolio of the instruments.

Based on the abovementioned consideration, the eligible recipients are SMEs, as defined (L346 / 2004 -10-250 employees), older than 1 year should fulfill, in our opinion at least one of the next criteria:

- SMEs witch carry out activity in the sectors identified in the National and Regional Competitiveness Strategy
- Innovative SMEs (which carry out innovative activities):
    - SMEs which envisages innovative activities according to Oslo Manual - launched products (goods or services) new or significantly improved or implemented new or significantly improved processes.
    - Applicant or one of its shareholders received an award for innovation

This represent an indicative list of the eligibility criteria and could be updated and clear established in the financial agreement between Fund of Fund and Financial Intermediary.

The abovementioned eligibility criteria for final recipients are only indicative, they will be refined in collaboration with the Managing Authority and clear established in the financial agreement between Fund of Fund and Financial Intermediary.

D.4.2.e. Possible combination of financial instrument with other form of support

In the case of Regional OP it is not envisaged the combination of grant and financial instrument in 2 separate operations (for example investment which includes multiple expenditure items, e.g. construction works and purchase of machinery and where both grants and FI are used to finance different items).

However, there can also be an ad hoc combination at the level of final recipient, where a final recipient applies for an ESIF programme loan for part of it investment and for a grant for another type of its investment (within two separate operations). In order to respect the condition that "*Grants must not be used to reimburse support received from the financial instrument*", it is recommended to ask a statement/ declaration from the final recipient that he/she will respect the above requirement. In the process of management verifications at the level of grant beneficiary this aspect should be verified based on supporting documents allowing verification of compliance with Union and national law (see mainly Article 9 (e) (xi) and (xii) and (xiii) of Regulation 480/2014.

D.4.2.f. Detailed presentation of proposed instruments

It is considered that development of completely new instruments, other than those based on prescribed in Implementing Regulation 964/2014 and on previous experience (in the case of SF-funded equity instruments), might pose certain risks to Managing Authorities, primarily with regards to delayed implementation due to the time required to analyse eligibility and state aid aspects. As reflected in lessons learnt section D, the process took a considerable amount of time at the launch of financial instruments in the 2007-2013 and it is prudent to fully benefit from already verified instruments.

The **proposed instruments** are described further and are based on:

- On the principles laid out in the Implementing Regulation 964/2014 regarding the "off-the-shelf" financial instruments[48], which constitutes a reliable basis for Managing Authorities for eligibility and state aid issues, already verified by EC services, allowing for possible variations to take into account the local market specifics.
- On the experience in implementing SF-funded equity funds in the previous programming period in Romania and other countries.

Based on the analyses of the development stage of the SMEs and the financial gap existing in Romania, we have identified three types of financial instruments appropriate for SMEs targeted by the Regional priority axes 2 from where financial instruments are provided.

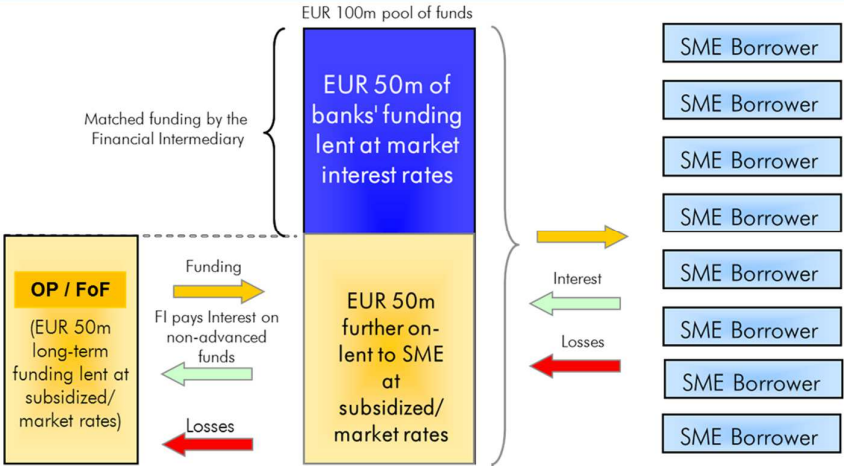
- For bankable SMEs having sufficient credit history and a part of necessary collateral should have a financial instrument that offer credits requiring less collateral and offering a reduced price of credit. It is considered that in this case the best solution is the **Portfolio Risk Sharing Loan** which provides 50% cost reduction and partial risk coverage to SMEs.
- For SMEs with reduced collateral and a higher risk the best instrument is the **uncapped Guarantee** under the SME Initiative instrument. Taking into account that one requirement of the OP is to sustain innovative enterprises; Romania considered that participation in the European SMEs Initiative for the uncapped guarantee instrument is the best solution, allowing the financing of more risky enterprises.
- For SMEs with significant growth possibilities e.g. in competitive areas (such as: software, hardware, telecommunications, biotechnology, etc and possibly with reduced possibility to take a credit, a financial instrument which invest **equity** in the capital of the company could be the best solution. The equity fund could also bring added value to the company with the goal of making them more profitable (new management, new clients, new markets) and also improving cash-flow. This type of financial instrument covers also the market gap in Romania where there is a shortage of equity funds.

  It should be emphasized that setting-up a new equity fund could be hindered by some problems: selection of a good fund manager and the private contribution which is required by the State aid regulation.

  In order to attract private investors to contribute to a private equity fund, "Commission regulation (EU) No 651/2014 declaring certain categories of aid compatible with the internal market" according to the Art. 21 Risk Finance aid, point 13 b for investments other than guarantees, permit asymmetric profit sharing. Also for a more rapid setting-up of the equity-fund, it is propose to have a coinvestment fund which requires only the public investor / FoF to contribute at the level of equity fund. In order to fulfil the state aid requirements of minimum private participation (e.g. 40%) at the level of beneficiary

[48] Commission Implementing Regulation (EU) No 964/2014 of 11 September 2014 laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards standard terms and conditions for financial instruments

privates make coinvestments at SME level. The important advantage of this type of coinvestment fund is that it may begin operations immediately without the need to wait for the fundraising to be completed.

Financial instrument	**Portfolio Risk Sharing Loan (PRSL) funded through Regional OP** **– Indicative description**
Schematic representation	
Structure	The Portfolio Risk Sharing Loan (PRSL) shall take the form of a **loan fund to be set up by a financial intermediary with contributions from an OP and the financial intermediary, with the aim to finance a portfolio of newly originated loans, to the exclusion of the refinancing of existing loans.** The PRSL works in the framework of the financial operation which is part of the priority axis 2 Increase Economic Competitiveness under the Regional Operational Programme
Aim of the Instrument	The aim of the instrument shall be to: • **combine resources from the Regional Operational Programme and the financial intermediary** to support financing to SMEs as referred in Article 37(4) of Regulation (EU) No 1303/2013, and • **provide SMEs with easier access to finance** by providing financial intermediary with a funding contribution and credit risk sharing and thereby offering SMEs more funds at preferential conditions in terms of interest rate reduction and, if relevant, collateral reduction. The contribution from the Regional OP to the financial intermediary shall not crowd out financing available from other private investors or public investors. Regional OP shall provide funding to the financial intermediary in order to build up a portfolio of **newly generated loans to SMEs,** and in parallel, **participate in the losses/defaults and recoveries on the SME loans in this portfolio on a loan by loan basis and in the same proportion as the programme contribution in the instrument.** In the case of fund of funds structure, the fund of funds shall transfer the

	contribution from the ESIF programme to the financial intermediary.
Advantages	• **Cost reduction for SMEs**, up to 50%, in case the ESIF loan-by-loan co-financing is provided free of charge (as allowed by state aid rules) and is matched by intermediary's co-financing at market price. • **Lower collateral requirements for SMEs,** depending on the loan-by-loan risk sharing rate. • **Leverage on resources allocated,** in the case of the portfolio guarantee. For instance, for risk sharing rate of 50%, the SME loan portfolio created is **2 times higher than the allocated resources**. • **Effective implementation**, as the co-financing is provided automatically by the bank to the SME.
State Aid implication	**PRSL shall be state aid free at the level of the Financial Intermediary and fund-of-funds, by complying with the following requirements:** • The Financial Intermediary and the Managing Authority or fund-of-funds **shall bear at any time the losses and benefits in proportion to their contributions (pro-rata) and there is an economically significant participation of the financial intermediary** in the PRSL, • **The remuneration (i.e. management costs and/or fees)** of the financial intermediary and the fund-of-funds reflects the current market remuneration in comparable situations, which is the case when the latter has been selected through an open, transparent, non-discriminatory and objective selection procedure or if the remuneration is aligned with the Articles 12 and 13 of Delegated Regulation (EU) No 480/2014 and no other advantages are granted by the State. • The financial advantage of the programme public contribution to the instrument shall be fully passed on to the final recipients in the form of an interest rate reduction. When selecting the financial intermediary, the Managing Authority shall asses the pricing policy and the methodology to pass on the financial advantage to the final recipients. Where the financial intermediary does not pass on all the financial advantage to the final recipients, the undisbursed public contribution shall be transferred back to the managing authority. • At **Final Recipient level**, the instrument shall be devised according to de minimis aid rules set out in Reg. 1407/2013. Thus, the gross grant equivalent (GGE) for any loan / guarantee may not exceed EUR 200,000 over 3 years.

	The **GGE may be calculated in one of the three following manners**: • By applying directly the provisions of Reg. 1407/2013, according to which a loan of EUR 1m and maturity of 5 years, and respectively a loan of EUR 0.5m with a maturity of 10 years, are the equivalent of the de minimis ceiling of EUR 200,000 (proportional calculations are applied for loans outside of these specifications); or • By calculating the net present value of the sum of interest subsidies over the loan maturity at SME level, in comparison either with the relevant market rate or with the EC reference rate[49]. or • By applying the calculation set out in Implementing Reg. 964/2014, for the similar instrument "risk sharing loan", according to which "GGE = Nominal amount of the loan (EUR) × (Cost of funding (standard practice) + Cost of risk (standard practice) – Any fees charged by the managing authority on the programme contribution to the financial intermediary) ×Weighted average life of the loan (Years) × Risk sharing rate." The method of calculation should be established by the relevant Managing Authority before the selection of financial intermediaries, depending on the co-financing rate and extent of subsidy chosen (full or partial cost subsidy on ESIF co-financing part). Technical support grant or another grant provided to the final recipient shall be cumulated with the calculated GGE.
Lending policy	(a) **Disbursement from the Managing Authority or fund-of-funds to the financial intermediary:** • Following the signature of a Funding Agreement between the MA and the fund of funds or the financial intermediary, the relevant managing authority transfers public contributions from the programme to the fund of funds or the financial intermediary which places such contributions in a dedicated Risk Sharing loan fund. (b) **Origination of a portfolio of new loans:** • The financial intermediary shall be required **to originate within a pre-determined limited period of time a portfolio of new eligible loans in addition to its current loan activities**, partly funded from the disbursed funds under the programme at the risk-sharing rate agreed in the

[49] See the Communication from the Commission on the revision of the method for setting the reference and discount rates (2008/C 14/02)

funding agreement.

- **Eligible loans for SMEs** (according to pre-defined eligibility criteria on a loan-by-loan and portfolio level) shall be automatically included in the Portfolio, by way of submitting inclusion notices on a quarterly basis.
- The financial intermediary shall implement a consistent lending policy, especially regarding **portfolio diversification, enabling a sound credit portfolio management and risk diversification**, while complying with the applicable industry standards and while remaining aligned with the Managing Authority's financial interests and policy objectives.
- The identification, selection, due diligence, documentation and execution of the loans to final recipients shall be performed by the financial intermediary in accordance with its standard procedures and in accordance with the principles set out in the relevant funding agreement.

(c) **Re-use of resources paid back to financial instrument:**

- Resources paid back to the financial **instrument shall be either reused within the same financial instrument** (revolving within the same financial instrument) **or after being paid back to the managing authority or the fund of funds they shall be used in accordance with Article 44 of Regulation (EU) No 1303/2013**.

  When revolving within the same financial instrument, as a matter of principle, the amounts that are attributable to the support of the ESIF and that are reimbursed and/or recovered by the financial intermediary from loans to final recipients within the time framework for investments shall be made available for new use within the same financial instrument. This revolving approach as referred at Articles 44 and 45 of Regulation (EU) No 1303/2013 shall be included in the funding agreement.

  Alternatively, if the managing authority or the fund of funds is directly repaid, the repayments shall occur regularly mirroring (i) principal repayments (on a pro rata basis on the basis of the risk sharing rate) (ii) any recovered amounts and losses deductions (according to the risk sharing rate), of the SME loans and (iii) any interest rate payments. These resources have to be used in accordance with Articles 44 and 45 of Regulation (EU) No 1303/2013.

(d) **Loss recoveries:**

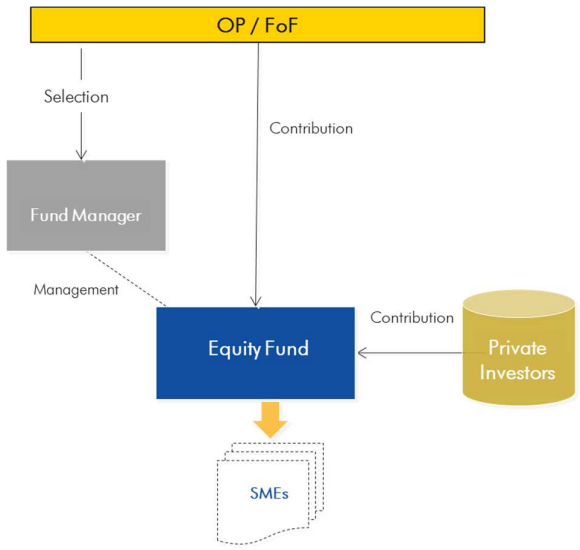
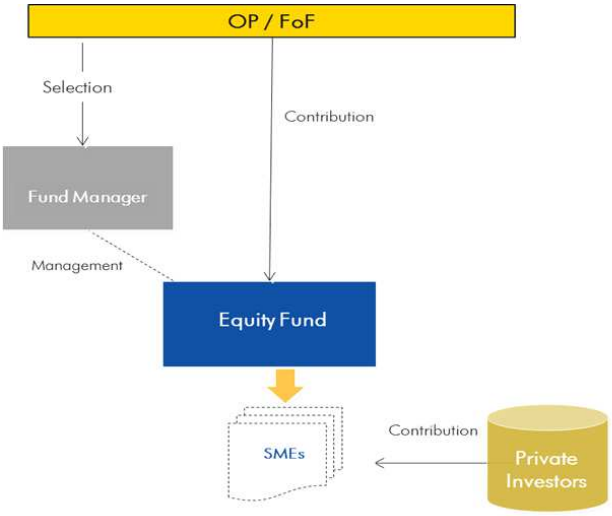
- The financial intermediary shall take recovery actions in relation to each defaulted SME loan financed by the financial instrument in accordance with its internal guidelines and procedures.

	• Amounts recovered (net of recovery and foreclosure costs, if any) by the financial intermediary shall be allocated pro-rata to the risk-sharing between the financial intermediary and the managing authority or the fund of funds. (e**) Others:** • Interest and other gains generated by support from the ESI Funds to PRSL shall be used as referred in Article 43 of Regulation (EU) No 1303/2013.
Pricing Policy	When proposing its pricing, **the financial intermediary shall present a pricing policy and the methodology to ensure the full pass on of the financial advantage of the programme public contribution to the eligible SMEs**. The pricing policy and the methodology shall include the following elements: • ***the interest rate on the financial intermediary participation*** is set at market basis (i.e. according to the financial intermediary own policy), • ***the overall interest rate***, to be charged on loans to the eligible SMEs included in the portfolio, must be reduced proportionally to the allocation provided by the public contribution of the programme (50%). This reduction shall take into account the fees that the managing authority might charge on the programme contribution.
Programme contribution to financial instrument: amount and rate (product details)	• The risk sharing rate is recommended to be 50%, programme public contribution is 100 Euro and interest rate for the programme contribution it is recommended to be 0% in order to fully pass the financial advantage to the final recipients. • The PRSL allocation and the risk-sharing rate must be set in order to fill the gap evaluated within the ex-ante assessment, but in any case must comply with the conditions laid down in this term sheet. • The risk sharing rate agreed with the financial intermediary shall define for each eligible loan included in the portfolio, the portion of the eligible loan principal amount financed by the programme. • The risk-sharing rate agreed with the financial intermediary determines the exposure of the losses which are to be covered by the financial intermediary and by the programme contribution accordingly.
Programme contribution to financial instrument (activities)	• The portfolio funded by the RS loan instrument shall include only newly originated loans provided to SMEs, to the exclusion of the refinancing of existing loans. • **The eligibility criteria for inclusion in the portfolio** are determined pursuant

	to Union law (e.g. Regulation (EU) No 1303/2013 and Fund-specific rules), programme, national eligibility rules, and with the financial intermediary with the aim of reaching a large number of final recipients and achieving sufficient portfolio diversification. The financial intermediary shall have a reasonable estimation of the portfolio risk profile. These criteria shall reflect market conditions and practices in the relevant Member State or region.
Managing Authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 point 2 of Delegated Regulation (EU) No 480/2014. *As direct financial liability of the managing authority towards bodies implementing financial instruments or final recipients as well as its liability as regards any other debt or obligation of the financial instrument may not exceed the amount committed by the managing authority to the financial instrument under the relevant funding agreements, the bodies implementing financial instruments shall ensure that no claims can be made on the managing authority beyond the amount committed by it to the financial instrument***.**
Duration	The lending period of the financial instrument shall be set in order to ensure that the programme contribution as referred in Article 42 of Regulation (EU) No 1303/2013 is used for loans disbursed to final recipients no later than the 31 December 2023.
Lending and risk-sharing at financial intermediary level (alignment of interest)	**Alignment of interest between the managing authority and the financial intermediary** shall be achieved through: • Performance fees as provided by Articles 12 and 13 of the Delegated Regulation (EU) No 480/2014. • In addition to the programme contribution, the financial intermediary shall contribute under local market conditions to the financing of at least 50 % of the total financing commitment for lending to SMEs within the PRSL instrument. • The losses and recoveries shall impact pro-rata the financial intermediary and the managing authority within their respective liability according to the risk-sharing rate.
Eligible Financial Intermediaries	Public and private bodies established in a Member State which shall be legally authorised to provide loans to enterprises operating in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are **financial institutions**, and, as appropriate, microfinance institutions or any other institution authorised to provide loans.
Final recipients eligibility	**The final recipients shall be eligible under EU and national law**, the relevant programme and funding agreement. The **list of the eligibility criteria presented below is indicative and could be**

	updated and clear established in the financial agreement between Fund of Fund and Financial Intermediary. According to this indicative list the beneficiary should fulfill at least one of the next criteria:: • SMEs witch carry out activity in the sectors identified in the National Competitiveness Strategy and regional competitiveness strategies (the list of NACE sectors could be annex to the Financial Agreement) • Innovative SMEs (which carry out innovative activities): o SMEs which envisages innovation activities according to Oslo Manual - launched products (goods or services) new or significantly improved or implemented new or significantly improved processes. o Applicant or one of its shareholders received an award for innovation • Shall not be a firm in difficulty as defined by State aid rules.
Characteristics of the product for the final recipients	• The financial intermediary shall deliver to final recipients the loans that contribute to the objective of the programme of increasing competitiveness by increasing productivity. • The loans shall be used exclusively for the following permitted purposes: **investment or working capital**. • Loans shall be newly originated, to the exclusion of the refinancing of existing loans. • Loans shall provide financing for one or more of the permitted purposes in EUR and/or national currency in the relevant jurisdiction and, as the case may be, in any other currency. • Loans shall not be in the form of mezzanine loans, subordinated debt or quasi equity. • Loans shall not finance pure financial activities or real estate development when undertaken as a financial investment activity and shall not finance the provision of consumer finance. • Loans shall have a minimum maturity of 12 months including the relevant grace period (if any) and a maximum maturity of up to 120 months.
Reporting and targeted results	• Financial intermediaries shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope. • The report shall include all the relevant elements for the managing authority to fulfil the conditions of Article 46 of Regulation (EU) No 1303/2013 and will use the Model for reporting on Financial Instruments provided in the Commission Implementing Regulation (EU) No 821/2014.

	• Indicators are aligned with the specific objectives of the relevant priority of the ROP financing the financial instrument, increasing competitiveness through increasing productivity. They shall be measured and reported at least quarterly for the PRSL instrument and aligned as a minimum with the regulation requirements. • The next indicators are recommended: o Number of enterprises receiving financial support other than grants o Private investment matching public support to enterprises (non-grants) o Number of loans provided o Value of loans
Evaluation of the economic benefit of the programme contribution	• The financial intermediary shall reduce the overall effective interest rate (and collateral policy where appropriate) charged to the final recipients under each eligible loan included in the portfolio reflecting the favourable funding and risk sharing conditions of the RS loan. • The entire financial advantage of the programme public contribution to the instrument shall be transferred to the final recipients in the form of an interest rate reduction.

Financial instrument	Equity fund(s) – risk capital fund or coinvestment fund, financed through Regional OP – Indicative description
Schematic representation (classical fund)	
Schematic representation (proposed coinvestment fund)	
Structure(s)	The two fund structures proposed are different at the level of the private contribution. The classical equity fund, required minimum private participation at fund level, with the distinct advantage of giving full control of operations to one fund manager. The proposed coinvestment fund, required only to the public investor / FoF to contribute at the level of equity fund. The state aid requirements of minimum private participation is respected at the level of beneficiary, (privates make coinvestments at SME level). The important advantage of

	this type of coinvestment fund is that it may begin operations immediately without the need to wait for the fundraising to be completed. The Equity Fund will bring together contributions from the operational programme / fund-of-funds and private investors, in compliance with the minimum requirements for private participation as described in the "state aid" paragraph. The Fund will be managed by a financial intermediary - Fund Manager -, a private entity who takes all investment/divestment decisions with the diligence of a professional manager in good faith. The financial intermediary will be economically and legally independent from the managing authority and FoF.
Aim of the Instrument	• The fund will aim **to make equity investment into established private companies not yet listed on the stock exchange**; • The growth fund target companies with are already selling their products and services and **require capital injections to expand their market or develop new products**. Growth investments are normally kept on the long or medium term (3-5 years).
Advantages	• **Availability of capital injections for SMEs** which normally are not considered eligible for bank financing • Active ownership of the professional fund manager translates into **know-how-transfer and more effective operations, strengthening management expertise, delivering operational improvements and helping companies to access new markets**. Mentors and advisors provide high-level strategic input. • Since private investor incentivisation is allowed (eg preferential returns), the ability to attract interested coinvestors increases. – **In the case of the coinvestment fund**, advantages include: – the **ability to commence operations immediately** – **the possibility to share due diligence costs and transaction** with the private coinvestor(s).
State Aid implication	**At the level of the financial intermediary (fund manager)** who will be selected through an open, transparent, non-discriminatory and objective selection procedure, **the equity funds will be free of state aid**. Furthermore, the financial advantage of the OP contribution to the instrument shall be fully passed on to the final recipients in the form of an equity investment.

	At SME level, instruments can be structured under General Block Exemption rules (art. 21, point 10), if applicable in compliance the minimum requirements for private investor participation stipulated also in the new Risk Capital guidelines, as follows: • 40 % of the risk finance provided for SMEs operating in any market for less than 7 years following their first commercial sale (after 7 years, the level is 60%). The maximum size of the equity or quasi-equity investment into a single company can be up to EUR 15 million per undertaking under the GBER risk financing rules.
Investment policy	**a) Disbursement from the managing authority to the Equity Fund:** • Following the signature of a funding agreement between the managing authority / fund-of-funds and the financial intermediary, the relevant managing authority will transfer public funds from the programme to the Equity Fund according to the expected portfolio of investments. • The financial Intermediary shall implement a consistent investment policy, especially regarding portfolio diversification (geographical, sectorial, size of final recipients, etc.), enabling a sound portfolio management and risk diversification, while complying with the applicable industry standards and remaining appropriate to the managing authority's financial interests. • Potential co-investments will be identified, screened and assessed by the financial intermediary, who which will undertake, on a deal by deal basis, a due diligence in which key aspects such as: – detailed business plan, containing details of product, sales and profitability development – assessment of the viability of the investment and a clear exit strategy will be assessed. **b) Disbursements from the Equity Fund to the eligible SMEs** The Equity Fund shall make disbursements into the equity of the SMEs on a deal by deal basis respecting the proportion of the contributions of private and public investors.
Fund contribution to financial	• The transfer of public contribution from the programme to the Equity Fund shall aim to growth/ expansion stages in the form of

instrument: amount and rate (product details)	equity to final recipients. • The actual investment amounts will be determined by factors such as: o the size and focus of the Fund, o the fundraising conditions, o the expected catalytic effect of the Fund, remaining in the limits set by relevant state aid rules. • Amounts returned to the financial intermediary from the investments within the time framework for investments as set out in the funding agreement shall be used or re-used as stipulated by the CPR. • Preferential remuneration of private investors can be set in line with the CPR and relevant state aid rules. *Commission Regulation (EU) No 651/2014 declaring certain categories of aid compatible with the internal market*, specify in Art. 21 Risk Finance aid, point 13 b that for investments other than guarantees, asymmetric profit sharing shall be given preference over downside protection. Since private investor incentivisation is allowed (eg preferential returns), the ability to attract interested coinvestors increases.
Programme contribution to financial instrument (activities)	• The indicative duration of the Equity Fund is 10 years and may be extended by maximum two years with the consent of the managing authority. • The underlying transactions portfolio funded by the Equity Fund shall include new investments and follow-on investments provided for the ultimate benefit of final recipients. • The eligibility criteria are determined by the programme, national eligibility rules, State aid rules, and by the financial intermediary with the aim of reaching a sufficient number of final recipients and achieving sufficient portfolio diversification (geographical, sectorial, size of final recipients, etc.). The financial intermediary shall have a reasonable estimation of the portfolio risk profile. • The investment **should be made in companies for a needed period before an exit in line with the investment strategy.** • The financial intermediary **should be required to set aside sufficient financial resources to make follow-on investments**. Follow-on investments made by the Equity Fund occurring after the 31/12/2023 could be made from the resources returned to the Equity Fund from

	earlier investments.
Managing Authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 point 2 of Delegated Regulation (EU) No 480/2014. *As direct financial liability of the managing authority towards bodies implementing financial instruments or final recipients as well as its liability as regards any other debt or obligation of the financial instrument may not exceed the amount committed by the managing authority to the financial instrument under the relevant funding agreements, the bodies implementing financial instruments shall ensure that no claims can be made on the managing authority beyond the amount committed by it to the financial instrument***.**
Duration	The investment period of the financial instrument will be set in order to ensure that first time use of the programme contribution as referred in Article 36 CPR will be used with investments disbursed to final recipients at the latest by 31-12-2023.
Investment and risk-sharing at financial intermediary level (alignment of interest)	Alignment of interest between the managing authority / fund-of-funds and the financial intermediary shall be achieved through: • Performance fees as provided by Articles 12 and 13 of Delegated Regulation (EU) No 480/2014; • The remuneration of the financial intermediary shall reflect the current market remuneration in comparable situations, which is the case when the financial intermediary has been selected through a competitive tender and no other advantages granted by the state; • Contribution by the private investors shall be at the minimum level provided by state aid rules; • Contributions by private investors can be made on identical terms and conditions as those applicable to the OP contribution or on an asymmetric loss-sharing model between the public and private investors, in order to attract private investors that would otherwise not invest. *A specific issue brought up by equity fund managers during consultation was the difficulty in raising private resources / investments, in particular since the GBER has raised the minimum required. As always, sharing the risks and rewards remains a necessary condition to ensure a fair return to the public investors. However, experience (including in Romania) shows that the equity funds covering a single country, targeting riskier SMEs, with eligibility limitations and with procedural requirements which go beyond*

	commercial practices may be considered too risky and too complicated for the normal private investors. Thus, the market has provided strong indications, and it was recognized as such in the recently issued GBER 651/2014, that private investors need to be incentivized. Whereas it is accurate that such asymmetric profit sharing may reduce the resources repayable to the fund-of-funds, the alternative may be to not have any private investors at all. Thus, it is recommended to make available in the calls for expression of interest the option for private investors to be incentivized by preferred (asymmetric) profit sharing.
Eligible Financial Intermediaries	• The managing authority shall ensure that the financial intermediary is selected through **an open, transparent and non-discriminatory call aimed at establishing appropriate profit/loss-sharing arrangements.** • The financial intermediary (fund manager) shall be a private entity with sufficient experience and expertise in equity investments, as to be assessed during the selection process by the MA / FoF.
Final recipients eligibility	The final recipients shall be eligible under EU and national law, the relevant programme and funding agreement. The following eligibility criteria shall be met at the date of the signature of the loan: • shall be an SMEs as defined in Commission Recommendation 2003/361/EC. • shall not be a firm in difficulty as defined by State aid rules. In addition, at the time of the investment and while the investment is maintained , final recipients shall have a registered place of business and the main economic activity for which the investment was made shall be located in in Romania the relevant Member State and Region/Jurisdiction of the ESIF programme. • Other eligibility criteria for beneficiaries may derive from the relevant state aid rules (GBER).
Characteristics of the product for the final recipients	• The financial intermediary shall deliver to final recipients equity investment financed by the Equity Fund, based on contributions from financial intermediary own contributions, the OP and the private investors. • The final investment combining public and private resources provided shall not exceed the level indicated in the relevant state aid rules.
Reporting and targeted results	• Financial intermediaries shall provide the managing authority or fund of funds with at least quarterly information in a standardised form

	and scope. The report shall include all the relevant elements for the managing authority to fulfil the conditions of Article 46 of Regulation (EU) No 1303/2013 and will use the Model for reporting on Financial Instruments provided in the Commission Implementing Regulation (EU) No 821/2014. • Member States shall also fulfil their reporting obligations pursuant to the state aid rules. • Indicators are aligned with the specific objectives of the relevant priority of the ROP financing the financial instrument, increasing competitiveness through increasing productivity. They shall be measured and reported at least quarterly for the instrument and aligned with the regulation requirements. • The next indicators are recommended: o Number of enterprises receiving financial support other than grants o Private investment matching public support to enterprises (non-grants); o Value of equities provided
Evaluation of the economic benefit of the programme contribution	• The benefit of the programme contribution to the instrument shall be quantified and transferred for the final recipients.

D.4.3. Human Capital Operational Programme - TO 8 "Promoting employment and labor mobility" and TO9 "Promoting social inclusion and combating poverty"

D.4.3.a. Summary of proposed instruments

Priority Axes 3: JOBS FOR ALL

Investment priority: *8iii - Self-employment, entrepreneurship and business creation including innovative micro, small and medium sized enterprises*

Implementation Option	Financial Instrument	Rationale for instrument	Proposed allocation EURm
Fund-of-funds implementation entrusted to EIB Group (EIF), as per CPR art. 38.4.b.i. or possibly another body set up under public or private law according to relevant rules	Portfolio Risk Sharing Loan for	Provide 80% cost reduction and partial risk coverage for entrepreneurship and job creation	56
	Microfinance Guarantee	Covering up to 80% of risk for entrepreneurship and job creation	56
	Total Human Capital Operational Programme		**112**

Priority axes 4: SOCIAL INCLUSION and REDUCTION OF POVERTY

Investment priority: 9 v: *Promoting social entrepreneurship and vocational integration in social enterprises in order to facilitate access to employment*

Implementation Option	Financial Instrument	Rationale for instrument	Proposed allocation EURm
Fund-of-funds implementation entrusted to EIB Group (EIF), as per CPR art. 38.4.b.i. or possibly another body set up under public or private law according to relevant rules	Portfolio Risk Sharing Loan for social enterprises	Provide 80% cost reduction and partial risk coverage for entrepreneurship and job creation	22
	Social Entrepreneurship Guarantee	Covering up to 80% of risk for entrepreneurship and job creation	22
	Total Human Capital Operational Programme		**44**

D.4.3.b. Implementation option and rationale

As we underlined in the chapter *C. Proposed investment strategy and implementation arrangements* we considered effective to group as much as possible all the financial instruments funded under an Operational Programme into a single Fund-of-Funds at national level, in particular in the case of small allocations from a single OP, where the administrative burden of managing several separate instruments may hinder effective implementation. The single Fund-of-funds presents numerous advantages, including issuing a single set if reports, benefitting from a single point of contact, avoiding overlaps at product level due to similarity of eligibility criteria. Furthermore, grouping the instruments in a Fund-of-Funds has the distinct advantage of making it possible to reallocate resources very easily among instruments and financial intermediaries depending on their performance. In the case of the portfolio guarantee, through full delegation of financial intermediaries to provide automatically both the loan funded by them and the guarantee funded by ESF in a single contractual arrangement with the final recipients could be ensured an effective implementation.

However, Romania can choose to entrust implementation task towards a new or existing national legal entity. According to the article 38 (4) (b) (iii) of CPR, the implementation of financial instruments could be entrusted to an international financial institutions in which a Member State is a shareholder, or a financial institution established in a Member State aiming at the achievement of public interest under the control of a public authority. Guidance is under preparation by the EC regarding the selection on Financial Intermediary and interpretation of the abovementioned article. Based on this MA could take the best decision in case it decides to use the possibility to entrust the implementation tasks to a body governed by public or private law according to CPR article 38 (4) (b) (iii), respecting the conditions from Article 7 of Delegated Act 480/2014 .

Such decision could offer the possibility to enhance Romanian expertise to implement financial instruments funded from the ESI Funds.

D.4.3.c. Contribution of proposed instruments to OP Objectives

Financial instruments funded from the **Priority Axes 3: *Jobs for all*,** under the Investment Priority: *Self-employment, entrepreneurship and business creation including innovative micro, small and medium sized enterprises* should contribute to the specific objective: ***Increasing employment by sustaining enterprises with non - agricultural profile from urban areas***.

The proposed financial instruments will aim to provide financing for new business creation by unemployed persons or new job creation for existing microenterprises. Thus we can conclude that the financial operation will contribute direct to the achievement of the specific objective by creating new jobs.

It is likely that given the target segment the type of financing provided will fall naturally into the microfinance category and thus it is recommended to target also as intermediaries the microfinance institutions. Even if at the EU level the microcredits provided are usually loans

below € 25,000, we propose for the Romanian market to utilize an extended definition of microloans, i.e. the maximum value for microcredits to be set at € 50,000, taking into account the lack of cash flow at the level of possible beneficiaries and the necessary cost for renting premises and buying/renting equipment.

In what concern the financial instruments funded from **Priority axes 4: *Social inclusion and reduction of poverty***, Investment priority: *Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment*, these should contribute to the specific objective aimed to ***Strengthen the capacity of social economy enterprises to operate in a manner self-sustainable.***

One of the aims of this priority is to support the development of the social investment market and facilitate access to finance for social enterprises by making loan and guarantees instruments up to EUR 500 000. By providing funds for investment to social enterprises the financial instruments will contribute to the production development provide premises to become more financially valuable and thus contributing to the strengthening the capacity of social economy enterprises to operate in a manner self-sustainable.

D.43.d. Financial instruments and Final recipients - indicative eligibility criteria

Given the previous experience in implementing ESF-funded financial instruments, it is essential for effective implementation to ensure that there are permitted investment in tangible and intangible assets by financial instrument funded under the Human Capital OP (ESF).

According to the art. 15 from ESF Regulation (CE) 1304/2013, the ESF may support actions and policies falling within its scope through financial instruments, including micro-credits and guarantee funds. The scope of the support is presented in art. 3 of the same Regulation and comprises:

- Self-employment, entrepreneurship and business creation including innovative micro, small and medium sized enterprises;
- Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment;

European Commission also supports the EU Programme for Employment and Social Innovation (EaSI) where through the Microfinance and Social Entrepreneurship (MF/SE) axis supports actions in two thematic sections:

- microcredit and microloans for vulnerable groups and micro-enterprises;
- social entrepreneurship.

The financial instruments envisaged to be used will support entrepreneurs they would not have been able to finance otherwise for risk considerations.

For the financial instruments funded from the priority axes 3 *Jobs for all*, **the eligible beneficiaries** are:

- **Persons who wish to start up their own micro-enterprises including self-employment** (unemployed, inactive persons or which have a job but wants to set-up a business) which are in a disadvantaged position with regard to access to the conventional credit market;
- **Non-agricultural SMEs from urban area** (with a history of running up to one year).

For the financial instruments funded from the priority axes 4 *Social inclusion and reduction of poverty,* **the eligible beneficiaries** are the ***social enterprises*** defined according to the law and who are registered in the Single Evidence Register of social enterprises administered by the National Agency for Employment. These instruments support the development of the social investment market and facilitate access to finance for social enterprises by making loan and guaranties instruments available to social enterprises

According to the Law concerning social economy, this is defined as "the totalities of activities organized independently by the public sector, whose purpose is to serve the public interest, the interests of a community and/or non-patrimonial interests by increasing the employability of people belonging to the vulnerable group and / or producing and supplying goods, services and / or works".

Recognition of a social enterprise is made on the basis of ***an attestation*** certifying their contribution to the development of social economy. A special type are the social enterprises for insertion that should fulfil the following conditions: at least 30% of staff should belong to certain categories of persons from vulnerable group or which reinvest at least 50% of the profit for social enterprise development. A social enterprise for insertion is certified through a ***social integration brand***. All information on the situation and development of the social economy at national level will be found in the Single Evidence Register of social enterprises administered by the National Agency for Employment.

The financial support shall be used exclusively for the following permitted purposes:

  - investment in tangible and intangible assets
  - working capital.

- **The abovementioned eligibility criteria for final recipients are only indicative, they will be refined in collaboration with the Managing Authority and clearly established in the financial agreement between Fund of Fund and Financial Intermediary.**

D.4.3.e. Possible combination of financial instrument with other form of support

For **the increasing employment** specific objective within Human Capital Operational Programme, it is recommended the combination **loan-technical support and guarantee-technical support.**

The beneficiaries of this type of interventions (Persons who wish to start up their own micro-enterprises including self-employment or new social enterprise) usually do not have necessary knowledge to write a proper business plan in order to obtain a loan or a guarantee for a loan.

In these circumstances it **is recommended to be used a combination with technical assistance.** The maximum amount for technical support should be 5-10% from the loan, but specific thresholds should be established in the financing agreement.

The technical assistance for the development of the business plan will be paid based on the invoices and will respect the co-financing rate.
It is expected that the amount dedicated to technical assistance will not exceed Euro 9 mill. for the priority axes 3 and Euro 4mill. for the priority axes 4.

Also, it is possible the combination of financial instrument with grant **in two distinct operations**. The Human Capital Operational Programme provides support under the priority axes 3 and 4 for the setting-up and development of new enterprises and social enterprises. The business plan for each type of enterprises could be developed under this specific support (consulting and mentoring). The enterprises which benefitted of developing business plan from this support should not benefit of the technical assistance provided under the financial operation.

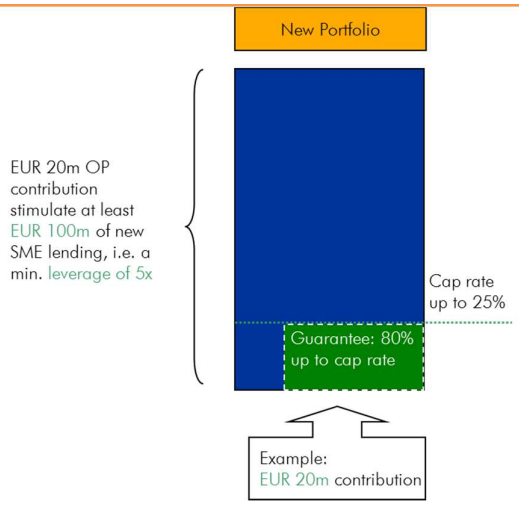
It is recommended to ask a statement/ declaration from the final recipient that it didn't developed business plan under the operation dedicated in the OP.

D.4.3.f. Detailed presentation of proposed instruments

The **proposed instruments** are described further and are based on the principles laid out in the Implementing Regulation 964/2014 regarding the "off-the-shelf" financial instruments[50], which constitutes a reliable basis for Managing Authorities for eligibility and state aid issues, already verified by EC services, allowing for possible variations to take into account the local market specifics.

Experience of the European Progress Microfinance Facility from Progress Programme (2007-2013) and EaSI in designing and implementing this kind of financial instruments was also taken into consideration. It is considered that development of completely new instruments, might pose certain risks to Managing Authorities, primarily with regards to delayed implementation due to the time required to analyse eligibility and state aid aspects. As reflected in lessons learnt section D, the process took a considerable amount of time at the launch of financial instruments in the 2007-2013 and it is prudent to fully benefit from already verified instruments.

[50] Commission Implementing Regulation (EU) No 964/2014 of 11 September 2014 laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards standard terms and conditions for financial instruments

Financial Instrument	First Loss Portfolio Guarantee funded through Human Capital OP – Indicative description
Schematic representation	
Structure	• The First Loss Portfolio Guarantee (FLPG) shall provide credit risk coverage on a loan by loan basis, for the creation of a portfolio of new loans to SMEs /entrepreneurs or to social enterprises up to a maximum loss amount (cap). • The FLPG shall be made available by the Managing Authority, in the framework of the operations which are part of: - the priority axis 3 *Jobs for all* for guaranties provided for entrepreneurship - the priority axis 4 *Social inclusion and reducing poverty* for guaranties for social enterprises
Aim of the Instrument	• The aim of the instrument shall be to: • Provide access to finance to: - Persons who wish to start up their own micro-enterprises including self-employment, start-ups and existing SMEs. - social enterprises • addressing concrete and well identified market gaps. • Leverage of the ESIFs to support financing for SMEs as referred in Article 37(4) of Regulation (EU) No 1303/2013 and Article 15 of Regulation (EU) 1304/2013. • The ESF programme contribution from the managing authority takes the form of a guarantee instrument managed by a financial intermediary. This contribution shall not crowd out guarantees

	available from other public or private investors. • The guarantee instrument managed by the financial intermediary shall commit to provide funds from the ESF programme to the financial institutions building up portfolios of new loans in case of default of the final recipients. • **Microfinance guarantees** are the guarantees which cover partially the risk of portfolio of newly granted microfinance instruments (the "Portfolio") provided for the ultimate benefit of micro-entrepreneurs with the aim to encouraging Financial Intermediaries to provide loans with a nominal amount of up to and including EUR 50 000. • **Social Entrepreneurship Guarantees** are the guarantees cover partially the risk of portfolio of newly granted debt financing instruments (the "Portfolio") provided for the ultimate benefit of social enterprises with the aim to encouraging Financial Intermediaries to provide loans with a nominal amount of up to and including EUR 500 000. The FLPG Instrument shall be implemented to cover a portfolio of new loans build up by one or more financial institutions. • The financial institutions building up portfolios of new loans shall count on a partial guarantee covering losses up to a capped amount when providing loans to eligible SMEs/entrepreneurs or social enterprises. • The financial advantage of the guarantee must be passed on to the final recipients (e.g. collateral reduction and interest reduction, but always with a full financial advantage of the programme public contribution passed on to the final recipients).
Advantages	• The Microfinance Guarantee, covers losses incurred by the Financial Intermediary at a guarantee rate of up to 80%. Losses covered by the Microfinance Guarantee in respect of the portfolio of eligible Final Recipient Transactions shall in aggregate not exceed the cap amount stipulated in the Microfinance Guarantee Agreement. It is recommended that cap amount not to be higher than 30%. • **Significantly lower collateral requirements** for SMEs, depending on the loan-by-loan guarantee rate. • **For individuals,** Preference shall be given to the use of personal guarantees or other types of soft collateral. In case collateral is required, it shall reflect the benefit for the support under Microfinance guarantee and shall be justifiable with regard to

	underlying risks. • **Cost reduction for SMEs**, in case the guarantee is provided free of charge (as provided by state aid rules) • **Significant leverage on resources allocated**, in the case of the portfolio guarantee. For instance, for a cap amount set to cover expected and unexpected losses at 25% of the loan portfolio volume, combined with an 80% loan-by-loan coverage, the SME loan portfolio created is 5 times higher than the allocated resources
State Aid implication	**At the level of the Financial Intermediary and Financial institution implementing FLPG** could be state aid free by complying with the following requirements: • The remuneration (i.e. management costs and/or fees) of the financial intermediary and the fund of funds reflects the current market remuneration in comparable situations, which is the case when the latter has been selected in an open, transparent, objective and non-discriminatory selection procedure or if the remuneration is aligned with the Articles 12 and 13 of Delegated Regulation (EU) No 480/2014, and no other advantage is granted by the State. • The financial institution shall be selected through an open, transparent, non-discriminatory and objective selection procedure to build up the portfolio of new loans with its own resources and the risk retained by the financial institution is in no case less than 20 % of the loan amount (on a loan by loan basis), and • In addition, the financial advantage of the programme public contribution to the instrument (if applicable) shall be fully passed on to the final recipients in the form of an interest rate reduction. • When selecting the financial intermediary, the managing authority shall, in line with the Article 7(2) of Delegated Regulation (EU) No 480/2014, asses the pricing policy and the methodology to pass on the financial advantage to the final recipients. Where the financial intermediary does not pass on all the financial advantage to the final recipients, the uncommitted public contribution shall be transferred back to the managing authority. **At SME / social enterprises level**, the instrument may be devised according to ***de minimis aid rules*** set out in Reg. 1407/2013 (similarly to the current JEREMIE instrument). Thus, the gross grant equivalent (GGE) for any loan / guarantee may not exceed EUR 200,000 over 3 years. The GGE may be calculated in one of the two following manners:

	• By applying directly the provisions of Reg. 1407/2013, according to which a guarantee of EUR 1.5m and maturity of 5 years, and respectively a guarantee of EUR 0.75m with a maturity of 10 years, are the equivalent of the de minimis ceiling of EUR 200,000 (proportional calculations are applied for guarantees outside of these specifications); or • By applying the calculation set out in Implementing Reg. 964/2014, for the similar instrument "capped portfolio guarantee", according to which "GGE = Nominal amount of the loan (EUR) × Cost of risk (standard practice) × Guarantee rate × Guarantee cap rate × Weighted average life of the loan (Years)." The method of calculation should be established by the Managing Authority together with the **Financial institution implementing FLPG** before the selection of financial intermediaries, depending on the co-financing rate and extent of subsidy chosen (full or partial cost subsidy on ESIF co-financing part). Technical support grant (if any) to the final recipient shall be cumulated with the calculated GGE.
Guarantee policy	(a) **Transfer from the managing authority to the financial intermediary:** Following the signature of a funding agreement between the managing authority and the *Institution implementing Guarantee instrument*, the relevant managing authority transfers contributions from the programme to the fund of funds or to the financial intermediary, who places such contributions in a dedicated guarantee instrument. (b) **Origination of a portfolio of new loans:** The financial institutions shall be required to build up within a pre-determined limited period of time portfolios of new SMEs/ entrepreneurs or social enterprises loans. Newly originated loans are partly covered by the programme contribution on a loan by loan basis up to a certain amount (Cap amount). Eligible SME/ entrepreneurs or social enterprises loans are automatically included in the portfolio subject to a pre-set loan inclusion criteria. Inclusion of ME/ entrepreneurs or social enterprises loans shall occur automatically upon receipt by the financial intermediary managing the guarantee instrument of an inclusion notice submitted at least on a quarterly basis until the end of the relevant inclusion period. The financial institutions shall implement a consistent loan policy regarding portfolio diversification, enabling a sound portfolio

	management and risk diversification; while complying with the applicable industry standards and while remaining appropriate to the managing authority's financial interests and policy objectives. The identification, selection, due diligence, documentation and execution of the loans for final recipients shall be performed by the financial institutions in accordance with their standard procedures and in accordance with the principles set out in the agreement between the financial intermediary and the financial institution building up a portfolio of new loans. (c) **Loss cover**: The FLPG shall cover losses incurred by the financial institutions in respect of each defaulted eligible SME/ entrepreneurs or social enterprises loan in accordance with the guarantee rate of a maximum percentage of 80 %. Losses covered by the FLPG instrument in respect of the portfolio of eligible SME loans shall, in aggregate, not exceed the cap amount. The cap amount which is the maximum liability under this instrument is the product of the volume of the target loan portfolio multiplied by the guarantee rate and the guarantee cap rate. *The guarantee cap rate shall be determined as part of the ex-ante risk assessment* in accordance with Article 42(1)(b) of Regulation (EU) No 1303/2013 and Article 8 of Delegated Regulation (EU) No 480/2014. Losses covered are principal amounts due, payable and outstanding and standard interest (but excluding late payment, fees and any other costs and expenses). (d) **Guarantee payment:** Following the occurrence of a loss related to a default, the financial intermediary managing the guarantee fund shall make guarantee payments to the financial institution under the Guarantee within typically 60 days.
Pricing and Collateral Policy	The financial intermediary shall present a methodology that ensures the full pass on of the financial advantage of the OP contribution to the eligible SMEs / entrepreneurs or social enterprises. The financial institution shall have a pricing/collateral policy in line with the methodology. The pricing/collateral policy and the methodology shall include the following elements: • the instrument shall cover a maximum of 80 % of the risk

	exposure of each eligible SMEs / entrepreneurs or social enterprises Loan (up to a Cap amount). • The entire financial advantage of the programme public contribution shall be passed on to the eligible SMEs / entrepreneurs or social enterprises, through a reduction of the interest rate charged and/or a reduction of the collateral required by the financial institution. • The GGE calculation as presented in the State aid section shall be applied for each loan included in the portfolio. • No Guarantee fees shall be charged to the financial institution by the financial intermediary managing the guarantee instrument. • The financial institution shall reduce the overall interest rate and/or collateral requirement under each eligible SME loan included in the portfolio following the pricing policy and methodology ensuring the full pass on of the financial advantage. The level of such reduction proposed by the financial institution shall be assessed and confirmed by the financial intermediary following the relevant analysis and due diligence and shall deemed to be an eligibility criterion for SMEs / entrepreneurs or social enterprises loans to be included in the Portfolio.
Guarantee to financial institution amount and rate (product details)	• The FLPG shall respect the conditions set in Article 8 of the Delegated Regulation (EU) No 480/2014. • The Guarantee Cap rate shall be determined in the ex-ante *risk* assessment in accordance with Article 42(1)(b) of Regulation (EU) No 1303/2013 and Article 8 of Delegated Regulation (EU) No 480/2014 and in all cases not exceed 30 %. The guarantee may cover expected and unexpected losses. • The multiplier of the guarantee financed by the programme contribution is defined as: **Multiplier = (1/Guarantee Rate) × (1/Guarantee Cap Rate).** • The multiplier ratio shall be based on the ex-ante risk assessment and be equal to or higher than 5. • The composition of the targeted portfolio of loans shall be defined in a way to ensure diversification of risk.
Guarantee to financial institution (activities)	• The loan portfolio guaranteed by the guarantee instrument shall include newly originated loans provided to the final recipients, to the exclusion of refinancing of existing loans.

	• The eligibility criteria for inclusion in the portfolio are determined pursuant to the Union law (e.g. Regulation (EU) No 1303/2013 and Fund-specific rules), programme, national eligibility rules, and with the financial intermediary with the aim of reaching a large number of final recipients and achieving sufficient portfolio diversification. Financial institutions shall have a reasonable estimation of the portfolio risk profile (concentration limit by sector for example). These criteria shall reflect market conditions and practices in the relevant country or region. • The financial institution shall estimate ex-ante a recovery rate to be used for calculating the amount expected to be recovered from the defaults in the portfolio, which impacts the evaluation of the guarantee cap rate.
Managing authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 point 2 of Delegated Regulation (EU) No 480/2014. *As direct financial liability of the managing authority towards bodies implementing financial instruments or final recipients as well as its liability as regards any other debt or obligation of the financial instrument may not exceed the amount committed by the managing authority to the financial instrument under the relevant funding agreements, the bodies implementing financial instruments shall ensure that no claims can be made on the managing authority beyond the amount committed by it to the financial instrument***.** Default means, in respect of a loan to final recipient that • the financial institution can prove at any time (acting in accordance with its internal procedures and as reflected in its financial and regulatory reporting) that a final recipient is unlikely to meet its payment obligations; or • a final recipient has failed to meet any payment obligation under the relevant SMEs / entrepreneurs or social enterprises loan which has continued for at least 90 consecutive calendar days.
Duration	The guarantee period of the financial instrument shall be set in order to ensure that the programme contribution as referred in Article 42 of Regulation (EU) No 1303/2013 is used with guarantees of loans disbursed to final recipients no later than the 31 December 2023.
Risk-sharing at FI level (alignment of	Alignment of interest between the managing authority, the financial

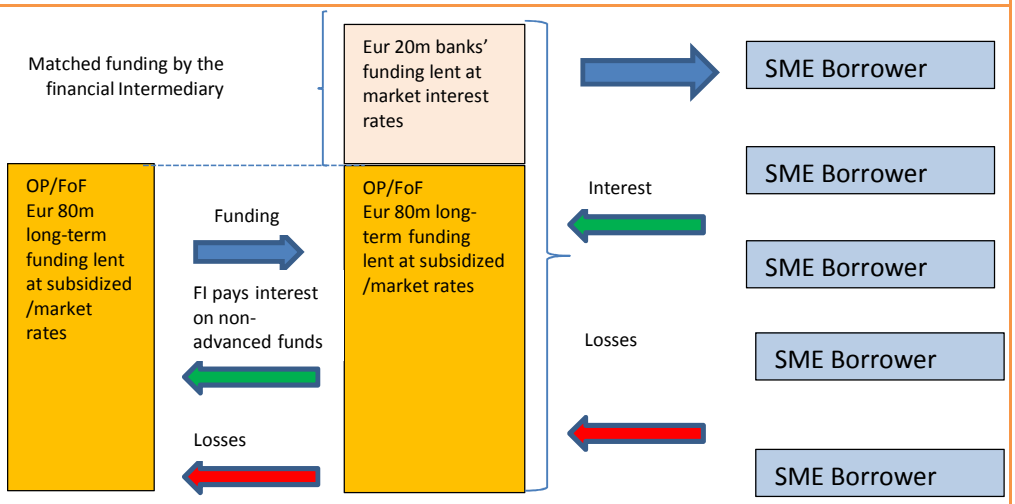
interest)	intermediary and the financial institution shall be achieved through: • The own credit risk retained by the financial institution in no case shall be less than 20 % on a loan by loan basis. • The financial institution commits to build up a portfolio of new loans with its own resources. • The financial advantage of the FLPG is fully passed on to final recipient SMEs / entrepreneurs or social enterprises • Performance fees for financial intermediary as provided by Articles 12 and 13 of Delegated Regulation (EU) No 480/2014.
Eligible Financial Intermediaries and Financial Institutions	• Financial intermediaries shall be public and private bodies established in Romania which are legally authorised to provide guarantees on loans final recipients as defined in the HC Operational programme which contributes to the financial instrument. • Such bodies are financial institutions, and, as appropriate, microfinance institutions or any other institution authorised to provide loans.
Final Recipient (final recipients) eligibility	The Final Recipients shall: • not be subject to insolvency proceedings nor fulfil the criteria for being placed in collective insolvency proceedings at the request of its creditor; • the Final Recipient shall be established and operating in or, for natural persons, be a resident of Romania • the Final Recipient shall not include in its business activities any illegal activities according to the applicable legislation in Romania In addition, at the time of the investment and during the reimbursement of the loan, final recipients shall have a registered place of business and the economic activity for which the loan was disbursed shall be located in Romania. **The eligibility criteria described below are only indicative, they will be refined in collaboration with the Managing Authority and clearly established in the funding agreement and further in the call for proposals.** The final recipients shall be, indicatively: **<u>for Microfinance Guarantees</u>**:

	• **Persons who wish to start up their own micro-enterprises including self-employment** (unemployed, inactive persons or which have a job but wants to set-up a business) which are in a disadvantaged position with regard to access to the conventional credit market; • **Non-agricultural SMEs from urban area** (with a history of running up to one year). • the Final Recipient has as **purpose the setting up or developing a SMEs**, such as ***investment financing, working capital, including the acquisition of licences and other start-up costs*** for Micro-Enterprises (established or to be established); • **the maximum amount of loan** for which is issued the guarantee shall not exceed EUR 50,000 (or equivalent amount in local currency); • the minimum contractual maturity of the Final Recipient Transaction shall be three (3) months; • the Final Recipient shall not replace equivalent guarantees received by the respective Financial Intermediaries for the same purpose under existing European, national and regional financial instruments; • **<u>for Social Entrepreneurship Guarantees</u>** : • Social Enterprises as defined by the **Law concerning social economy**, which developed "activities organized independently by the public sector, whose purpose is to serve the public interest, the interests of a community and/or non-patrimonial interests by increasing the employability of people belonging to the persons who wish to start up their own micro-enterprises including self-employment, start-ups and existing SMEs and / or producing and supplying goods, services and / or works. • Recognition of a social enterprise is made on the basis of ***an attestation*** certifying their contribution to the development of social economy, given by Evidence Register of social enterprises administered by the National Agency for Employment. • Recognition of a social enterprise for insertion is certified through a ***social integration brand*** given by Evidence Register of social enterprises administered by the National Agency for Employment. • The final recipient should provide to the Financial Intermediary: • An explanation of outcomes and impact being targeted, for whom, and how they will be achieved (e.g. “theory of change”); • A proposal for the measurement of the achievement of those

	outputs (and that impact) • Regular reports (preferably annually, but at least every two years) of outputs and impact achieved, using the measurement frameworks and indicators agreed • The Final Recipient has as **purpose the setting up or developing a Social Enterprise**, such as ***investment financing, working capital, including the acquisition of licences and other start-up cost***s for Social-Enterprises (established or to be established); • The he maximum amount of loan for which is issued the guarantee shall not exceed EUR 500 000 (or equivalent amount in local currency); • The minimum contractual maturity of the Final Recipient Transaction shall be three (3) months;
Characteristics of the product for the final recipients	• The financial intermediary shall deliver to final recipients the loans that contribute to the objective of the programme: - **For priority axes 3** for increasing employment by sustaining enterprises with non - agricultural profile from urban areas - **For priority axes 4** for strengthen the capacity of social economy enterprises to operate in a manner self-sustainable • The loans shall be used exclusively for the following permitted purposes: **investment in tangible and intangible assets or working capital including the acquisition of licences and other start-up costs** • Loans shall be newly originated, to the exclusion of the refinancing of existing loans. • The principal amount of a loan included in the guaranteed loan portfolio shall be provided under such conditions that would not cause the GGE with respect to each final recipient to exceed EUR 200,000 (or EUR 100,000 in the road freight transport) over any period of three fiscal years, i.e. the de minimis ceiling; eligible enterprises could potentially apply more than once for loans allocated in the context of this financial instrument provided that the above-mentioned GGE limit is fully respected. • Loans shall provide financing for one or more of the permitted purposes in EUR and/or national currency (lei) . • Loans shall not be in the form of mezzanine loans, subordinated debt or quasi equity. • Loans shall not finance pure financial activities or real estate

	development when undertaken as a financial investment activity and shall not finance the provision of consumer finance. • Loans shall have a minimum maturity of 3 months including the relevant grace period (if any) and a maximum maturity of up to 120 months.
Reporting and targeted results	• Financial Institution implementing First Loss Portfolio Guarantee instrument shall provide the managing authority with at least quarterly information in a standardised form and s cope. • The report shall include all the relevant elements for the managing authority to fulfil the conditions of Article 46 of Regulation (EU) No 1303/2013. • Member States shall also fulfil their reporting obligations pursuant to the *de minimis* Regulation. • Indicators are aligned with the specific objective of the each priority axes. They shall be measured and reported at least quarterly for the PRSL instrument and aligned as a minimum with the regulation requirements. **For priority axes 3: *Jobs for all*** the proposed indicators reflect the expected results**: *Increasing employment by sustaining enterprises:*** • Number of enterprises (SMEs) receiving support • Number of guarantees provided • Volume of loans for which guarantee is provided • Number of persons which develop an independent activity **For priority axes 4: *Social inclusion and reduction of poverty***, In reflect the expected results ***Strengthen the capacity of social economy enterprises to operate in a manner self-sustainable.*** • Number of social enterprises receiving support • Number of guarantees provided • Volume of loans for which guarantee is provided
Evaluation of the economic benefit of the programme contribution	• The financial advantage of the programme public contribution to the instrument shall be fully passed on to the final recipients (benefit of the guarantee). • The financial advantage for the eligible final recipients shall be evidenced by a reduction of the overall interest rate required by the financial institution and/or collateral reduction on such SME loan. • The financial intermediary shall monitor and report on the GGE for final recipients as referred in the State aid section.

	• These principles shall be reflected in the agreements between the managing authority or fund of funds and the financial intermediaries and between the financial intermediaries and the financial institutions building up portfolios of new loans.

Financial instrument	**Portfolio Risk Sharing Loan (PRSL) funded through Human Capital OP – Indicative description**
Schematic representation	
Structure	The Portfolio Risk Sharing Loan (PRSL) shall take the form of a loan fund to be set up by a financial intermediary with contributions from an OP and the financial intermediary, with the aim to finance a portfolio of newly originated loans, to the exclusion of the refinancing of existing loans. • The PRSL shall be made available in the framework of an operation which is part of: - the priority axis 3 *Jobs for all* for guaranties provided for entrepreneurship - the priority axis 4 *Social inclusion and reducing poverty* for guaranties for social enterprises.
Aim of the Instrument	The aim of the instrument shall be to: • **combine resources from the ESIF programme and the financial intermediary** to support financing to SMEs as referred in Article 37(4) of Regulation (EU) No 1303/2013, and • p**rovide financial recipients(SMEs /entrepreneurs or social enterprises) with easier access to finance by providing financial intermediary with a funding contribution (80%) and credit risk sharing** and thereby offering to final recipients more funds at preferential conditions in terms of interest rate reduction and, if relevant, collateral reduction. • The contribution from the ESIF programme to the financial intermediary shall not crowd out financing available from other private investors or public investors. • The ESIF programme shall provide funding to the financial intermediary in

	order to build up a portfolio of newly generated loans to financial recipients, and in parallel, participate in the losses/defaults and recoveries on the SME loans in this portfolio on a loan by loan basis and in the same proportion as the programme contribution in the instrument. • In the case of fund of funds structure, the fund of funds shall transfer the contribution from the ESIF programme to the financial intermediary.
Advantages	• **Cost reduction for financial recipients (SMEs /entrepreneurs or social enterprises)** up to 80%, because the ESIF loan-by-loan co-financing is provided free of charge (as allowed by state aid rules) and is matched by intermediary's co-financing at market price. • **Lower collateral requirements for financial recipients** (SMEs /entrepreneurs or social enterprises) , depending on the loan-by-loan risk sharing rate. • **Leverage on resources allocated**. For instance, for risk sharing rate of 80%, the SME loan portfolio created is 1.25 times higher than the allocated resources. • **Effective implementation**, as the co-financing is provided automatically by the bank to the SME.
State Aid implication	**At the level of the Financial Intermediary and fund-of-funds** PRSL shall be state aid free, by complying with the following requirements: • The Financial Intermediary and the Managing Authority or fund-of-funds shall bear at any time the losses and benefits in proportion to their contributions (pro-rata) and there is an economically significant participation of the financial intermediary in the PRSL, and • The remuneration (i.e. management costs and/or fees) of the financial intermediary and the fund-of-funds reflects the current market remuneration in comparable situations, which is the case when the latter has been selected through an open, transparent, non-discriminatory and objective selection procedure or if the remuneration is aligned with the Articles 12 and 13 of Delegated Regulation (EU) No 480/2014 and no other advantages are granted by the State. • The financial advantage of the programme public contribution to the instrument shall be fully passed on to the final recipients in the form of an interest rate reduction. When selecting the financial intermediary, the Managing Authority shall asses the pricing policy and the methodology to pass on the financial advantage to the final recipients. Where the financial intermediary does not pass on all the financial advantage to the final recipients, the undisbursed public contribution shall be transferred back to

	the managing authority. **At Final Recipient level**, the instrument shall be devised according to *de minimis* aid rules set out in Reg. 1407/2013. Thus, the gross grant equivalent (GGE) for any loan / guarantee may not exceed EUR 200,000 over 3 years. The GGE may be calculated in one of the three following manners: • By applying directly the provisions of Reg. 1407/2013, according to which a loan of EUR 1m and maturity of 5 years, and respectively a loan of EUR 0.5m with a maturity of 10 years, are the equivalent of the de minimis ceiling of EUR 200,000 (proportional calculations are applied for loans outside of these specifications); or • By calculating the net present value of the sum of interest subsidies over the loan maturity at SME level, in comparison either with the relevant market rate or with the EC reference rate[51]. • By applying the calculation set out in Implementing Reg. 964/2014, for the similar instrument "risk sharing loan", according to which "GGE = Nominal amount of the loan (EUR) × (Cost of funding (standard practice) + Cost of risk (standard practice) – Any fees charged by the managing authority on the programme contribution to the financial intermediary) ×Weighted average life of the loan (Years) × Risk sharing rate." T**he method of calculation should be established by the Managing Authority before the selection of financial intermediaries,** depending on the co-financing rate and extent of subsidy chosen (full or partial cost subsidy on ESIF co-financing part). Technical support grant or another grant provided to the final recipient shall be cumulated with the calculated GGE.
Lending policy	**(a) Disbursement from the Managing Authority or fund-of-funds to the financial intermediary:** Following the signature of a Funding Agreement between the MA and the fund of funds or the financial intermediary, the relevant managing authority transfers public contributions from the programme to the fund of funds or the financial intermediary which places such contributions in a dedicated Risk Sharing loan fund. **(b) Origination of a portfolio of new loans:** • The financial intermediary shall be required **to originate within a pre-determined limited period of time a portfolio of new eligible loans in addition to its current loan activities,** partly funded from the disbursed

[51] See the Communication from the Commission on the revision of the method for setting the reference and discount rates (2008/C 14/02)

	funds under the programme at the risk-sharing rate agreed in the funding agreement. • Eligible loans for SMEs (according to pre-defined eligibility criteria on a loan-by-loan and portfolio level) shall be automatically included in the Portfolio, by way of submitting inclusion notices on a quarterly basis. • The financial intermediary shall implement a consistent lending policy, especially regarding portfolio diversification, enabling a sound credit portfolio management and risk diversification, while complying with the applicable industry standards and while remaining aligned with the Managing Authority's financial interests and policy objectives. • The identification, selection, due diligence, documentation and execution of the loans to final recipients shall be performed by the financial intermediary in accordance with its standard procedures and in accordance with the principles set out in the relevant funding agreement. (c) **Re-use of resources paid back to financial instrument:** • Resources paid back to the financial instrument shall be either reused within the same financial instrument (revolving within the same financial instrument) or after being paid back to the managing authority or the fund of funds they shall be used in accordance with Article 44 of Regulation (EU) No 1303/2013. • When revolving within the same financial instrument, as a matter of principle, the amounts that are attributable to the support of the ESIF and that are reimbursed and/or recovered by the financial intermediary from loans to final recipients within the time framework for investments shall be made available for new use within the same financial instrument. This revolving approach as referred at Articles 44 and 45 of Regulation (EU) No 1303/2013 shall be included in the funding agreement. • Alternatively, if the managing authority or the fund of funds is directly repaid, the repayments shall occur regularly mirroring (i) principal repayments (on a pro rata basis on the basis of the risk sharing rate) (ii) any recovered amounts and losses deductions (according to the risk sharing rate), of the SME loans and (iii) any interest rate payments. These resources have to be used in accordance with Articles 44 and 45 of Regulation (EU) No 1303/2013. **(d) Loss recoveries:** • The financial intermediary shall take recovery actions in relation to each defaulted SME loan financed by the financial instrument in accordance with its internal guidelines and procedures.

	• Amounts recovered (net of recovery and foreclosure costs, if any) by the financial intermediary shall be allocated pro-rata to the risk-sharing between the financial intermediary and the managing authority or the fund of funds. **(e) Others:** Interest and other gains generated by support from the ESI Funds to PRSL shall be used as referred in Article 43 of Regulation (EU) No 1303/2013.
Pricing Policy	When proposing its pricing, the financial intermediary shall present a pricing policy and the methodology to ensure the full pass on of the financial advantage of the programme public contribution to the eligible SMEs. The pricing policy and the methodology shall include the following elements: • **the interest rate on the financial intermediary participation** is set at market basis (i.e. according to the financial intermediary own policy), • **the overall interest rate**, to be charged on loans to the eligible SMEs included in the portfolio, must be reduced proportionally to the allocation provided by the public contribution of the programme. This reduction shall take into account the fees that the managing authority might charge on the programme contribution. • The **GGE calculation** shall be applied on each loan included in the Portfolio.
Programme contribution to financial instrument: amount and rate (product details)	The actual risk sharing rate, programme public contribution and interest rate on loans shall be based on the ex-ante assessment findings and shall be such as to ensure that the benefit to the final recipients complies with the *de minimis* rule. The PRSL allocation and the risk-sharing rate must be set in order to fill the gap evaluated within the ex-ante assessment, but in any case must comply with the conditions laid down in this term sheet. The risk sharing rate agreed with the financial intermediary shall define for each eligible loan included in the portfolio, the portion of the eligible loan principal amount financed by the programme. The risk-sharing rate agreed with the financial intermediary determines the exposure of the losses which are to be covered by the financial intermediary and by the programme contribution accordingly.
Programme contribution to financial instrument (activities)	The **portfolio** funded by the RS loan instrument **shall include only newly originated loans provided to financial recipients(SMEs /entrepreneurs or social enterprises), to the exclusion of the refinancing of existing loans.** The eligibility criteria for inclusion in the portfolio are determined pursuant to Union law (e.g. Regulation (EU) No 1303/2013 and Fund-specific rules), programme, national eligibility rules, and with the financial intermediary with the aim of reaching a large number of final recipients and achieving sufficient

	portfolio diversification. The financial intermediary shall have a reasonable estimation of the portfolio risk profile. These criteria shall reflect market conditions and practices in the relevant Member State or region.
Managing Authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 point 2 of Delegated Regulation (EU) No 480/2014. *As direct financial liability of the managing authority towards bodies implementing financial instruments or final recipients as well as its liability as regards any other debt or obligation of the financial instrument may not exceed the amount committed by the managing authority to the financial instrument under the relevant funding agreements, the bodies implementing financial instruments shall ensure that no claims can be made on the managing authority beyond the amount committed by it to the financial instrument***.**
Duration	The lending period of the financial instrument shall be set in order to ensure that the programme contribution as referred in Article 42 of Regulation (EU) No 1303/2013 is used for loans disbursed to final recipients no later than the 31 December 2023.
Lending and risk-sharing at financial intermediary level (alignment of interest)	Alignment of interest between the managing authority and the financial intermediary shall be achieved through: • Performance fees as provided by Articles 12 and 13 of the Delegated Regulation (EU) No 480/2014. • In addition to the programme contribution, the financial intermediary shall contribute under local market conditions to the financing of at least 20 % of the total financing commitment for lending to SMEs within the PRSL instrument. • The losses and recoveries shall impact pro-rata the financial intermediary and the managing authority within their respective liability according to the risk-sharing rate.
Eligible Financial Intermediaries	Public and private bodies established in a Member State which shall be legally authorised to provide loans to enterprises operating in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are financial institutions, and, as appropriate, microfinance institutions or any other institution authorised to provide loans.
Final recipients eligibility	The final recipients shall be eligible under EU and national law, the relevant programme and funding agreement. • **The eligibility criteria described below are only indicative, they will be refined in collaboration with the Managing Authority and clearly established in the funding agreement and further in the call for proposals.**

	• The Final Recipients shall not be subject to insolvency proceedings nor fulfil the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditor; • the Final Recipient shall be established and operating in or, for natural persons, be a resident of Romania • the Final Recipient shall not include in its business activities any illegal activities according to the applicable legislation in Romania • In addition, at the time of the investment and during the reimbursement of the loan, final recipients shall have a registered place of business and the economic activity for which the loan was disbursed shall be located in Romania. The final recipients shall be: **For PRSL for SMEs/entrepreneurs**: • **Persons who wish to start up their own micro-enterprises including self-employment** (unemployed, inactive persons or which have a job but wants to set-up a business) which are in a disadvantaged position with regard to access to the conventional credit market; • **Non-agricultural SMEs from urban area** (with a history of running up to one year). • the Final Recipient has as **purpose the setting up or developing a SMEs**,, such as **investment financing, working c**apital, including the acquisition of licences and other start-up costs for Micro-Enterprises (established or to be established); • the maximum amount of loan shall not exceed EUR 50 000 (or equivalent amount in local currency); • the minimum contractual maturity of the Final Recipient Transaction shall be three (3) months; **For PRSL for Social Entrepreses**: • **Social Enterprises** as defined by the **Law concerning social economy**, which developed "activities organized independently by the public sector, whose purpose is to serve the public interest, the interests of a community and/or non-patrimonial interests by increasing the employability of people belonging to the vulnerable group and / or producing and supplying goods, services and / or works. " • Recognition of a social enterprise is made on the basis of ***an attestation*** certifying their contribution to the development of social economy, given by

	Evidence Register of social enterprises administered by the National Agency for Employment. • Recognition of a social enterprise for insertion is certified through a ***social integration brand*** given by Evidence Register of social enterprises administered by the National Agency for Employment. • The final recipient should provide to the Financial Intermediary: • An explanation of outcomes and impact being targeted, for whom, and how they will be achieved (e.g. "theory of change"); • A proposal for the measurement of the achievement of those outputs (and that impact) • Regular reports (preferably annually, but at least every two years) of outputs and impact achieved, using the measurement frameworks and indicators agreed • The Final Recipient Transaction shall provide financing **for the purpose of setting up or developing a Social Enterprise**, such as ***investment financing, working capital, including the acquisition of licences and other start-up cost***s for Social-Enterprises (established or to be established); • The he maximum amount of loan shall not exceed EUR 500 000 (or equivalent amount in local currency); The minimum contractual maturity of the Final Recipient Transaction shall be three (3) months;
Characteristics of the product for the final recipients	• The financial intermediary shall deliver to final recipients the loans that contribute to the objective of the programme: - **For priority axes 3** for increasing employment by sustaining enterprises with non - agricultural profile from urban areas - **For priority axes 4** for strengthen the capacity of social economy enterprises to operate in a manner self-sustainable • The loans shall be used exclusively for the following permitted purposes: investment in tangible and intangible assets or working capital including the acquisition of licences and other start-up costs • The principal amount of a loan shall be provided under such conditions that would not cause the GGE with respect to each final recipient to exceed EUR 200,000 (or EUR 100,000 in the road freight transport and EUR 30,000 in the fishery and aquaculture sectors) over any period of three fiscal years; eligible enterprises could potentially apply more than once for loans allocated in the context of this financial instrument provided that the above-mentioned GGE limit is fully respected.

	• Loans shall provide financing for one or more of the permitted purposes in EUR and/or national currency (lei) . • Loans shall not be in the form of mezzanine loans, subordinated debt or quasi equity. • Loans shall not finance pure financial activities or real estate development when undertaken as a financial investment activity and shall not finance the provision of consumer finance. • Loans shall have a minimum maturity of 3 months including the relevant grace period (if any) and a maximum maturity of up to 120 months.
Reporting and targeted results	• Financing Institution implementing Guarantee instrument shall provide the managing authority with at least quarterly information in a standardised form and scope. • The report shall include all the relevant elements for the managing authority to fulfil the conditions of Article 46 of Regulation (EU) No 1303/2013. • Member States shall also fulfil their reporting obligations pursuant to the *de minimis* Regulation. • Indicators are aligned with the specific objective of the each priority axes. They shall be measured and reported at least quarterly for the PRSL instrument and aligned as a minimum with the regulation requirements. **For priority axes 3: *Jobs for all*** the proposed indicators reflect the expected results**: *Increasing employment by sustaining enterprises:*** • Number of enterprises (micro and SMEs) receiving support • Number of loans provided • Volume of loans • Number of persons which develop an independent activity **For priority axes 4: *Social inclusion and reduction of poverty***, with the expected results ***Strengthen the capacity of social economy enterprises to operate in a manner self-sustainable.*** • Number of social enterprises receiving support • Number of loans provided • Volume of loans
Evaluation of the economic benefit of the programme contribution	The financial intermediary shall reduce the overall effective interest rate (and collateral policy where appropriate) charged to the final recipients under each eligible loan included in the portfolio reflecting the favourable funding and risk sharing conditions of the RS loan. The entire financial advantage of the programme public contribution to the instrument shall be transferred to the final recipients in the form of an interest

	rate reduction. The financial intermediary shall monitor and report on the GGE for final recipients as referred in the State aid section. This principle shall be reflected in the funding agreement between the managing authority or fund of funds and the financial intermediary.

D.4.4. SME Initiative Operational Programme – TO3 "SME Competitiveness"

D.4.4.a. Summary of proposed instruments

It is proposed to implement in Romania only Option 1 of the SME Initiative, namely the Joint Uncapped guarantee instrument, including a special counterguarantee window dedicated to national guarantee institutions.

Implementation Option	Financial Instrument	Rationale for instrument	Proposed allocation EURm
Financial instrument set up at Union level, managed directly or indirectly by the Commission, as per CPR art. 38 (1) (a)	Joint uncapped portfolio guarantee , with ESIF, EU budget and EIB Group resources	Covering 50% (and up to 80%) of risk of loans to SMEs (Option 1).	100
	Total SME Initiative Operational Programme		**100**

D.4.4.b. Implementation option and rationale

The option to dedicate resources to the Joint SME Guarantee Instrument (option 1) within the SME Initiative presents numerous advantages for Member States:

- Improved access to finance for SMEs through capital relief, loss protection and potentially liquidity for the financial intermediaries, with the benefits being passed on to the SMEs in the form of reduced pricing (and possibly reduced collateral);
- Increased leverage on public budget through participation of EIB/EIF, COSME and/or Horizon funds and private sector;
- The SMEI does not require co-financing with national/regional funds and therefore saves national/regional budget for other uses;
- The SMEI commits the participation of EIB and EIF with sizeable contributions and their expertise in the structuring, execution, implementation and monitoring of guarantees, securitisations and EU-level programs;
- The SMEI relies on an ex-ante analysis which has already been performed by the EC and the EIB Group;
- The European Commission and the EIB Group have already adopted a 'Model Funding Agreement', which is a ready-made template for the Funding Agreement to be negotiated between Member States and the EIF;

- Treatment of State Aid has already been cleared by the European Commission.

Furthermore, the proposed instruments matrixes presented below ensures, under both options, with or without the SME Initiative, a complementarity between equity and debt instruments, corresponding to the market gaps identified and the segments targeted under the relevant thematic objectives and operational programmes.

Given that initially Romania did not take into consideration the allocation of resources to the SME Initiative, the following steps should be completed to enable its implementation:

- Amendment of the Partnership Agreement 2014-2020, approved by the EC in August 2014, which makes no provisions for the SME Initiative
- Setup of a single national dedicated Operational Programme for the SME Initiative, with its own Managing Authority under Ministry of Regional Development and Public Administration, which would require EC approval as any other OP. Given the workload of staff MAROP, the new OP SMEI will be managed by the same staff that will have distinct responsibilities in the job description.
- Modification of budgets of other OPs from which resources would be reallocated to the SMEI OP.

D.4.4.c. Contribution of proposed instruments to OP Objectives

The proposed financial instruments will target SMEs active in a wide range of sectors and which are usually in a growth stage, more specifically aiming to provide guarantees and thus significantly reduce collateral requirements, with the lending being funded by the financial intermediary. The financing is envisaged to be utilised by final recipients for investments and working capital, thus improving the SMEs' productivity.

D.4.4.d. Target market and final recipients - indicative eligibility criteria

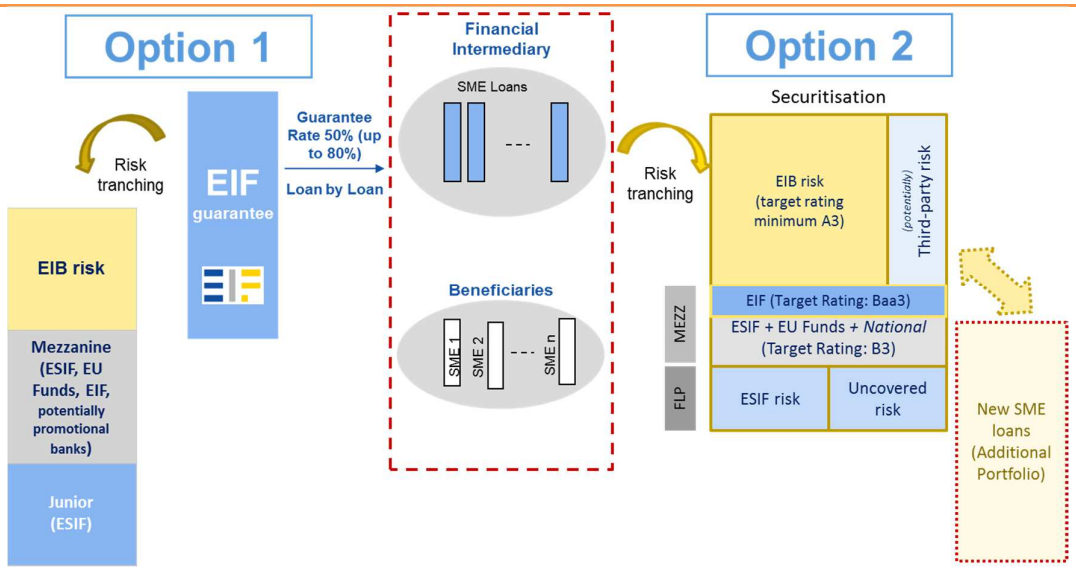
For final recipients of FIs funded from the SME Initiative uncapped guarantee, it may be possible to set up regional development incentives, depending on the priorities established under the regional development strategy, however it may be less effective to pre-establish an allocation of resources at regional level; instead it may be best to preserve the flexibility in the use of resources where demand for financial instruments exists.

With regards to targeted sectors, the instrument will have a generalistic approach, targeting all sectors except those excluded through EU eligibility and state aid rules.

D4.4.e. Detailed presentation of proposed instruments

The SME Initiative Options 1 and 2 are described further in summary.

SME Initiative: Side-by-side comparison of options



OPTION 1	OPTION 2
• **Provides uncapped portfolio guarantees and possibly partial capital relief to banks building up new portfolios of loans** • **Objective: Improve access to finance for SMEs by addressing challenges that banks face and which impede their credit appetite** • **More specifically:** o May provide capital relief o Covers 50% (and up to 80%) of losses for defaulted loans • **Improvement in access to finance is materialized through:** o Competitive pricing to SMEs due to ESIF and EIB competitive pricing	• Securitisation instrument can be backed by portfolio of existing SME loans with the objective of originating a portfolio of new loans equal to a multiple of ESIF • **Objective:** Improve access to finance for SMEs by addressing challenges that banks face and which impede their credit appetite. Also seeks to diversify SME financing sources away from banks, where possible • **More specifically:** o May provide capital relief o Helps banks selling (or buying credit protection on) existing loans, therefore creating Balance Sheet availability for new loan commitments o ESIF cover of junior tranche and pricing of mezzanine tranche may yield highly competitive cost of funding for Financial Intermediaries

	• Improvement in access to finance is materialized through: o Larger amount of funding and/or capital potentially available to SMEs o For funded structures, diversification of funding sources for FIs (via private investors purchasing ABS notes)
• **Description:** o Originators (gradually) builds-up a portfolio of new SME loans o EIF issues uncapped portfolio guarantees (guarantee rate of 50% (and up to 80%) and shares the risk with banks o ESIF are used to cover the first-loss piece o EU funds from Horizon 2020 and/or COSME and the EIF join to absorb, along with ESIF, the second-loss piece. A National institution could also participate o EIB and guarantees the senior tranche • In return the originators will have to transfer	• Description : o A portfolio of existing SME loans is identified o 50% of the first-loss piece is covered by ESIF (to be confirmed / negotiated) o The risk of the second-loss piece is covered by ESIF, EU funds from Horizon 2020 or COSME and the EIF. Originator possibly retains 5% of the risk, and a National institution could participate o EIB purchases or guarantees the senior tranche up to agreed maximum amounts • In return the originators explicitly undertake to provide new financing (amounting to multiple of the EU Funds contribution) to SMEs at reduced

benefits of the instrument to the SMEs in the form of reduced pricing (and possibly reduced collateral)	pricing

E. LESSONS LEARNT

E.1. Relevant past experiences

Although at European level, FIs were implemented in the 2007-2013 period only in a limited manner, the fact that SMEs were the main final recipients provides sufficient ground for useful lessons for the purpose of the current ex-ante assessment.

Thus, SME ex-ante methodology reveals that at the end of 2012 "a total of 816 specific funds for enterprises were set up in 25 Member States". Guarantees were the main instruments financed by these funds, followed by loans and equity. Out of these, EIF manages 14 regional and national holding funds with a total capital in excess of EUR 1.4bn.

Financial instruments were also created in Romania in 2008, with the setup of the JEREMIE Holding Fund (JHF) managed by EIF. With an initial capital of EUR 100m, supplemented at the end of 2013 with a further EUR 50m, the JHF Romania had already catalysed EUR 360m new financing in over 3,000 new SME loans and four equity investments, through the following instruments that represented novelties on the local market:

JEREMIE Financial Instruments 2007-2013	Financial allocation (EURm)	SME Financing target at Dec 2015	SME Financing actual as at Dec 2014
First Loss Portfolio Guarantee	62	310	289
Risk Capital	10.6	15.1	4
Portfolio Risk Sharing Loan	74.8	149.6	77
Total	**147.4**	**474.7**	**360**
Leverage		*3.2x*	

Most important number of lessons learnt can be drawn from the direct experience of the EIF at EU level in creating financial instruments and clarifying eligibility and state aid rules, as presented below first as general lessons learnt and then by types of instruments: debt instruments (guarantees and loans) and equity instruments (accelerators, seed funds, mezzanine, risk capital, growth funds, coinvestment funds).

E.2. General lessons learnt

- **Clear, market-oriented and flexible eligibility rules**

The implementation of the financial instruments at the very outset of the previous programming period has been impeded by the lack of clear regulatory provisions related to the implementation of financial instruments under Structural Funds. The publication of a comprehensive COCOF guidance note on the implementation of financial instruments in 2011 clarified the majority of questions relating to the eligibility of expenditure and was later amended (in 2012) to address the urgent need for financing on working capital, which for instance continues to remain the bulk of demand in the current economic context. The new regulatory framework generally represents an acceptable basis for the future implementation of decentralized financial instruments.

- **Flexibility**

Given that eligibility and state aid rules already put sufficient barriers to final recipients in benefitting from FIs, it is important to limit eligibility rules only to the strictly necessary ones and to attempt to preserve as much as possible the flexibility for the instruments in following market demand. In relation to this, it is also effective to allow for easy reallocation of resources from non-performing to performing instruments, by grouping them under a single priority axis in a single operational programme, and subsequently within fund-of-funds at national level.

- **Suitability of the selected FIs**

The role of the FIs in the deployment of the funds is crucial in order to maximise the benefits of the portfolio of instruments: maximisation of the utilisation of public resources, maximisation of the gearing of private resources and investors and deployment of the instrument in accordance with contractual obligations towards the HF manager so as to ensure transfer of benefits to the beneficiaries with transparency, accountability and compliance with national legislation and EU regulations.

Thus, the selection of the FIs should be carried out in the framework of all the above with impartiality and on the basis of a thorough assessment that incorporates technical expertise and know-how.

It has also been shown that the role of the pooling of a sufficient number of qualified applicants in the selection of the most suitable for the deployment of the instrument cannot be overemphasised. This pooling is achieved through strong interest and participation in the call for expression of interest; many prospective FIs will not mobilise the internal resources necessary for the submission of an application to call unless they are confident that the selection procedure will be undertaken by an entity of know integrity and expertise that can guarantee an impartial and objective assessment.

- **Availability of funds**

During the previous programming period, the funds were available at their totality at the beginning of operations. This ensured that the HF manager could enter into agreements and deploy financial instruments of varying risk characteristics and with duration exceeding that of the programming period without any additional conditionality that could deplete an instrument of benefits transferred to the final beneficiaries, diverge from market practice or necessitate additional legal provisions. That would result to absorption risks escalating from decreased market demand to impeded legal negotiations or even increased liquidity risks. All these implications should be taken into consideration under the new programming period, where the funds become available to the HF manager in tranches.

- **Need to clarify eligibility rules under ESF**

The main problem identified in the deployment of financial instruments financed by ESF is the eligibility of expenditure and namely the fact that the purchase of assets is generally not permitted, which considerably limits support of bank lending to micro companies, primarily for investment purposes. Under the previous programming period such limitation could be addressed through the application of ERDF rules to a portion of the ESF action allocated to financial instruments.

In the new regulation, however, the application of ERDF rules is not explicitly foreseen. There is a reference to the ERDF Regulation when it comes to financial instruments, mentioning that the ESF may support actions and policies falling within its scope through financial instruments, including micro-credits and guarantee funds. Therefore, it should be clarified whether this assumes eligibility of expenditure as per ERDF or ESF.

- **Combination with grants**

As the new regulation allows for combination of grants with financial instruments, this possibility was explored during this assessment and there were identified the modalities for using the combination.

- **Appropriate evaluation of financial results**

An accurate evaluation of the results of financial instruments can only be made when the instruments have been winding down, after the losses of debt instruments have been incurred and the equity fund has closed. It is well known that such instruments have a slow start and most realisations in equity or losses in the portfolio guarantees occur towards the end of the life of such instruments. Furthermore, the indicators used in evaluation must be adapted and be different from those used for grant evaluation.

E.3. Lessons learnt in debt instruments (guarantees and loans)

- **Capital Relief**

In the course of implementation of debt instruments under the previous programming period, the intermediaries expressed interest in the applicability of regulatory capital relief under guarantee and debt products. The provision of regulatory capital relief should be carried out in a way that is compatible with national legislation and capital markets regulatory framework in close connection with legal experts and the national regulator, respectively.

It is expected that the provision of regulatory capital relief will remain a key element for the future implementation of debt products under ESIF and for that reason it should be considered at the stage of Funding Agreement negotiation whether its provisions would be compatible with this objective.

In accordance to Basel regulatory framework, the benefit of the capital relief can be fully utilised when the entity providing the guarantee enjoys the maximum credit rating.

- **Transfer of benefits**

Most of the instruments that are deployed through banks as FIs incorporate an element of support that is directed to the final beneficiaries. Continuous monitoring and sophisticated reporting through contractual arrangements with the FIs are required in order to ensure that the full benefit is transferred to the SMEs in a transparent and uninterrupted manner.

E.4. Lessons learnt in equity instruments

- **Fundraising**

Equity funds dedicated to a specific Member State, especially if the Member State is small and economic prospects are not sufficiently attractive, makes fundraising very difficult. It is important to consider whether local institutional investors can invest in equity funds. In such cases tailor-made equity instruments need to be considered and additional financial incentives for investors may be necessary (capped returns of public investor, fixed return vs hurdle, first-loss coverage for seed investments, and etc.).

- **Market practice vs. ESIF rules**

Whilst the new regulations allow for much closer alignment with market practice, the "utilisation" aspect would always be key under ESIF instruments. Thus, it will be only natural that such instruments place substantial weight on the utilization potential together with the commercial outcome.

To this end, it is important that solutions are devised that would make the instruments appear as "business as usual" to market players whilst ensuring compliance with ESIF regulations. Such an example was the design and incorporation of the asymmetric mechanism in the drawdown obligations of the investors in equity funds that boosted the utilisation of the public funds whilst securing the utilisation of the respective private portion in a seamless manner which did not diverge from market practice.

- **Developmental aspect**

ESIF resources by definition should address suboptimal market conditions. Thus it is inherent that instruments designed with ESIF resources may be embedded with provisions which are not fully aligned with market dynamics such as investing in asset classes with higher risk level, retaining fund managers that are not of the quality expected in developed markets or introducing non-market features in light of mobilizing private capital;

- **Attracting quality fund managers**

Small country-specific funds rarely manage to attract top talent fund managers due to their size. Thus, instruments could foresee potential solutions such as an attractive fee / carry ratio. However, the approach would require careful balancing between interests of the fund managers and private investors. A more attractive carry in general may make the investors less interested to join, and therefore such incentives may only be possible as regards the public participation in the fund;

- **Local and committed teams**

It has proved that only through the engagement of local teams or international teams with substantial capacity on the ground could an instrument achieve the impact sought by ESIF funding, especially from developmental perspective.

F. VALUE ADDED OF THE FINANCIAL INSTRUMENTS

F1. Value added for proposed FIs

F.1.1. Qualitative value added

At a general level, the qualitative value added of financial instruments includes:

- **More responsible approach, better performance and financial discipline** at final recipient level compared in the case of financial instruments ("repayable assistance") compared to non-reimbursable assistance.
- **Simplicity of obtaining assistance**: the financial intermediary, for instance a bank implementing a portfolio guarantee instrument, is fully delegated to provide the instrument at SME level, without the need to obtain any further approval from the guarantee fund or FoF.
- **Creation of a new generation of entrepreneurs** in the innovative sector through the accelerator,
- E**ncouraging entrepreneurship** among less advantaged social categories;
- I**ntroduction of new instruments** including not only the early stage equity funds but also potentially the microcredit instruments (guarantees and interest subsidies);
- Supporting the buildup and modernisation of the financial system, including also the **non-banking financial institutions** previously not used as intermediaries under the ERDF FIs, by using new instruments and gaining new SME customers.
- Creating c**ompetition among banks**, fund managers and other intermediaries, which as it has been shown in the past leads to better terms for the final recipients;
- The **mathematical leverage effect is supplemented** by the stimulation of interest of private investors in a country or sector they would not have considered otherwise, potentially leading to further investments undertaken by them in the future.
- F**lexibility and adaptability** of the instruments to the actual needs of the market / SMEs
- **More cost effective management**
- **Quick disbursement of funds**, absorption and less distortion of competition
- **Supporting competitiveness, innovation and entrepreneurship and creating employment** (orientation towards innovative enterprises which otherwise would lack funding)

The value added of the categories of financial instruments was described in the assessment and can be summarized as a complementary way of addressing the most important issue faced by SMEs in accessing financing, namely their risk perception, as follows:

- Guarantee instruments provide higher risk coverage of up to 80%.
- The portfolio risk sharing loan provides cost subsidies combined with risk coverage of 50% respectively 80%.

- Accelerators and seed funds inject capital into start-up companies not eligible for loans.
- Risk capital funds provide capital injections and active management input for taking SMEs to the next level in a context of shared responsibilities and gains.

Considering more specifically each Operational Programme, the qualitative value added can be estimated as follows:

- **Competitiveness OP**

The accelerator(s) and seed fund(s) would support ideas and entrepreneurial projects in a proof of concept or first sale stage, either with an innovative focus or in the smart specialization sectors, thus making financing accessible for enterprises in a phase of their existence when they are not eligible for bank financing. Furthermore, the final recipients would greatly benefit from the advice made available through the mentorship structures, private investors/business angels and from the collaboration with similar structures in both US and the European Union.

For companies in the same sectors which are already selling their products, the PRSL instrument would make available loans at lower costs and with reduced collateral requirements.

- **Regional OP**

The instruments proposed for the Regional OP aim to make available to existing SMEs from a wide range of sectors the financing needed for investments and working capital either with significantly reduced collateral requirements (in the case of uncapped guarantee financed under SME Initiative), a balanced mix of lower costs and reduced guarantees (in the case of the PRSL) and direct capital injection with the added benefit of the fund manager's financial and industrial expertise and mentorship network.

- **Human Capital OP**

The FIs envisaged under the HC OP would encourage the setup of new companies and job creation among the targeted population, by making available subsidised loans and loans with significantly reduced guarantees, also encouraging the involvement of microfinance non-banking institutions.

F.1.2. Quantitative value added

The main element of quantitative value added of the proposed FIs is the **leverage/multiplier effect, i.e. the financing made available to SMEs divided by the OP contribution to the instrument.** At instrument level, this ranges from a leverage of 1.1x in the case of seed funds and accelerators, where the qualitative dimension prevails by the risk taken in early stage projects, to around 4x for portfolio guarantee instruments. Thus, the proposed portfolios of instruments would lead to a leverage of 2,5 (including SME Initiative). The proposed allocation include the national co- financig. The detailed calculations are shown below:

Proposed ESIF Financial Instruments 2014-2020 in Romania

Financial Instrument	Rationale for instrument	Proposed allocation EURm (EU contribution) (1)	Proposed allocation EURm (EU funds + national contribution) (up to) (2)	SME financing supported EURm (estimate) (3)	Leverage effect (estimate) (4)= (3)/(2)
COMPETITIVENESS OPERATIONAL PROGRAMME *Thematic Objective 1 "Strengthening research, technological development and innovation"*					
Equity Funds for start-ups and early stage (Accelerators & seed funds)	Investments in start-up and early stage innovative SMEs	34.0	40.3	44.3	1.1x
Portfolio Risk Sharing Loan for Innovative SMEs	Provide 50% cost reduction and partial risk coverage to innovative SMEs	16.0	19.0	38.0	2x
Total Competitiveness Operational Programme		**50.0**	**59.3**	**82.3**	**1.38x**
Regional Operational Programme *Thematic Objective 3 "Enhancing the competitiveness of SMEs"*					
SME Portfolio Risk Sharing Loan	Provide 50% cost reduction and partial risk coverage	100	117.65	235.3	2x
SME risk capital fund	Risk capital	50	58.82	100.0	1.7x

Financial Instrument	Rationale for instrument	Proposed allocation EURm (EU contribution) (1)	Proposed allocation EURm (EU funds + national contribution) (up to) (2)	SME financing supported EURm (estimate) (3)	Leverage effect (estimate) (4)= (3)/(2)
	Investments in SMEs				
Total Regional Operational Programme		**150**	**176.47**	**335.3**	**1.9x**
Human Capital Operational Programme *Thematic Objective 8 "Promoting employment and labor mobility"* *Thematic Objective 9 "Promoting social inclusion and combating poverty"*					
Portfolio Risk Sharing Loan for SMEs/entrepreneurship	Provide 80% cost reduction and partial risk coverage for entrepreneurship and for job creation	47.3	56	70	1.25x
Microfinance Guarantee	Covering up to 80% of risk of loans for entrepreneurship and for job creation	47.3	56	280	5x
Portfolio Risk Sharing Loan for social enterprises	Provide 80% cost reduction and partial risk coverage for social enterprises	18.6	22	27.5	1.25x
Social Guarantee	Covering up to 80% of risk of loans for social enterprises	18.6	22	110	5x
Total Human Capital Operational Programme		**131.8**	**156**	**487.5**	**2.62x**
TOTAL AND LEVERAGE			393	907.7	2.3

F.2. Consistency with other forms of public intervention addressing the same market

F.2.1. Consistency with JEREMIE instruments

The JEREMIE Portfolio Guarantee will be 100% absorbed by mid-2015, therefore no overlap exists with any new portfolio guarantees that would be implemented under the new programmes.

The JEREMIE Portfolio Risk Sharing Loan (interest subsidy instrument) will be implemented until 2016, however given the very limited budget for a country like Romania there should only be complementarity with any new similar instruments.

The JEREMIE risk capital fund will end its investment period in 2016 and will only make follow-on investments in the existing portfolio afterwards. Furthermore, it focuses on the technology-media-telecom projects only, therefore there should be very limited overlap with any new risk capital fund, and suitable competition can be ensured by selecting a different fund manager. The existing fund does not overlap with the proposed accelerator / seed fund and TT fund, given the different stages of SMEs targeted.

With regard to the revolving resources from the current JEREMIE Holding Fund, which will become available after 2016 and will have to be utilised for SME instruments, the decision on the instruments to be funded will be made by the Government, taking into consideration the need to ensure consistency and also considering market needs at the time.

F.2.2. Consistency with public-funded guarantee instruments

As mentioned elsewhere in the report, the National Guarantee Fund has lengthy experience in providing individual guarantees for SMEs at guarantee rates between 50% and 80% per loan, with a total outstanding portfolio of EUR 1.4bn for 14,000 guarantees issued.

Given the very high demand for guarantees in Romania and the size of the lending market, the complementarity between the two types of guarantee instruments, i.e. individual guarantees and portfolio guarantees, can be ensured by the fact that they may address different financial intermediaries (banks / non-banking financial institutions) and different types of beneficiaries (i.e. established SMEs versus new entities for which the main value added is job creation).

F.2.3. Consistency with EU-level instruments managed by EIF

The newly launched EU central mandates, COSME Loan Guarantee Facility (successor of the CIP SMEG) and InnovFin Guarantee (HORIZON 2020) instruments, both entrusted to EIF for implementation, do not specifically address the local market, as they are available for intermediaries in any Member State including Romania; in the past their predecessors CIP and FP7 RSSF, as well as the first PROGRESS Microfinance, have been used in the country directly or indirectly.

Due to their much larger budget and geographical scope, and higher sophistication, the new instruments can better be seen as complementary to those proposed herein for ESIF Funding or more precisely as the "next stage" in the evolution of the Romanian financial sector. To this end, it is noted that the EU-level instruments will be rolled out until 2020 through an open call for expressions of interest, whereas it is expected that the ESIF instruments will be contracted in 2015 and 2016.

In the case of guarantee instruments under COSME LGF, the guarantee rate is 50%, whereas it is expected to be 80% in the ESIF portfolio guarantees.

The InnovFin SME Guarantee Facility will provide guarantee and counter-guarantees using a combination of the EU's Horizon 2020 Framework Programme for Research and Innovation (2014-2020) contribution ("Horizon 2020") and EIF's own risk capacity.

EaSI Operational programme contributes to the creation and developed new enterprise and social enterprises.

F.3. Possible State Aid implications[52]

Establishing State Aid compliance

Few studies discuss the State Aid issues encountered by MAs when setting up FEIs, but two reports (Michie and Wishlade 2011, Wishlade and Michie 2009) identified the rules on State Aid as a key source of frustration and anxiety in the context of the use of FEIs. Many MAs have addressed State Aid compliance by using the 'no aid' option, for example by offering Loans on a *de minimis basis* or at market rates, structuring Equity such that private and public contributions are *pari passu* (treated the same), or providing Seed Capital on a *de minimis* basis, as in the case of Latvia. The main justification for using the *de minimis* facility is ease of use. However, there are two main disadvantages to *de minimis*: the sums available are quite small and monitoring requirements for ensuring that the threshold is not exceeded in the three year period are onerous. In practice, few countries have very rigorous systems for ensuring this - Portugal is one of the few that does. Many countries rely on declarations from Final Recipients and some MAs have viewed this as a risk, for example in the context of audit or checks by Directorate General Competition (DG COMP).

As an alternative to the 'no aid' route, some use is also made of General Block Exemption Regulation (GBER) compliant instruments, and a further option is notification, which is used by a number of MAs for Venture Capital measures targeted at SMEs (e.g. Finland, France, Hungary, Slovenia and UK).

Management and governance structures

Since EU funds create advantages for SMEs on a selective basis and their utilisation is decided upon by the state, they have the potential to constitute state aid under Article 107 of the TFEU.

[52] See C.2.2. for detailed description of state aid implications for each proposed instrument.

Although new regulations for block exemption and de minimis aid have entered into force in 2014, the principles of state aid applied are the same, meaning that financial instruments can fall into one of the categories below:

- State aid free instrument – for instance, loans at market rates, guarantees priced at market rates or at "safe harbour" rates as defined by the EC
- Instruments with a state aid element but considered compatible with the TFEU and thus exempt from notification, being:
    - De minimis instruments under Reg. 1407/2013, not requiring notification – for instance, investments under the de minimis ceiling amount or guarantees/loan where the aid element (gross grant equivalent) falls below the de minimis threshold.
    - Instruments exempt from notification under the GBER (Reg. 651/2014), such as risk capital funds with the minimum required private participation and complying with all other conditions set out in the GBER.
- Outside of these categories, instruments with a potential state aid element require a formal notification to the EC in coordination with the national state aid point of contact (in Romania, the Competition Council).

Since notified instruments may take long to be approved, and state aid free instruments, ie market terms, may not be interesting for market players and final recipients, the experience in the former programming period is that the block exemption rules (GBER and de minimis) are the best option to be used for financial instruments and therefore all the instruments proposed in this assessment are devised under one of these frameworks. It is worth noting that the GBER (Reg. 651/2014) provides for much more generous ceilings e.g. as far as risk financing, thus responding to market demands particularly with regards to equity funds.

In the case of each instrument, there needs to be a careful assessment of state aid compatibility not only at final recipient level, but also at the level of the intermediary and (in the case of equity funds) private investor. For instance, in the case of the current JEREMIE subsidised interest, where the JEREMIE Holding Fund makes available ex-ante interest-free funds to the banks for on-lending to SMEs, it was considered appropriate to charge an interest rate for every day that the funds remain with the bank, in the form of a "deposit rate".

As with any EU projects, it is essential to make the state aid elements part of the process of designing the instruments, together with the ESIF eligibility rules, so as to ensure that the principles are respected and, if required, a state aid or de minimis aid scheme is issued in time for the implementation of instruments to begin.

The detailed state aid implications at all levels (fund-of-funds, intermediary, final recipient) for each type of instrument proposed are presented under D.4 To be noted that the grant equivalent calculations for the SME Initiative have already been agreed with the EC.

G. ADDITIONAL PUBLIC AND PRIVATE RESOURCES TO BE POTENTIALLY RAISED BY THE FINANCIAL INSTRUMENTS

G.1. Identification of potential sources of funding

It is expected for the FIs to rely mainly on private sources of funding, in order to minimize market distortion. To this end, i**nternational financial institutions should be considered an important source of funding**, to the extent that their involvement takes place on market terms, in particular since they follow the same development agenda whereas their input from own funds does not carry a state aid element.

The sources of private funding, depending on the nature of the instruments, are:

- In the **case of equity fund**, firstly the fund managers themselves invest normally around 1% of the fund capital, for alignment of interest purposes, and in parallel they market the fund to private investors. It is important to note the potential participation here of institutions such as **European Bank for Reconstruction and Development** (**EBRD) and Black Sea Trade and Development Bank** (**BSTDB)**, which have joined for instance in the JEREMIE equity funds in Bulgaria. Other private investors may include **institutional investors located in Romania**, such as banks, asset managers and private pension funds. It is worth reminding that, unfortunately, for the time being, compulsory private pension funds in Romania are not allowed to invest in private equity, thus depriving the local equity funds from one of the major funding sources at worldwide level.
- In the case of **risk sharing loans**, the banks themselves make available normally 50% of the funding at SME level from their own sources or from loans either from mother banks or from institutions such as EIB, leading to a leverage of 2x on ESIF resources.
- In the case of **guarantees**, the banks also make available their own or borrowed funds for the loans extended to SMEs.

G.2. Leverage of the envisaged financial instruments

The quantitative and qualitative leverage of the envisaged FIs is described in more detail in Chapter E.1.2. “Quantitative value added”. Under the assumptions made, a portfolio of ESIF instruments of EUR 393 mEuro (not considering costs effect) may have a quantitative leverage of 2.3 overall and considering SMEs Initiative (100mEuro), the total leverage will be at 2.65.

H. SPECIFICATION OF EXPECTED RESULTS CONSISTENT WITH RELEVANT OPERATIONAL PROGRAMMES

Regulation (EC) 1303/2013 Article 46 requires the MAs to forward to the Commission a "special report on the activities related to FIs in the form of an annex to the annual implementation report". The Model for reporting on Financial Instruments is presented in the Commission Implementing Regulation (EU) No 821/2014

Financing Institution implementing financial instruments shall provide the managing authority with at least quarterly information in a standardised form and scope. The report shall include all the relevant elements for the managing authority to fulfil the conditions of Article 46 of Regulation (EU) No 1303/2013. Member States shall also fulfill their reporting obligations pursuant to the *de minimis* Regulation, if the case.

Indicators sshall be measured and reported at least quarterly and aligned as a minimum with the regulation requirements.

In line with the objectives of each Operational Programme and specific Priority Axes, the following indicators should be used for the assessment of the performance of the proposed FIs:

OP Competitiveness

Portfolio Risk Sharing Loan (PRSL)

- Number of enterprises receiving financial support other than grants
- Number of enterprises supported to introduce new to the market products;
- Private investment matching public support in innovation or R&D projects;
- Number of loans provided
- Value of loans

Equity fund(s) – accelerators/ seed fund(s)

- Number of enterprises receiving financial support other than grants;
- The value of private contribution in innovation or R&D projects
- Volume of equities provided

Regional OP

Portfolio Risk Sharing Loan (PRSL)

- Number of enterprises receiving financial support other than grants
- Private investment matching public support to enterprises (non-grants); Number of loans provided
- Value of loans

Equity fund(s) – risk capital fund or coinvestment fund

- Number of enterprises receiving financial support other than grants
- Private investment matching public support to enterprises (non-grants);
- Value of equities provided

Human Capital OP

Guarantees

For priority axes 3: *Jobs for all* the proposed indicators reflect the expected results: *Increasing employment by sustaining enterprises:*

- Number of enterprises (micro and SMEs) receiving support
- Number of guaranties provided
- Volume of loans for which guarantee is provided
- Number of persons which develop an independent activity

For priority axes 4: *Social inclusion and reduction of poverty*, In reflect the expected results *Strengthen the capacity of social economy enterprises to operate in a manner self-sustainable.*

- Number of social enterprises receiving support
- Number of guaranties provided
- Volume of loans for which guarantee is provided

Portfolio Risk Sharing Loan (PRSL)

For priority axes 3: *Jobs for all* the proposed indicators reflect the expected results: *Increasing employment by sustaining enterprises:*

- Number of enterprises (micro and SMEs) receiving support
- Number of loans provided
- Volume of loans
- Number of persons which develop an independent activity

For priority axes 4: *Social inclusion and reduction of poverty*, In reflect the expected results *Strengthen the capacity of social economy enterprises to operate in a manner self-sustainable.*

- Number of social enterprises receiving support
- Number of loans provided
- Volume of loans

Each MA has firstly to ensure that the reporting requirements are met. Monitoring and reporting requirements from the implementing body (dedicated entity or entrusted intermediary) to the MA should be clearly defined in the funding agreement between the MA and the financial intermediary or Fund of Funds.

I. PROVISIONS ALLOWING THE EX-ANTE ASSESSMENT TO BE REVIEWED

The proposed strategy for implementation of the FI with ESIF resources in the period 2014-2020 is based on the market situation as of 2014 and on the lessons learned during the previous programming period.

However, changes in the environment might have an impact on the supply and demand of resources for businesses and changes in the institutional, legislative and policy conditions would affect the implementation of the strategy to support the Romanian economy with financial instruments.

The following constitute types of major changes that may require a revision of the ex-ante assessment:

- **A significant change in the financial and economic environment** – such as an economic crisis - would have an effect on the supply and demand analysis and the proposed financial instruments that would need to be updated for the new environment.
- **Changes in the fiscal and financing conditions of the economy.**
- **Changes in liquidity** would lead to an inability to effectively implement some of the proposed financial instruments. In such a scenario the analysis of supply and demand should be reviewed and on its basis one should restructure the instruments, primarily those for debt financing, on which the change would have an impact;
- The analysis takes into account the current level of investment attractiveness of the country and on its basis the private participation and the level of inclusion of additional funding for each instrument have been defined. In case of a change in the legal and institutional framework that lead to **changes in the investment environment,** one could expect impact on the activity of private investors and hence on the possibility of attracting additional resources at the fund or deal level. In such a scenario, the strategic part of the assessment should be reviewed, the one that defines the structure of the instrument, including the allocation of resources between the program and other investors, and, respectively, the applicable regime of state aid;
- **Inadequate volume** of the support scheme compared to observed demand. For example, a situation where the volume is too low to meet observed demand may undermine the ability of the FI to achieve envisaged objectives.

At this point it is premature to provide a timing for potential revisions of the ex-ante assessment, however it is considered important to point out that more informal updates can be easily obtained by interviews and panel discussions with financing providers (e.g. banks, equity fund managers etc.) and SME representatives, which can be undertaken much faster than formal assessment revisions and may provide critical input for the revision of the investment strategy.

J. GLOSSARY AND DEFINITIONS

2012 EC Position Paper	Position of the Commission Services on the development of Partnership Agreement and programmes in ROMANIA for the period 2014-2020, Ref. Ares(2012)1240252 - 19/10/2012
2013 SME Study	The SME Access to Finance Preliminary Study for Romania, 2013, delivered by GEA Strategy & Consulting, commissioned by EIF at the request of the Managing Authority for the Sectoral Operational Programme Increase of Economic Competitiveness 2007-2013
2014 microfinance study	Consultancy report specifically addressing market failures in microfinance, commissioned by EIF and delivered by Eurom Consultancy
CIP	Competitiveness and Innovation Framework Programme
CPR	Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006
CSDF	Civil Society Development Foundation
de minimis	See below under 'State aid'
DG REGIO	Directorate General for Regional and Urban Policy of the EC
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
EIB Group	EIB and EIF
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI Funds	European Structural and Investment Funds for the programming period 2014-2020. This includes: European Regional Development Fund (ERDF),

	Cohesion Fund (CF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD), and European Maritime and Fisheries Fund (EMFF)
EU	European Union
Ex-ante assessment	As in Article 37 (2) of the CPR. MS/MA are required to conduct ex-ante assessments before supporting financial instruments, including: rationale/additionality against existing market gaps and demand/supply, potential private sector involvement, target final recipients, products and indicators
Ex-ante general methodology	EC &EIB, Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period - Volume I - General methodology covering all thematic objectives
Ex-ante R&D	
Ex-ante SME methodology	EC &EIB, Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period - Volume III - Enhancing the competitiveness of SME, including agriculture, microcredit and fisheries (Thematic objective 3)
Final recipient	Legal or natural person that receives financial support from a financial instrument as described in Article 2 (12) of the CPR
Financial Instruments (FIs)	As in Article 2 (11) of the CPR, the definition of financial instruments as laid down in the Financial Regulation[53] shall apply mutatis mutandis to ESI Funds, except where otherwise provided in the CPR. In this context, financial instruments means Union measures of financial support provided on a complementary basis from the budget to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants.
FI-TAP	Financial Instruments Technical Advisory Platform
FRR	Fair rate of return for entrepreneurial activities in a certain sector in a certain country
FNGCIMM	National Fund for SME Guarantees
Focus Area	EAFRD proposes 6 priorities with 18 focus areas, between 2 and 5 for each priority
Fund of funds	Means a fund set up with the objective of contributing support from a

[53] Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

	Programme or Programmes to several financial instruments. Where financial instruments are implemented through a fund of funds, the body implementing the fund of funds shall be considered the only beneficiary in the meaning of Article 2 (27) of the CPR.
Funding agreement	Contract governing the terms and conditions for contribution from Programmes to financial instruments. This shall be established between a MA and the body that implements the FoF or the financial intermediary, between a FoF and the financial intermediary or between the MA and the financial instrument, as described in Article 38 (7) of the CPR.
GAFMA	Guidelines for SME Access to Finance Market Assessments: a methodology developed by the EIF to be used to prepare market assessments to identify market failures, suboptimal investment situations and investment needs related to the access to finance of micro-enterprises and SMEs
GBER	General Block Exemption Regulation
GGE	Gross grant equivalent (NPV consideration for State aid purposes)
IFI	International Financial Institution
JEREMIE	Joint European Resources for Micro to Medium Enterprises
Leverage effect	As per Article 140 of the Financial Regulation, leverage effect: "*the Union contribution to a financial instrument shall aim at mobilising a global investment exceeding the size of the Union contribution according to the indicators defined in advance".*
Managing Authority (MA)	Managing Authority, as defined in the Regulations regarding ESI Funds
MFF	Multi-annual Financial Framework of the EU (2007 – 2013, 2014-2020)
MFI	A microfinance institution (MFI) is an organization that provides financial services targeted to a clientele poorer and more vulnerable than traditional bank clients.
Multiplier ratio	An appropriate multiplier ratio shall be established through a prudent ex-ante risk assessment for the specific guarantee product to be offered, in addition to the ex-ante assessment in accordance with Article 37 (2) of the CPR, taking into account the specific market conditions, the investment strategy of the financial instrument, and the principles of economy and efficiency. Such ex-ante risk assessment may be reviewed where it is justified by subsequent market conditions

NPV	Net present value (of a cash flow)
Pari passu	Situation where a transaction is made under the exact same terms and conditions by public and private investors, with private investor contribution which has economic significance and with simultaneous interventions by both types of investors
Repayable finance	Defined in the context of these ToR to refer to either all, or a subset of, FEIs, FIs and other revolving instruments
RSFF	Risk Sharing Finance Facility
SAFE	ECB, SME Access to Finance Survey
SME	Small and medium-sized enterprises as per European Commission Recommendation 2003/361/EC
State aid	'State aid' means aid falling under Article 107 (1) of the Treaty, which shall be deemed for the purposes of this Regulation, to also include *de minimis* aid within the meaning of Commission Regulation (EC) No 1407/213 of 18 December 2013 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid, Commission Regulation (EC) No 1408/2013 of 18 December 2013 on the application of Articles 87 and 88 of the EC Treaty to *de minimis* aid in the sector of agricultural production and Commission Regulation (EC) No 875/2007 of 24 July 2007 or its successor Regulation on the application of Articles 87 and 88 of the EC Treaty to *de minimis* aid in the fisheries sector and amending Regulation (EC) No 1860/2004.
SMEI ex-ante assessment	EC Staff Working Document "Ex-ante assessment of the EU SME Initiative" with input from EIB and EIF
Structural Funds (SFs)	EU Structural Funds for the programming period 2007 – 2013 (ERDF and ESF)
TFEU	Treaty on the Functioning of the European Union
Thematic objectives	Objectives supported by each ESI Fund in accordance with its mission to contribute to the Union strategy for smart, sustainable and inclusive growth (see Article 9 of the CPR)

ANNEX 1 - SME ACCESS TO FINANCE PRELIMINARY STUDY FOR ROMANIA (2013)

ANNEX 2 - EX-ANTE ASSESSMENT FOR INNOVATION-FOCUSED ENTREPRISES ("EVALUARE EX-ANTE PENTRU IMPLEMENTAREA INSTRUMENTELOR FINANCIARE ÎN PERIOADA DE PROGRAMARE 2014-2020") (2014)

ANNEX 3 – ANALYSIS OF MICROFINANCE MARKET FAILURES (2014)

ANNEX 4 – LETTER FROM ROMANIAN BANKING ASSOCIATION